

GENERAL AGREEMENT ON TARIFFS AND TRADE

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UNITED STATES' RESTRICTIONS ON DAIRY PRODUCTS

Report by the United States Government (August 1953) pursuant to the Resolution of 8 November 1952

In a resolution of 8 November 1952 concerning United States import restrictions on dairy products instituted and maintained under Section 104 of the Defense Production Act of 1950, as amended, the CONTRACTING PARTIES recommended that the United States Government have regard to the effects of its continued application of these restrictive measures in breach of the General Agreement and continue its efforts to secure repeal of Section 104. The United States Government was requested to report to the CONTRACTING PARTIES at as early a date as possible and in any case not later than the opening of the Eighth Session of the CONTRACTING PARTIES on the action which it has taken. The following report is in response to this request:

It will be recalled that under Section 104 imports of dairy and other specified products were required to be limited to such quantities as would not tend to reduce production below existing levels or higher goals which might have been set, interfere with orderly marketing or storing, or increase expenditures under any price-support program.

As of the close of the Seventh Session of the CONTRACTING PARTIES, the following products were embargoed pursuant to Section 104: butter, rice, flaxseed, linseed oil, high-fat malted milk compounds, nonfat dry milk solids, peanuts and peanut oil. In addition, quotas were in effect for cheddar, Edam and Gouda, blue mold, Italian-type cow's milk and some miscellaneous varieties of processed cheese, and casein.

On 30 December 1952 the Department of Agriculture established new import restrictions on dried whole milk, dried buttermilk, and dried cream at levels reflecting average quarterly imports for each of these products during the first half of 1952. This action was required by law in view of the substantial Commodity Credit Corporation purchases of butter and cheese and an accelerated rate of purchases of nonfat dry milk solids in a season when milk production is normally lowest. Casein and processed cheese made from Edam and Gouda were decontrolled while the basic annual quota for blue mold cheese was increased by 500,000 pounds.

On 23 March 1953 the Department of Agriculture announced that no imports of dried whole milk, dried buttermilk, or dried cream would be permitted after 1 April 1953. However, authorizations were issued by the Department to

cover shipments already in transit to the United States. In taking this action, the Department of Agriculture pointed out that the Commodity Credit Corporation was continuing to acquire large stocks of butter, cheddar cheese, and nonfat dry milk solids under the support program for milk and butterfat. As of 17 March 1953 purchases under this program during the 1952/53 marketing year totaled 116 million pounds of butter, 53 million pounds of cheese, and 116 million pounds of nonfat dry milk solids. This action was required under the provisions of Section 104 because imports of the restricted commodities tended to divert additional supplies of domestic milk to the dairy products currently being purchased under the support program, and thus resulted in increased expenditures by the Commodity Credit Corporation.

On 7 April 1953 the Department of Agriculture announced that imports of tung nuts and tung oil would be limited during the period 8 April through 30 June 1953 to two million pounds of tung oil or the oil equivalent of tung nuts plus any quantities in transit to the United States prior to 8 April 1953. This action was required by law to prevent unnecessary expenditures under the support program for tung nuts and to prevent interference with the orderly marketing or storing of domestically produced oil.

In the meantime, the Congress of the United States began consideration of extension of the Defense Production Act of 1950, as amended, early in 1953. The Executive Branch of the Government took the position that Section 104 should be permitted to expire on 30 June 1953 and should not be enacted in any other legislation. It stated that other long standing legislation, such as Section 22 of the Agricultural Adjustment Act, as amended, and Section 7, the escape clause provision of the Trade Agreements Extension Act of 1951, provided adequate safeguards for domestic agriculture. Section 22 requires imports to be restricted if necessary to prevent material interference with domestic agricultural programs. The escape clause provides for the modification or withdrawal of trade agreement concessions to avoid serious injury to a domestic industry from increased imports. It was also recognized by the Executive Branch that so long as the Government was compelled to support prices of dairy products at a level substantially above world levels, some restriction on imports of dairy products, and possibly some of the other commodities covered by Section 104, might be necessary to prevent interference with the domestic agricultural programs or operations.

Consequently, the President on 8 April 1953 directed the United States Tariff Commission to determine whether import restrictions would be required on dairy and other products under Section 22 in the event of the expiration of Section 104. The Tariff Commission was asked to complete its investigation by 1 June. The Commission reported as requested, finding that restrictions on imports of certain manufactured dairy products and other agricultural products would be necessary to prevent imports from interfering with domestic agricultural programs in the event of the termination of the import control program administered under Section 104 at the end of that month. On the basis of this report, the President also found that such restrictions would be necessary and consequently issued a proclamation on 8 June 1953 giving effect to the determination made by the Tariff Commission with the stipulation that it would be without force or effect in the event Section 104 were extended beyond 30 June.

In the light of these developments Congress did not extend Section 104, which therefore expired on 30 June.

With the expiration of Section 104 the Presidential Proclamation of restrictions under Section 22 became effective 1 July 1953. The following tabulation shows the import control program now administered under Section 22 of the Agricultural Adjustment Act, as amended, for the commodities specified in the Presidential Proclamation as compared with that previously administered under Section 104:

Item	Section 104 import quotas a/ -	President's Pro- clamation (twelve month period beginning 1 July)
	(Quantity in thousand pounds)	
Butter	Embargo	707
Butter oil	Embargo	b/
Dried whole milk	Embargo	7
Dried buttermilk	Embargo	496
Dried cream	Embargo	c/
Dried skim milk	Embargo	1,807
Malted milk and butter substitutes	Embargo	6
Cheddar cheese and processed from Cheddar	9,534	2,780
Edam and Gouda	4,600	4,600
Blue-mold and processed from (or Stilton)	4,167	4,167
Italian-type cow's milk (Romano, Reggiana, Parmessane, Provoloni, Provolette, and Sbrina)	9,200	9,200
Peanuts in all forms (ex butter)	Embargo	1,709 d/
Peanut oil	Embargo	80,000 e/
Flaxseed	Embargo	50% fee f/
Linseed Oil	Embargo	50% fee f/
Tung nuts and tung oil	g/	g/

a/ Some commodities shown as embargoed were allowed to be imported earlier in the year 1952-53.

b/ If classified as butter or butter substitutes, included in quota for butter.

c/ 500 pounds.

d/ Shelled basis.

e/ Imports in excess of 80 million pounds subject to 25% ad valorem fee, in addition to existing duty. This item not bound against increase in Schedule XX of GATT.

f/ In addition to existing duty. These items not bound against increase in Schedule XX of GATT.

g/ Under Section 104 quota 2 million pounds oil equivalent for period 8 April - 30 June 1953; no restrictions specified in President's Proclamation.

Imports of the manufactured dairy products specified in the Presidential Proclamation are permitted only under licenses issued by the Secretary of Agriculture under regulations which he has determined will to the fullest extent practicable distribute quotas equitably among supplying countries based upon the proportion supplied by such countries during previous representative periods, and taking due account of any special factors which may have affected the trade. Import Regulation 1, a copy of which is attached, sets forth in detail the administrative procedures regulating imports of the specified dairy products.

The need for these restrictions is to be reviewed within a year from the date of 1 July 1953.

Copies of the Presidential Proclamation of 8 June and a memorandum on the situation of the United States dairy industry are also attached."

Note: The President's Proclamation and Import Regulation 1 and Amendments are not reproduced with this document, but copies may be seen at the office of the secretariat. The memorandum on the dairy industry follows.

MEMORANDUM

Situation of the United States Dairy Industry

The production of milk and dairy products in the United States was greatly encouraged during and after World War II by the Government to meet domestic and urgent foreign requirements. Cows and heifers two years old and over kept for milk reached a peak of 27,770 thousand head on 1 January 1945 and milk production on farms that year was a record of 119.8 billion pounds. These figures represent increases over prewar of 9 per cent in the case of cow numbers and 17 per cent in the case of milk production.

In the seven years following 1945, dairy farmers in the United States adjusted their herds down to 23.4 million head and 115.6 billion pounds of milk despite alarm by some observers that output was not keeping pace with population growth in the United States. As recently as early 1952 there were claims that dairy farmers had over-adjusted downward the output of milk.

The production of milk was relatively low during the calendar year 1951 and continued low for the first eight months of 1952. This continued low rate of milk production together with the growth of population stimulated considerable price enthusiasm in the dairy trade. Some ventured the opinion that there would be a long period of short milk supply.

The developments during the past year should be considered against this background of relatively low milk production and high expectancy of the trade during 1951 and much of 1952. Price support operations of the Department of Agriculture were small in both 1951 and 1952. The expectations of continued low production of milk caused the industry to bid prices up during the spring and summer of 1952 high enough to acquire sizeable stocks of butter, cheese and evaporated milk.

The period of "short milk" supply ended rather abruptly in the fall of 1952. The rate of milk production increased rapidly from September through December 1952. Production for the first four months of 1953 was the highest for any 1 January - 30 April period on record. Total milk production from January through April 1953 was about 7 per cent higher than for the same months of 1952. This higher production, even though the rate of production declined in May and June, caused the disappearance of the optimism of the trade of 1951 and early 1952. It was replaced by relative gloom. Purchases of dairy products under the price-support program increased rapidly under the influence of greater milk production and the trade's desire to decrease its stocks of dairy products. Price of manufacturing milk fell.

As the output of milk and dairy products began to exceed the trade demand in late 1952 the Commodity Credit Corporation began buying cheese, butter and nonfat dry milk under the support program announced prior to 1 April 1952. Purchases continued into 1953 and by 1 June, the CCC held 189 million pounds of butter, 136 million pounds of cheese and 283 million pounds of nonfat dry milk. The quantities further increased after 1 June. The heavy support operations constitute the principal reason for adopting measures to restrict imports under the provisions of Section 22 of the Agricultural Adjustment Act, as amended.

The Agricultural Act of 1949 requires the support of prices to producers for milk and butter fat at such level between 75 and 90 per cent of parity as the Secretary of Agriculture determines necessary to assure an adequate supply of milk and its products.

In the 1952-53 year ending with March the dollar-and-cents levels of support were \$3.85 per hundred pounds for manufacturing milk and 69.2 cents per pound for butterfat. The 90 per cent of parity support program, as extended for the marketing year April 1953 through March 1954, worked out at \$3.74 per hundred pounds for manufacturing milk and 67.3 cents per pound for butterfat. This represented a decline of about 3 per cent from the levels of a year earlier because of the decline in the parity index.

Average monthly prices paid farmers for manufacturing milk were above the support level by amounts ranging from 18 to 50 cents per hundredweight for the period April through December 1951. They were above the lower support level in effect from January through March 1951 by from 84 to 90 cents per hundredweight. Prices of manufacturing milk were above the support level during 1952 by a high of 65 cents in February and, after falling to 14 cents in June, increased to over 30 cents in both September and October.

The Secretary of Agriculture determined prior to the marketing year beginning 1 April 1953 that a support level of 90 per cent was necessary. While considerable postwar adjustments had been made by the dairy industry of the United States, the Secretary of Agriculture obtained from the industry assurance that further adjustments would be made by 30 March 1954 to prevent further burdensome accumulations in the hands of Government.

In order to deal with the difficulties that have developed in the American dairy industry and with the accumulation of stocks in Government hands that has resulted from price support for dairy products, a variety of programs have been put into effect. The following programs are in effect for dairy products:

- (1) Price support; a mandatory program under the Agricultural Act of 1949, as amended, whereby the Government purchases butter, Cheddar cheese and nonfat solids.
- (2) Milk marketing agreements; a program under the Agricultural Marketing Agreement Act of 1937 which operates to assure orderly marketing of fluid milk in periods of surplus production and supplies during periods of low production.
- (3) Section 32, Public Law 320, 74th Congress; a program which operates both to remove market surpluses by purchases through commercial channels and to dispose of Government stocks.
- (4) School Lunch Program, Public Law 396, 2nd session 79th Congress. The effect of this program is similar to that of section 32 but its scope is limited to school lunches.
- (5) Section 416, Public Law 439, 1st session, 81st Congress, provides authority to donate perishables to prevent waste.

It should be pointed out that the dairy problem is a part of the overall agricultural problem of adjustment to postwar conditions. Vegetable fats and oils which were still in short supply about two years ago were readily available in 1952-53. The availability of competing vegetable fats have permitted the butter substitute industry to hold and enlarge the inroads made in the consumption of butter during the war when in excess of 50 per cent of the butter supply was taken over by set-aside programs for military and lend lease use.

Under Section 32 and the School Lunch Program the United States is carrying out government measures to remove a temporary surplus of dairy products by making it available to certain groups of domestic consumers free of charge. Operations announced thus far have included:

- (a) Donation of 74 million pounds of butter to school lunch and welfare uses (10 April 1953);
- (b) Distribution of 35 million pounds of Cheddar cheese for relief feeding in flood-stricken areas and to school lunch programs and welfare agencies (28 May 1953); and
- (c) Distribution of up to 25 million pounds of nonfat dry milk solids to school lunch programs and welfare agencies (15 June 1953).

The United States is currently engaged in the development of further programs for the disposal of additional quantities of surplus dairy products to special consumer groups.

As of 28 August 1953, the surpluses of dairy products held in Government hands were as follows: butter, 274 million pounds; cheese, 243 million pounds; and dried milk products, 420 million pounds."