

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## EXPANSION OF TRADE - AGRICULTURAL POLICY

### Report of Committee II on the Consultation with the United States

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with the United States. The Committee had before it (i) a synopsis, furnished by the Government of the United States, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers (documents COM,II/2(j)/Rev.1 and COM,II/2(j)/Rev.1/Add.1) and (ii) documents giving detailed information on the commodities entering importantly into world trade on which CONTRACTING PARTIES had agreed the consultations should be in the main concentrated (document COM,II/37 and COM,II/37/Corr.1). In conducting the consultation, which was completed on 8 February 1960, the Committee referred to the plan contained in Annex A to document COM,II/5 and adopted by the CONTRACTING PARTIES at the fourteenth session. The present report summarizes the main points discussed during the consultation.

#### A. General Agricultural Policy

2. In his opening statement, the representative of the United States indicated his intention of giving a summary of United States non-tariff measures somewhat different from that contained in the documents furnished to the Committee by the United States Government. He drew the Committee's attention to the four distinct groups of measures that stood out as main segments of the United States agricultural policy. These were: (i) the price support and market programmes mainly affecting commercial agriculture; (ii) the Rural Development Programme designed primarily to assist the million-and-a-half rural families with very low incomes; (iii) programmes for the use and conservation of resources and (iv) a complex of special services for agriculture such as farm credit programmes, education and research. In industrialized countries a main objective of agricultural policy was to bolster or sustain incomes and living standards of the farm population, in order to contribute to general stability and prosperity; this was an objective of the United States agricultural policy as well.

3. Parity concepts were also included in the United States legislation. It was clear that the terms "parity of income" and "parity prices", as used in the United States legislation, implied the notion of farm incomes more nearly comparable to those prevailing in the more favoured segments of the economy. This improvement was measured in terms of prices for commodities sold in relation to prices of commodities bought by the farmer. This did indicate roughly what the objective was and how it was to be measured. Concessions to

realism were to be found not only in the avoidance of a precise quantitative definition of a desired "parity of income" but also in the fact that the parity aimed at for prices was not a rigid 100 per cent; price supports actually ranged anywhere from 90 per cent down to approximately 60 per cent and, in the case of corn, were now linked to market price averages during recent past years. Price supports covered commodities making up less than half the total value of all agricultural market sales.

4. The United States Government also strove for a better conservation of resources and for the general adaptation of production to market requirements which meant future avoidance, and orderly liquidation, of surpluses.

5. The basic legislation with respect to farm price supports and production control was enacted in 1933 to meet the problems in agriculture created by the Great Depression. Although that legislation was modified in 1938, a strong element of support was continued. In 1941 and 1942 price supports were raised to high levels and a statutory guarantee was given to the effect that these supports would be maintained for two years after the war. It was in this manner that the United States tried to call forth, and continue, the extra production effort that seemed needed to fill the large national and international requirements of the war and post-war emergencies. When these emergencies ended, price supports at wartime levels were maintained despite repeated legislative and administrative efforts at adjustment. There was a reluctance to recognize that in a peace-time economy high prices would stimulate production beyond needs. Acreage control measures, inoperative during the war and post-war periods, were implemented only after surpluses began to accumulate. As a result of the acreage allotment programmes, planted acreage between 1953 and 1958 was reduced by fully 25 per cent for wheat, and by over 50 per cent for cotton. Reduction in acreage did not, however, suffice to bring production into balance with requirements for two main reasons. First, farmers had the possibility of shifting acreage to other crops that were not controlled, with the result that the problem of surpluses spread to other commodities. Second, increases in inputs were encouraged by support prices that did not adequately take into consideration the great technical progress in agriculture. Increased production became remunerative even at prices considerably lower than those that had obtained in earlier years.

6. There was now recognition that price supports must be reasonably related to production policy. If prices were to be kept high, thereby stimulating output, stricter production controls were necessary. If production policy was to be less restrictive, there must be greater flexibility in the price system so that support prices could be adjusted as necessary.

7. The price support and marketing programmes, in addition to support prices implemented by the purchase and loan transactions of the Commodity Credit Corporation, included other measures such as deficiency payments for wool and producer payments for sugar. The United States also made producer payments for cropland taken out of production and placed into a Conservation Reserve or Soil Bank. For some commodities, particularly perishables, the United States had marketing agreements or marketing orders which provided a measure of price support by concerted industry action; this support was accomplished through regulation of marketings. In some of these cases, as well as for certain other commodities, some financial assistance from Government funds was provided for diversion of surpluses into such channels as the school lunch programme and donations to the needy.

8. Support programmes in the United States embodied certain subsidiary measures to ensure their effective operation. These currently included export subsidies on cotton, feed grains, rice and wheat (including flour), as well as quantitative restrictions on the importation of some of the commodities for which there were support programmes. There was a programme of foreign assistance and surplus disposal under which commodities were exported on special terms, mostly to low income, less-developed countries.

9. The representative of the United States, referring to measures taken which should tend to reduce the future need for non-tariff protection or support, stated that acreages for some of the crops for which price supports were mandatory had been reduced to the minimum levels permitted by existing legislation. Payments to farmers for putting land into the so-called Conservation Reserve had taken an estimated 23 million acres out of crops in 1959; this was about 6 per cent of the total crop-land. Moreover, price support levels had been significantly reduced; from 1953 to 1959 price supports were reduced for wheat from 90 per cent of parity down to 75 per cent; for rye from 85 per cent to 60 per cent; for corn from 90 per cent to 66 per cent; for butter fat and manufacturing milk from 90 per cent down to 75 per cent. A variety of measures were in effect to increase the consumption of agricultural products, through school feeding programmes, programmes for the needy and specific market development work both at home and abroad. The United States also had an extensive programme of scientific research calculated to develop new industrial uses for agricultural commodities.

10. Under Public Law 480, the United States believed that they had been reasonably successful in complying with the basic principle not to displace ordinary commercial exports, either their own or those of other friendly countries; in other words, to dispose of surpluses for additional consumption. An effort was being made to promote economic development in less-developed countries and thus, at once, to create and satisfy additional demand that would not exist without this programme. This effort had been further strengthened by the recent "Food for Peace" initiative under which the United States proposed to cooperate with other countries in further developing new markets and additional consumption of farm products so that the abundance that existed in some commodities and in some parts of the world could be more rationally used to alleviate need elsewhere.

11. Despite these efforts, the United States had not been fully successful in bringing about adjustments that seemed to be required to get agriculture back on a sound economic basis. A fundamental solution of the income problem in agriculture could come only through further improvement in the efficiency of resource utilization. Such improvement was tantamount to a further reduction in the resources employed to bring about a given level of output. For all practical purposes, this meant a further reduction in the farm population. Since 1947 the proportion of farm residents in the total population had declined from 18 per cent to 12 per cent. Over the past thirteen years total population in the United States had increased by 24 million, while the farm population had decreased by 6 million. Despite its extraordinary extent, the movement away from the farm had not been sufficiently extensive to adjust agricultural output to requirements, nor to bring agricultural income up to the level prevailing in other segments of the economy.

12. The United States had taken note of the preference for producer subsidies expressed by the four experts who wrote the Report on Trends in International Trade. The experts indicated that, if there must be agricultural support (protection as well as stabilization), producer subsidies were generally to be preferred in place of direct support prices. This preference was, of course, based upon the argument that total demand would be greater with a system of producer subsidies than with a system of support prices; the former permitted free price formation in the markets, which benefited consumers and increased consumer demand. Since total demand would be greater with the deficiency payments system this system required a smaller degree of protection in order to achieve a given income goal for agricultural producers. On the theoretical plane this argument was unassailable. The difficulties arose in the practical consideration of the varying circumstances in different countries. First, the advantage of free market price formation, in its possible effect in stimulating demand, was largely lost in the case of commodities with a low price elasticity of demand. A large share of agricultural production on which the United States had price supports fell into this category; to this extent, the argument on the consumption side in favour of deficiency payments was weakened. Second, on the production side, deficiency payments induced excessive supply just as much as did any other system of price support. Hence, there reappeared the problem of how to deal effectively with restricting output stimulated by such producer payments. The United States had had only limited success with efforts to obtain acceptance of production controls stringent enough to be effective. Yet in the case of a deficiency payments system in a surplus producing country like the United States, production controls must be completely effective if a breakdown of the system was to be avoided.

13. The United States had to consider whether there would be any likelihood of dependable and consistent annual appropriation, running into billions of dollars, to be paid directly and visibly to a vocational group numbering about 12 per cent of the voting population. The United States must also contemplate what might happen to domestic and world market prices if this system were to break down, either because of an unwillingness of the Congress to continue to support it by such large payments, or because of an impossibility of controlling production rigidly to the extent required to prevent excessive output. It was obvious that the virtues and drawbacks of the deficiency payments system varied a great deal, depending upon whether a country was a small producer or a large producer; whether it was an agricultural importer or an agricultural exporter; whether its products had a high or a low price elasticity of demand; and whether or not the direct and clearly visible subsidization of a segment of the population would command sufficient long-term support on the part of the budget-making authorities.

14. Programmes to assist the low-income farmer were doubly necessary because of the great importance of the share of these farms in the total farm population. There were a million-and-a-half low-income farmers who, it was estimated, received from all sources of income less than \$1,000.00 a year per head. These farmers had been almost untouched by price support and production control programmes. Their market share was small. The technical revolution had largely passed them by. For these farmers the United States had the Rural Development Programme which aimed primarily at improving the economic status of small farmers by providing opportunities to shift to other occupations or to take up supplementary work outside agriculture without having to leave their farms. The movement of industry to rural areas was encouraged and abetted as a means of providing greater employment opportunities outside agriculture.

15. The Government policy had encouraged long-term soil and water conservation. Local leadership was provided by soil conservation districts organized and controlled by the farmers. These districts developed conservation programmes to fit local conditions and received technical assistance in the conduct of such programmes from the Soil Conservation Service, the Forest Service and other agencies. Farmers were assisted, through payments, grants-in-aid, and services, in carrying out approved soil and water conservation measures. The United States also had a Conservation Reserve Programme in which farmers voluntarily entered into contracts to withdraw land from crop production for periods up to ten years. The land was established in permanent vegetative cover. This programme supplemented the regular soil conservation measures and ~~assisted in~~ the general policy of reducing the total volume of farm production, thus leading to a general improvement in farm prices.

16. The special services for agriculture in respect of farm credit, education and research were, for the most part, historic services which had a long tradition in most developed countries. Such programmes were not without effect upon agricultural output and, therefore, did have a bearing upon questions related to productive efficiency, the emergence of unsaleable surpluses, and the like.

17. Attention had sometimes been called to the strength of efforts on the part of governments to develop and promote intensive research, paid from public funds, leading to improvement in the production, marketing and utilization of agricultural products. The point had been made that the results of this research were much more effective in the stimulation of production than they were in the stimulation of consumption, and that these techniques were placed cost-free at the disposal of farmers who already produced more than was saleable in regular commercial markets. This was a problem that required consideration, but on the other hand it should be recognized, that research contributed to increased efficiency of production as well as to increased volume of production. Thus, in commodities having an elastic demand, consumption as well as production might be stimulated. Research addressed itself to the basic long-term need of humanity for knowledge, including knowledge as to how material and cultural requirements could be filled with less effort so as to provide a greater diffusion of the amenities of life. The question must, therefore, be weighed in this context as well.

18. The Committee expressed appreciation for the clear statement of the United States representative and for the comprehensive and detailed documentation which had been furnished by the Government of the United States. At the outset of the discussion members of the Committee expressed the view that a wide gap existed between the aims of the United States Administration's agricultural policy and the achievement of these aims. It was clear that the basic objective of increasing farmers' incomes contained in the Agricultural Adjustment Act of 1938 still remained unchanged and this involved a fundamental conflict with the objectives of the Conservation Reserve or Soil Bank Programme to reduce surplus and to assist farmers to adapt production to market capacity. It was evident from the criteria embodied in the programme recommended to Congress by the Administration that the Administration also recognized the difficulties which must arise from this conflict. They requested information of the practical steps which could be taken to achieve the objectives of the programme

recommended to Congress and enquired whether there was any likelihood that the new philosophy contained in that programme could be implemented. They further enquired whether the Administration's recommendations to Congress would be embodied in legislative proposals to Congress or whether Congress was expected to accept the programme in whole or in part.

19. The representative of the United States stated that it was important to bear in mind the time element in the various concepts contained in the United States agricultural policy. The Agricultural Adjustment Act of 1938 and the Charter establishing the Commodity Credit Corporation in 1948 were attempts to deal with the problems existing at the time. The Conservation Reserve or Soil Bank Programme established in 1956 and the Rural Development Programme were more recent evidences of the recognition by the Government of the need for changes in agricultural policy and represented efforts to make those changes. It was essential to stress, however, that agriculture was a substantial enterprise in the United States and that the country engaged extensively in international trade in agricultural products. Changes therefore had to be made slowly and consideration had to be given to the welfare of the population of the United States and the effects of changes on international trade. Those were factors that influenced the speed at which changes could be made. Another factor affecting the speed of the necessary changes was the increasing tempo of technological advances which had resulted in increases in production which could not have been foreseen four or five years ago; these advances had made it difficult to keep abreast of farm surpluses and other problems. Five basic elements of policy had been proposed to Congress and had already been acted on to a greater or less extent. These were: the Conservation Reserve Programme to assist farmers to adapt production to market capacity and research aimed at new uses and wider markets; the Food for Peace Programme to utilize United States agricultural products in areas where they were needed; the Rural Development Programme benefiting one-and-a-half million low-income farmers and, the more pressing perhaps, the need for a realistic price support programme which would cut down the production of commodities not required in the quantities now being produced. These five elements represented the efforts being made to achieve the objectives of agricultural policy and indicated the direction in which the United States Administration was attempting to move. As to the speed of this movement, some of the objectives could be reached under present legislation, for example, the Rural Development Programme had come into operation in recent years and the adjustment of price supports to more meaningful levels was also a recent development. Effective legislation had been enacted in 1958 which had had the net result over two years of lowering the support price on cotton, rice and corn. New legislation would be needed for other areas, but it was not possible to indicate when this would be enacted. Particular recommendations of the Administration on legislation had not been embodied in any formal message to this session of Congress.

20. Several members of the Committee stressed that there had been an expectation that during the period since the General Agreement came into operation, the United States might have developed on classical economic lines and have become increasingly a net importer of agricultural products as her economic activity increased. They stated that contracting parties had been disappointed in this expectation and in their belief a major factor which had led to the confounding of this expectation had been the policy pursued by the United States in respect of price support for agriculture. The support system of the

United States contained the two factors of stabilization and protection which were difficult to separate. The system provided the producer with a price which, although it might not always be much higher than the world price, nevertheless was unrelated to the world price and isolated the American producer from world market forces. The stabilization factor served to prevent the collapse of the income and purchasing power of the United States farmer but was above an equilibrium level. The high level of price supports in the United States discouraged consumption and led to the imposition of quantitative restrictions and the subsidization of exports which had adverse effects on world trade and created severe difficulties in the market of traditional exporters. The system, by encouraging the retention in farming of labour and capital which could be used elsewhere, preserved inefficiency and was a heavy burden to the United States economy. Furthermore, it was difficult to reconcile the system with the objectives of mutually advantageous trade embodied in the General Agreement.

21. The representative of the United States stated that, while he appreciated the concerns expressed by members of the Committee, he nevertheless felt obliged to point to the necessity for consideration of the social and political problems represented by the farmers of the United States. Furthermore, it was not expected that the United States would significantly increase its imports of those products required to maintain the high standard of living in the United States which could be produced efficiently by the domestic farmers. The United States authorities could see no change in this respect in the immediate future.

22. One member of the Committee referred to the estimates of increased production which had been made four years ago by the United States Authorities and which had proved to be substantial under-estimates because of rapid technological advances. He enquired whether the United States Authorities now estimated that, on the basis of the present agricultural policy and in the light of experience concerning technological progress, productivity would go on increasing at the same rate or whether an accelerated rate of increase could be foreseen. The representative of the United States stated that the Department of Agriculture expected increasing production per unit as a result of technical improvements and increased capital investment. In 1957, Commodity Credit Corporation stocks decreased for the first time for years. This had been expected because of the acreage allotment programme and the disposal efforts which had been made. In 1958, due mainly to exceptional weather conditions, there had been record high yields of many major commodities. There had been a 50 per cent increase in that year in wheat yield from the ten year national average of 18 bushels per acre to 27.4 bushels per acre and corn, flax and other commodities had shown about the same rate of increased yield. Unexpectedly, there had been record yields for many crops in the following year. These two record years had accentuated the problems facing the authorities and had demonstrated the unreliability of advance estimates. As to the future, it was difficult to forecast increases in productivity which might result from technological factors, but the authorities were attempting to take into account in their plans increasing production per unit. The Soil Bank Programme and the acreage allotments were evidence of the intention to take account of these factors and to reduce production. The United States Government was taking active and concrete steps to keep production in line with demand since it recognized that the United States was not the only country producing these commodities.

23. Members of the Committee noted that in the Administration's recommendations to Congress no reference had been made to parity prices and enquired whether the Administration intended to work towards the abolition of the parity price concept as a means of securing their objective of stabilization of prices. The representative of the United States stated that there were problems in the use of the parity price formula. He stated that this formula was intended to measure the relationship between prices of farm products and other products, taking into account changes in cost rates. A year ago the indices were modernized for purposes of statistical improvement and more complete coverage. The changes which were made reflected a more recent pattern of farmers' expenditure and farm output. As to price support, new recommendations were being put forward to Congress by the Administration for arrangements, similar to those now in force for corn, under which price support levels would be based on a moving average of recent market prices rather than fixed in relation to parity.

24. Members of the Committee stressed their view that the high level of support prices was the major cause of the problem created for others by United States agricultural policy. One member of the Committee called attention to the operation of the escalator clause in relation to the establishment of the minimum support level. He noted that when the total supply of a commodity exceeded the "normal supply" by a given percentage, the minimum support level as a percentage of parity was fixed. He said that from the total supply surpluses and other amounts that worked themselves out of circulation were deducted so that the figure of total supply was reduced thus setting a limit to the amount of reduction of price support. There was thus an inbuilt restriction on the possible movement of price support levels. He doubted whether this system could be reconciled with the objective of long-term price equilibrium. The United States representative agreed that the effect of the system could be as described, but this was not the case in practice since for the commodities where the escalator clause applied, for example, wheat and peanuts, the support level was now at the minimum permitted by law.

25. One member of the Committee asked whether there was any limitation on authority to bring non-mandatory commodities under price support. The representative of the United States stated that there was such a limitation; it was the applicability of eight judgement factors specified in the law, which included the supply of the commodity in relation to the demand for it, the price levels at which other commodities were being supported, the availability of funds, the perishability of the commodity, the importance of the commodity to agriculture and the national economy, the ability to dispose of stocks acquired, the need for offsetting temporary losses of export markets, and the ability and willingness of producers to keep supplies in line with demand.

26. In discussion on the parity price formula, one member of the Committee enquired to what extent changes in productivity, including improved productivity resulting from the same amount of input, were taken into account when fixing parity prices. The representative of the United States stated that in establishing support prices costs of production were not one of the factors which were used and would not therefore be considered in the actual operation of fixing price supports. Efficiency of production would, however, be reflected in some of the factors, for example, the ability and willingness

of producers to keep supplies in line with demand. The same member of the Committee noted that the parity concept took account of changes in price paid and received, but enquired how changes in input were taken into account. The representative of the United States stated that input for the "prices paid" index was now based on the pattern of farmers' expenditure in 1955, and that the "prices received" index reflected the 1953-1957 pattern of farm output. Changes in input were reflected in the parity figure of any commodity, but not in the calculations for price support. The same member of the Committee noted that no consideration had been given to the inclusion in the parity formula of some weighting factor for the cost of price support itself. The representative of the United States stated that to the extent that this affected prices received and paid by farmers it would be reflected to some extent in the parity formula.

27. In reply to questions about the proportion of farming income derived from price-supported commodities, the representative of the United States stated that 43 per cent of cash receipts from all farm marketings in 1958 were derived from crops which were price-supported in 1959. Commodities which were not supported comprised the remaining 57 per cent and included meat, poultry, eggs, fruit and vegetables. One member of the Committee expressed the opinion that to the extent that some of these non-supported commodities were produced from heavily supported feed grains and to the extent that meat was produced on the same farms, producing feed grains, there was some element of price support within the 57 per cent also. Another member of the Committee pointed out the figure of 43 per cent might be statistically accurate as the percentage of total agricultural income derived from price supported commodities. Nevertheless the influences of price support ranged far beyond direct price support. In most of the larger cities of the United States marketing orders and agreements had the effect of maintaining high prices for such commodities as milk and fruit and in consequence restricted consumption of these commodities. For milk and dairy products, marketing orders and agreements had an even more restrictive effect on consumption than the direct price support measures for butter and cheese.

28. The representative of the United States could not agree that there was an element of price support for commodities produced from price-supported commodities. Producers of cattle were strongly opposed to price supports for the commodities they used in their production because these, they agreed, were an addition to their costs of production. On farms where both meat and feed-grain production was carried on, the farmer had to decide whether his own production of feed grain should be put to animal production or placed under the support programme which would then involve purchase of feed grains at market prices. As to the effect on consumption of price support arrangements it could be said that price support was applied in the main to commodities the demand for which was relatively elastic in the United States. In the view of the United States representative price changes would not therefore greatly affect consumption. Effective demand for the products for which no price support measures were applied (meat, fruit, vegetables) was more elastic and changes in price could affect consumption. To the extent that feed grains were used in the production of goods for which there was a greater degree of elasticity in demand, there would be a reflected impact on consumption. However, the price-support level for feed grains was only very slightly above the world price; during the last few months, for example, corn, oats, barley and grain sorghums had been exported without a subsidy. In the last two months the support price of corn had been only 1 or 2 cents a bushel above the world market price and for grain sorghums 8 cents per 100 lbs. above the world market price.

Price support on feed grains had therefore very little impact on availability and consumption of livestock products. The marketing orders and agreements to which reference had been made, and which were applied, with the exception of dairy products, to commodities for which no price support applied, were of direct interest to consumers. The significance of these orders and agreements lay however not so much in price support, as in seasonal equalization of supplies to the market and the maintenance of quality standards, both of which contributed to increased consumption. Since there was some degree of elasticity of demand for the products covered by these orders and agreements, the adverse effects on the markets if the prices were allowed to rise too high because of seasonal factors were immediately apparent to the producer. While there was some measure of price support through the operations of the marketing orders relating to milk, the measure of support was not viewed as being too significant and because the safeguarding of quality and regularity of supplies was a main element in the Marketing Orders, they contributed to increases in consumption. The Marketing Orders relating to fruit and vegetables did not involve any measure of direct price support, but were concerned with the regulation of quality and volume of marketings.

29. In reply to questions about the percentage of total Government revenues and the percentage of total national income represented by the cost of the price support programme, the representative of the United States stated that in terms of the total Government Budget price support and other programme costs approximated to  $3\frac{1}{2}$  per cent (this figure included research, education, stabilization operations, disposal operations, etc.); in terms of the gross national product such costs were well under 1 per cent. Members of the Committee pointed out that these figures did not reveal a very heavy burden to the taxpayer, but most of the support for agriculture came primarily from the consumer on whom a heavy burden was placed. The advantage of a deficiency payments system the cost of which to the economy could clearly be seen by all was mentioned. In his opening statement the United States representative had suggested that this "visibility feature" was an argument against deficiency payments in the United States; but in the view of others this was an advantage of the system. Members of the Committee noted that the farm net income had fallen by 15 per cent in 1959 from the previous year and a further fall of 8 per cent was expected in 1960. The representative of the United States stated that the decrease in the farm net income was offset to some extent by the increasing efficiency of farmers. Increasing efficiency had not, however, been shared by all farmers and had not been reflected in lower prices to consumers since marketing margins had been increasing every year. In 1950, 47 cents of the consumer food dollar went to the farmer and by 1959 the farmers' share had dropped to 38 cents. During the period 1950-59, and using 1947-49 as the base, the index of the marketing spread<sup>1</sup> had increased from 103 in 1950 to 135 in 1959, while the index of farm value for the market basket of farm foods had dropped from 93 to 85. One member of the Committee considered that these effects would be more marked on goods where there were no imports and asked whether comparable figures could be supplied on goods for which there were substantial imports. The representative of the United States stated

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<sup>1</sup> The marketing spread refers to the difference between the amount United States farmers receive for a commodity (farm value) and the amount a consumer pays (retail cost) for the same commodity.

that such statistics regarding individual commodities were not available to him, although indexes were available on major commodity groups. He doubted, however, whether imports formed a large enough part of the supply of any group to shed any light on the point in question.

30. In reply to questions about the implementation of the five basic principles proposed to Congress, the representative of the United States stated that under the Conservation Reserve Programme, through which a farmer contracted to take land out of production for a period of from three to ten years, 23 million acres of land had been retired from production in 1959 and a further 6 million had been retired for 1960. Although not its sole purpose, this Programme aided the movement of inefficient units out of agriculture, but it would be appreciated that such movement had to be relatively slow in order to avoid disruption of the economic structure of the communities concerned. The maximum amount authorized by Congress for this Programme had been used, and the Administration was requesting a larger amount for the coming year in order that the Programme could be intensified. The Rural Development Programme was now in the process of taking more concrete form. The manpower of existing Government agencies had so far been used to carry out this Programme; the additional costs had been small. From now on, however, it was expected that with programme expansion the costs would increase. This was not exclusively a Federal programme, but one in which the Department of Agriculture co-operated with local groups, Chambers of Commerce, etc.

31. One member of the Committee pointed out that some of the low-income farms were marginal or sub-marginal lands. He enquired whether the retirement of a whole farm from production was permitted under the Conservation Reserve Programme and noted that conservation was limited to a period of three to ten years. He pointed out that, since some of the land of low-income farmers was marginal or sub-marginal, it was probably most profitable as forest land and asked whether any consideration had been given to the possibility of lengthening the period so as to permit afforestation if this appeared to be beneficial. In reply the representative of the United States stated that the law permitted the taking in of whole farms. In fact, by price incentives under the programme the Government was attempting to get whole farms retired from production because of the greater reduction of production involved and because, if only part of the farm were put under the conservation reserve the farmer continued to produce allotment and price-supported crops which increased the liability of the Government. By 1959, the following acreages had been removed from production by participation in the Conservation Reserve Programme (estimated production removed was also shown); 3.1 million acres of wheat-land representing a production of 60 million bushels; 660,000 acres of cotton representing a production of 490,000 bales; 4.1 million acres of oats, representing 140 million bushels production and 3.8 million acres of sorghum grains representing 110 million bushels of production. These figures were based on the production of the farms concerned at the time they were taken in. The figures were not yet significant in the case of wheat, but it had only been in the last year that particular incentives in terms of a 10 per cent higher price, had been granted for the retirement of whole farms. It was difficult to generalize about the quality of the land which had been retired; however, the programme was of particular interest to marginal farmers. Generally, low-income farmers on marginal lands in the south-east of the country, and from the great plains in the west of the country had shown the most interest in the programme. Some marginal land had been taken out of production but some very productive land had also been retired. It was difficult to predict what would happen to lands when the contracts expired but there seemed a strong likelihood that most lands, particularly the marginal ones, would remain in permanent retirement and that marginal lands in the south-east, which were formerly timber areas, might revert to forest. The great plain lands of the west, much of which had first been ploughed during and immediately after the war, were better suited to grass than cultivation and the Conservation Reserve Programme was bringing about this very desirable change. It seemed likely that the lower

level of prices for crops would lead to these lands staying in grass. The highly valuable lands which had been put into the Conservation Reserve would almost certainly be returned to production when the contracts expired, but the Government was confident that overall a large acreage of land would remain out of production.

32. Members of the Committee expressed their disappointment that no indication had been given of concrete proposals for the implementation of the programme which the Administration had recommended to Congress. They recognized that there had been changes in the supply position of certain products in the last year, but stressed their view that these changes had been associated with factors other than changes in policy. They appreciated that the task was not an easy one, but stressed that the implementation of the four criteria by which the objectives of the programme recommended by the Administration to Congress had to be judged would afford real encouragement to countries exporting agricultural products. They noted that not unexpectedly no specific reference to trading relationships with other countries was contained in these criteria, but expressed the view that in framing agricultural policy, account should be taken of these relationships and that every effort should be made to ensure that the future agricultural policy of the United States was consistent with the general objectives of liberal trade embodied in the General Agreement. Members of the Committee pointed out that governments of other countries were under constant pressure from their producers to follow protectionist policies and price supports with resulting importing restrictions. A restrictive policy followed by a single country of such importance as the United States could set up a chain reaction which did not stop until practically all countries had adopted some form of import restrictions or other non-tariff measures to protect their agriculture. This was the position reached at the present time, but this trend could be reversed by some immediate progress on the part of the United States towards the removal of their import restrictions which had severe repercussions on the trade of small exporting countries. Except for corn, cotton and wheat, stocks of most other price-supported commodities in the hands of CCC were now reduced to manageable quantities and the prices for these products were near the support levels and in line with world prices in many instances. They stressed their view that these present conditions were appropriate for immediate action towards the abolition of import controls by the United States. One member of the Committee pointed out that in the agricultural sector, United States policies had effects which in part were in contradiction with the general views which the United States Government continually advanced for freedom of multilateral trade. He referred to unofficial estimates which had been made of the effects of an entire removal of United States Government support of agriculture; for example, he stated that it had been estimated that the price of wheat would drop to 74 cents per bushel.

33. The representative of the United States referred to the many references which had been made by members of the Committee about the gap which existed between the objectives of the Administration in regard to agricultural policy and the realization of these. The reasons for this gap arose to a large extent from the existence of the 1½ million low-income farmers in the American agricultural industry. It was not the intention of the Government to impose migration of these people from the agricultural sector, but to create conditions in which a free choice to leave or remain in the industry could be made. The gap

between the objectives of the Administration and the realization of these objectives did not result from differences in philosophy and intent within the Government, but from difficulties as to timing, place and method of the changes that needed to be made. The Government was not unmindful of the effects of their policies on international trade. In regard to estimates of the effects which entire removal of price support for agriculture would have the Government held the view that the interests of other exporting countries might not best be served by complete removal of Government intervention in agriculture. In its agricultural policy the United States Government sought to guard the interests of other exporters and took precautions so as not to disrupt markets as was evidenced, for example, by the inclusion of normal marketing provisions with respect to exports under Public Law 480. The barter programme had been revised several times to take account of normal marketing patterns. He stressed that so far as import restrictions were concerned, the trade effects were not too substantial in relation to the total agricultural output and the total volume of imports required by the United States, but the position would be reviewed continuously in the light of the changes achieved in the production complex of the country.

34. A member of the Committee stressed the view that, while he appreciated the problems arising from the conditions of low-income farmers with which indeed all countries were faced, too much emphasis had been placed on these farmers in relation to the total farm programme. Many United States farmers were in receipt of high incomes and had made large investments of capital with returns consistent with those of other industries. 40 per cent of all farms in the United States occupied nearly 75 per cent of total farm land and accounted for 90 per cent of the total value of sales from farms. In the total agricultural programme, only the Rural Development Programme was specific to small farms; the Conservation Reserve Programme might have a greater relative effect on small farms, but was not really specific to them. The total farm support programme in fact gave far greater support to large farms. He enquired whether the United States Administration had given any consideration to the possibility of some form of special treatment for small farms within the total agricultural programme. A sliding scale for deliveries, for example, would be a means of curbing surplus production in line with the objective of adapting production to market requirements. In his view, United States agricultural policy measures should be concentrated on types of aid other than price support to the economically weak farmer. Another member of the Committee noted that the President's message to Congress at the beginning of 1959 had indicated that most of the monies involved in support of agriculture went to a relatively few producers and not to help people in greatest need of help and pointed out that most governments found in negotiations with farmers that there was a tendency for the industry as a whole to base their claims for support on the marginal, high-cost producer. This tendency could be counteracted and thus the movement towards a more realistic flexible price support programme hastened if more attention was given to non-price measures of aid to small farmers.

35. The representative of the United States stated that there was general recognition in the United States that the greater benefits of price support had gone to the larger farmers and it was for this reason that programmes had been developed to assist those farmers who had benefited less from such programmes. Systems of selective or graduated price supports, whereby the small farmer received relatively greater benefits than the large farmer, had been considered

and there had been some enactments in that direction, but there was in general great reluctance to adopt such measures. The Government was not attempting either to preserve the low-income farmer on his farm or to force him to abandon farming, but was attempting to create conditions in which the decision to leave or remain in agriculture could be freely made by such a farmer. If selective price supports were adopted on a large scale, the most inefficient farm group rather than other groups which could be encouraged to become more efficient, would be preserved in agriculture. There had been some experience with selective price support on cotton and this had increased the Government's reluctance to move generally into a support price system which differentiated among income classifications of farmers.

36. Some members of the Committee stated that policies of agricultural protection had led the United States to seek a waiver from its obligations under the General Agreement. This action, in their view, had possibly caused more serious damage to the fulfilment of the objectives of the Agreement than any other single factor. It was difficult to appreciate the reasons why it was not possible for the United States to devise a system to protect the low-income farmer without disrupting world trade. These members of the Committee expressed the hope that among the objectives of United States agricultural policy would be the creation of conditions in which a United States waiver from her obligations under the General Agreement would no longer be necessary. In their view no other single action would give more encouragement to the expansion of world trade or to the principles which underlined the General Agreement. The representative of the United States recognized that the United States waiver was a matter of great interest and concern to all contracting parties. However, in his view the extent and importance of the matter had been over-emphasized. Action under the waiver had been reasonable and recourse to it had been as limited as could have been expected; many applications for Section 22 action involving the application of some form of import restrictions had been opposed and rejected. Furthermore, in the view of the United States Government, since marketing of wheat, cotton and peanuts was effected through a system of quotas with heavy penalties for marketing above allotted quotas, and because acreage restrictions for these commodities were also in force, import restrictions on wheat, cotton and peanuts could be imposed under the provisions of Article XI:2(c) of the General Agreement without recourse to the waiver.

37. In discussion on the subsidy operations which accompanied the price support system, members of the Committee stressed their view that lower prices could increase consumption of some products as had been demonstrated, for example, in consumption of dairy products in European countries. While they appreciated the efforts that were being made through the National School Lunch Programme, the Special Milk Programme and other measures to increase consumption, they nevertheless stressed their view that the United States concentration on subsidized exports as a means of disposing of surpluses of those commodities where price elasticity could affect consumption had adverse effects on the trade of other exporting countries. In their view, consumption of these products would increase and surpluses could be disposed of if the prices to the general consumer were decreased.

38. In connexion with export subsidies, members of the Committee pointed out that any assessment of the effect which concessionary sales under Public Law 480 might have on international trade was difficult since circumstances varied

from case to case. However, it had to be recognized that the potential export earnings of other countries could be reduced. They appreciated that the effective consultation procedures ensured that the harmful effects of Public Law 480 transactions were minimized. One member of the Committee stated that the barter programme instituted under Public Law 480, Title 3, had departed from the principle of additionality for several commodities, especially dairy products. The representative of the United States explained that in respect of one of the three categories into which countries were divided for barter purposes, namely Category C, additionality was taken for granted since their inclusion in the category was determined by balance-of-payments considerations or, in the case of certain commodities, by the lack of any record of purchases from the United States. He added that the list was constantly under review with reference to both countries and commodities, that dairy products were not currently eligible for barter and that there had been no extensive barter of dairy products in the past. The observation was made that the recently instituted Title 4 of Public Law 480, under which the United States could dispose of surpluses under contracts involving deliveries over a ten-year period with payment in dollars with interest extending over twenty years, represented an instalment plan on direct consumer goods and would tend to maintain surplus production in the United States. The representative of the United States stated that Title 4 was a relatively new authorization which was at present being studied for the purpose of determining the contribution it could make to market expansion and determining the limitations which would need to be included in its operation. No procedures under this Title had yet been developed, but all safeguards for other exporting countries now applicable to other sales made under Public Law 480 would be included in connexion with Title 4 operations. The authority provided by this Title was not, however, any great departure from previous provisions for extension of credit, and these had not been exercised extensively.

39. Members of the Committee stressed their view that the problems of farm surpluses and export subsidies had their roots in the American farm price support policy. One member of the Committee stated that the operation of export subsidies had to some extent and for some commodities gained for the United States a percentage share of world markets that it might not have had without the use of subsidies. The representative of the United States stated that the Government of his country recognized that surpluses had stemmed in part from the price-support operations; these were a result of the United States war-time efforts to produce the commodities that were needed. The United States had exercised discretion and wisdom in feeding these surplus products back into world markets without adversely affecting these markets. In his view it was not evident that the United States had gained a larger share of markets than it had held in the past. Some former markets of the United States had in fact been reduced, but this was simply the normal operation of markets changing a situation which would also occur under conditions of completely free trade. One member of the Committee pointed to the fact that, although the costs of United States support programmes were considerably less than 1 per cent of the total national income, they had during the last years amounted to 20 to 30 per cent of farm net income. As to the effect on world trade, one had to take into account that the effect of the support programme primarily rested on foreign trade, which formed a relatively small proportion of the United States national economy. As only a few and relatively small countries were interested in the trade in the products covered by the

United States' agricultural support programme, the effect on the export possibilities and the economy of these countries might be relatively large. The representative of the United States said that the burden of price support rested heavily on the United States domestic economy and that progress had been made towards lower support levels, an objective which it would be glad to see other countries pursue.

40. Members of the Committee concluded this part of the consultation by stressing their view that the American agricultural scene was still marked by substantial insulation of the American producer from world market forces, surpluses and the disposal of these by export subsidies, consumption impeded by high internal prices resulting from the high level of price support and import controls. They repeated their conviction that determined efforts should be made to reduce the levels of support prices and to secure the removal of import restrictions in order to reduce the marked adverse effects that United States agricultural policies had on the export opportunities for other countries in the United States and other markets. In this connexion, they pointed out that the import restrictions now imposed nullified the tariff concessions which had been negotiated in the United States tariff.

#### B. Commodities

41. The Committee conducted a detailed examination of the information submitted by the United States on those commodities on which it had been agreed the consultations should be concentrated. This section of the present report summarizes the main points discussed during the examination.

##### Dairy Products

42. One member of the Committee pointed out that restrictions existed on the free transport of milk from one American State to another; these restrictions affected prices, gave rise to local surpluses and prevented increases in consumption. He enquired whether any possibility existed within the marketing agreement and orders authority for the removal or at least the co-ordination of these restrictions. The representative of the United States stated that there were no State regulations as such restricting inter-State movement, but quality, health and sanitary regulations enacted by local authorities might inhibit or prevent free inter-State movement. Farmers were obliged to comply with the quality, health and sanitary standards required by the local authority of the marketing area concerned and restrictions on movements did therefore sometimes arise. Rights in health standards were reserved to local authorities and, while it was possible for the Federal Government to adopt higher standards in Marketing Order programmes, it could not override local authority by imposing lower standards which would permit complete freedom of movement. It should, however, be noted that milk and dairy products did nevertheless move over wide areas.

43. Members of the Committee noted that there had been a steady reduction in numbers of milk cows from the pre-war average and enquired whether it was expected that this decline would continue or whether there would be a levelling-off at the present number. They also enquired to what extent, if any, the decline in numbers of cows was associated with the taking out of production of some of the acreage of the  $1\frac{1}{2}$  million low-income farmers, and the percentage of total production of dairy products associated with these low-income farmers. They also noted that there had been an increase in recent years in yield per cow and enquired whether further increases were to be expected.

44. The representative of the United States stated that it was difficult to make projections, but indications were that both increased production per cow and some continuing decrease in the number of cows were to be expected. The continuation and development of the tank truck delivery method for milk was leading to the development of units somewhat larger than was previously considered to be the efficient minimum. The minimum unit was now regarded as twenty-five cows compared with the previous estimate of fifteen cows, and small dairy herds would continue to decrease as a percentage of the total production. While it was not possible to give any precise figures about the proportion of total production of dairy products associated with the low-income farmers, in general the areas of location of sub-marginal farms were not dairy producing areas and only an insignificant part of total production of dairy products was in the hands of the low-income farmers. One member of the Committee pointed out that the development of larger units should lead to a higher level of efficiency and that these circumstances should involve lower price support for the industry in the future; furthermore, increased efficiency should lead to lower prices and price support levels could be reduced and imports increased without serious effects on the incomes of domestic producers. The representative of the United States pointed out that the development of larger units to meet new marketing arrangements did not mean an immediate reduction in production costs. More capital investment by the farmer was involved since the farmer was compelled to invest in his own tanks if he was to continue supplying milk to areas where tank truck delivery was in operation. In the long term, it was possible that production would become more efficient and the cost of production lowered, but the main reasons for the change to tank truck delivery were the need for improved sanitation arrangements and improved preservation of the products concerned. So far as the farmer was concerned, the motivation for the change was not increased efficiency but the necessity for marketing through the only available channels.

45. Members of the Committee stressed their view that the present level of prices of dairy products did not reveal the necessity for price support of the industry. The support rate for butterfat was 56.6 cents per lb. which corresponded to a price of 48 cents per lb. or 105 cents per kg. for butter, while the world market price had in general been about 80-85 cents per kg. The United States tariff rate was 14 cents per lb. i.e. 30 cents per kg., which when added to the world market price resulted in a price of 110-115 cents per kg. compared with the 105 cents received by the American producer. This led to the conclusion that the price-support programme at the present time was operated to avoid imports against the tariff quotas which had been negotiated at a rate of 7 cents per lb. and which would be the only opportunity to enter the United States market in normal conditions. If the United States authorities maintained that the price-support programme was designed for abnormal conditions then more flexible measures should be adopted. The representative of the United States stated that the United States had never been a major or significant importer of dairy products; there had been some changes in the rate of United States exports, but so far as imports were concerned the price-support programme had preserved the normal pattern of trade over a long historical period. As to the reference which had been made to abnormal conditions, the programme evened out prices to the consumers and evened out the normal seasonal fluctuations of prices to the producer.

46. Members of the Committee recognized that the United States had never been a major importer of dairy products, but stressed their view that too much regard should not be paid to the historical pattern of United States trade in these products. Regard should be paid rather to the necessity of determining what changes should be made in the protective support policies to enable international trade to benefit from a more economic production system. Although the United States had admittedly never been significant importers of butter, nevertheless United States imports in pre-war years had been nine times the present level which was negligible in terms of the large consumer potential of the country. In any case, before the price-support programme had been instituted there had been a tendency for imports in some periods to increase; the quotas which were now established were based on imports of a remote period and a different figure would result if a more recent base period had been selected. One member of the Committee referred to the considerable pressure that had prevailed through 1958 on the import market for butter in his country, and stressed his view that this pressure and therefore the position of competing suppliers, would have been eased considerably if there had been some relaxation of the strict import controls on butter into the United States. Members of the Committee referred to statements that had been made by the representative of the United States concerning the distribution and the decreasing share of the consumers' dollar which went to the producer and stressed their view that if this applied also in the case of dairy products it was due to the support system; competition from increased imports of butter would improve the position in this regard. They noted that consumption of butter in the United States had decreased considerably in the last year while consumption had been increasing in other countries. There could be no doubt that the level of prices, which had been kept very high in relation to margarine prices, was largely responsible for this decline in consumption. Consumption of butter was below pre-war levels and there was therefore room for a greater volume of imports without detriment to the United States producer. They noted that if per capita consumption of butter had been maintained at the pre-war level by a more moderate support price, the increase of population, leaving aside increases in the income of that population, would have provided opportunity for United States imports of butter far in excess of the pre-war average of 9 million lbs. They pointed out that although such a level of imports was not large in relation to the total consumption of the United States nevertheless such a level of imports would have a great bearing on the price of butter in times of crisis.

47. The representative of the United States stated that the reasons for the decline in butter consumption in the United States were not clear, but price levels were not deemed to be the main factor affecting consumption. Other factors played a more important part. For example, until recently, certain States had had local laws concerning the use of colouring matter in margarine and which had tended to limit the use of margarine; now that these laws largely had been abolished, there was a greater substitution of margarine for butter in the country's consumption. There were also trends towards intake of different types of fat and, on the part of some of the population, a deliberate decrease in butter intake for health reasons. The

increase in meat consumption might be regarded as an indication of the switch in consumer intake of fat. As to the references which had been made to the desirability of increased imports, it should be appreciated that stocks of dairy products were again being accumulated and any additional imports would in effect be added to the stocks of the Commodity Credit Corporation. In the previous autumn when the United States had submitted its report to the CONTRACTING PARTIES on the action taken under the waiver, the supply position on dairy products had been different from preceding years and stocks had been depleted. Some relaxation of import restrictions might therefore have been foreseen at that time. However, this depletion had in fact proved to be only of temporary duration and since that time stocks of butter, non-fat dried milk and cheese had been accumulated; non-fat dried milk stocks were being accumulated at the rate of 3 million lbs. a day.

48. Members of the Committee stressed their view that the present time, when stocks of dairy products were still much lower than they had been, appeared to be the appropriate opportunity to liberalize imports. In this way, it would be possible to determine whether price was a major factor in the decline in consumption of dairy products. They also stated that it was difficult to appreciate the reasons why, when the basic reasons for price support appeared to be the maintenance of the 1½ million low-income farmers, price support should continue to be given to commodities with the production of which the low-income farmers were not concerned. The representative of the United States stressed that the problems of the low-income farmers were not the only concerns of United States agricultural policy; the aim was to keep the purchasing power of all farmers comparable with other sectors of the economy. Price support of dairy products had not been deemed to be the major factor affecting consumption of these commodities as a whole; decrease in consumption was only evident in the case of butter. The total consumption of fluid milk and cheese evidenced an entirely different trend; for example, the consumption of fluid milk had increased from 300 to 350 lbs. per head in twenty-five to thirty years. Some members expressed appreciation of the particular problems associated with the level of consumption of butter in the United States, but nevertheless indicated that they were not convinced that the price level was not a major factor determining the level of consumption. They considered that the real test of whether this was not in fact the case, would arise by admitting larger quantities of imported butter, thus permitting supply and demand to operate more freely.

49. One member of the Committee pointed out that one aspect of the export activities of the United States was the export of instability to other markets in order to preserve stability in the United States market. He pointed to the experiences of one country which supplied milk products to his own country, the world's largest importer of dairy products. The supplying country had developed a market for milk products in India, but this market had been lost to subsidized milk products exported from the United States and this loss of market in India had had a destabilizing effect on the market in his own country. The representative of the United States stated that his country wished to avoid adverse effects on markets. The sales to India to which reference had been made had been for the purpose of developing new markets and the consumption of milk products by populations which had not had these products before.

50. One member of the Committee noted that although there was no direct support of egg prices there was some measure of support in that Government agencies could intervene to buy up surplus supplies of eggs. He enquired under what conditions the Government agencies purchased eggs and how they disposed of the surpluses purchased. The representative of the United States stated that authority existed, particularly under Section 32 of the Act of 24 August 1935, for Government agencies to buy surpluses of a large number of commodities; any commodities or products so purchased went to public consumption through school lunch programmes, donations to needy persons, etc. Acquisitions were limited to quantities for which immediate outlets were available, and no quantities were stockpiled. The arrangements for purchases of eggs were not strictly price-support arrangements in the usual sense, but they had a stabilizing effect on the markets in that the surpluses were purchased when prices were low.

### Meat

51. Members of the Committee noted with appreciation that this commodity was free of price support, subsidization and, to date, was free of any form of quantitative restrictions, other than those arising from the administration of quarantine regulations. They noted, however, that support could still be granted to meat under the provisions for non-mandatory price support. They noted, also, that in the past Government agencies had purchased livestock products for use in the School Lunch Programme and pointed out that if livestock production increased to the extent that prices were depressed such purchases could be made again.

52. The representative of the United States stated that this type of Government purchase programme was only secondarily a price-support programme. Government agency purchases of certain commodities at times of heavy supplies and low prices were now a regular feature and would be continued where they could be fitted into the pattern of domestic consumption and where regular outlets such as the school lunch programme existed.

### Cereals

53. One member of the Committee pointed out that the high level of the United States support price for wheat had led to constant pressure from producers in his own country, where costs of production were just as high as those of the United States, for support prices to be increased to nearer the United States' level. The price-support operations in the United States had been an incentive to increased production and mounting surpluses which had now resulted in a United States stockpile of over one billion bushels. These surpluses were sent to export markets carrying an export subsidy of 50-60 cents per bushel and the increase in American exports, from the pre-war average of 68 million bushels annually to 377 million annual average in the last ten years, had caused disruption of the markets and created serious problems for other producing countries. While he appreciated the efforts made by the United States Government to restrain exports and to reduce the effect on world markets, nevertheless the level of price support was still unrealistic in relation to world prices for wheat. The conclusion must be drawn that the American producer was producing for the Government, not for the markets, and the price support system was not designed to assist the economically weak producers. He enquired as to the future prospects of the price-support system and whether information could be given on any recommendations that the Administration might be putting forward to Congress in respect of wheat.

54. The representative of the United States could not agree that the levels of United States exports of wheat had caused disruption of markets. In his view, world markets for wheat had been stable despite the volume of United States exports and the amount of wheat in the United States Government's hands had not, therefore, been a particularly depressing factor in these markets. Nevertheless, the United States Government appreciated the anxieties of other producers and no aspect of the American farm programme had been of more concern than this major surplus commodity to all levels of the Administration. For the last two or

three years, the support price for wheat had been at the minimum level provided by law and the acreage allotment for this crop had also been at the 55 million acre minimum permitted by law. Nevertheless, it should be noted that regardless of the level of support, average production of wheat on 55 million acres of land must inevitably produce more wheat than the present outlets of the United States could absorb. As to specific recommendations to Congress, the Administration had a year ago recommended, that, because of continuing changes in technology, the parity concept for wheat was no longer realistic and thus a three year moving average in determining support prices should be adopted, and that the Secretary of Agriculture should establish support levels at from 75 to 90 per cent of this average. Many other proposals designed to lead to the adjustment in production which seemed essential had been formulated but it was not possible to forecast what legislation would eventually be enacted. However, it could be expected that the efforts under the Conservation Reserve Programme to retire from production land in the wheat areas would be emphasized. To date 3½ million acres had been retired from potential wheat acreage and more could be expected in the coming year. But it must be stressed that the land that had been retired from production was not all wheat acreage but included other acreage on farms; if wheat acreage allotments were increased or the acreage limitations for this crop were eliminated the expansion of acreage to wheat would be greater.

55. One member of the Committee stated that, while it was possible in terms of price to accept the United States contention that their activities had not disrupted world markets, nevertheless these activities had had the effect of holding back some development of wheat, and later livestock, production in countries which were not yet fully developed but where wheat was now being produced efficiently. He enquired whether the Conservation Reserve Programme legislation required that the land should go out of production entirely. The representative of the United States stated that the Conservation Reserve Programme required complete elimination of production from the acreage retired - that is, the requirement was a net reduction in the acreage cropped and the farmer was not permitted to use any such retired land for grazing. Further, he could not retire some land and then put new land under cultivation.

56. One member of the Committee noted that exports of United States wheat were made in two forms, grain and flour. He noted also that the payment of the export subsidy on wheat was in terms of a return of wheat, not cash, to the exporter. He enquired whether the sales price of flour was made on the basis of prices in the flour market or on a fixed relationship between wheat and flour and also whether, in the event that the payment in wheat was exported in its turn, it would also earn a subsidy. In reply, the United States representative stated that the export subsidy on flour was based on that for wheat using a standard conversion factor; any departure from this system would be administratively impossible. The subsidy on wheat exports was made in the form of a certificate redeemable in CCC stocks. When redeemed stocks were subsequently exported, then a further certificate redeemable in CCC stocks would be issued; this could be repeated through many operations.

#### Sugar

57. One member of the Committee referred to earlier comments about exporting instability in order to maintain internal stability. He stated that, while recognizing that the historical intentions of the

legislation relating to sugar differed from those relating to other support measures, nevertheless under this legislation imports into the United States, the world's largest importer of sugar, were under a completely closed quota system. The world market for sugar was therefore substantially weakened by the exclusion from the market of the largest importer. The rights of countries which had access to the United States market under the closed quota system were extremely valuable and as a result the competitive capacity of these countries in other markets substantially affected the interests of other producing countries. Sugar was yet another example of United States domestic stability having repercussions on world markets. Another member of the Committee drew attention to the serious effects of American sugar legislation and production policies on the production and exports of his country, the world's second largest sugar producer. He pointed out that the production of sugar beet was more expensive than the production of cane which was evidenced by the heavy subsidies paid to the production of beet in the United States.

#### Vegetable Oils and Oilseeds

58. One member of the Committee pointed out that there had been a substantial increase in production of soya beans from the 1934-38 average of 42.8 million bushels to 575 million bushels in 1958. Exports had also increased considerably from the 1934-38 average of 2 million bushels of beans and 5 million lbs. of oil to 110 million bushels of beans and 950 million lbs. of oil in 1958. He drew attention to the emphasis placed by the representative of the United States on the historical pattern of imports of dairy products and expressed the view that the substantial increase in exports which had resulted from the price support operations appeared to indicate that the United States authorities did not regard the historical pattern of trade in this commodity as of equal importance or relevance. He could not appreciate why price support for soya beans could not be dispensed with now that production was so firmly established. Nor in his view was it easy to appreciate how most of the eight factors on which the Secretary of Agriculture based his consideration of the need for price support could apply for this non-mandatory commodity. Certainly the factors relating to supply and demand, the ability and willingness of producers to keep supplies in line with demand, and the need for offsetting temporary losses of export markets did not appear to apply to this commodity. The relevance of the factor relating to price levels at which other commodities were being supported clearly demonstrated the vicious circle that price-support operations could create. He noted that the level of price support for soya beans had been reduced, but pointed out that the present level was still high enough to have produced a large surplus. United States subsidized exports of soya beans were having an adverse effect on trade in this commodity, and particularly on trade of less-developed countries who would benefit from a reduction in the levels of price support. He pointed to similar developments in peanut production and exports. Production was now almost twice the pre-war average level and exports had increased from negligible amounts in 1934-38 to 44 million lbs. in 1958. Production in the United States was protected by high support prices, a small import quota and an additional fee of 25 per cent over and above the normal import duty. A further reduction in the price support for these commodities would be of benefit to less-developed countries who were encountering difficulties in their export markets due to the increasing export surpluses of the United States.

59. The representative of the United States stated that the price support on soya beans was an illustration of the way in which non-mandatory price supports operated to equalize production and demand. Not all the eight factors to which reference had been made applied but those relating to the importance of the commodity to agriculture, the price at which other commodities were being supported and the ability to dispose of stocks were clearly applicable. As to the importance of the commodity to agriculture, soya beans produced protein meal, a product of importance to the increasing livestock production of the country and which compensated for the changing supply of cotton-seed. As to the ability to dispose of stocks, production of soya beans had increased in 1958 and stocks had been accumulated. In consequence, the support price for soya beans had been reduced from 70 to 64 per cent of parity (a reduction of 24 cents a bushel) and as a result of this reduction in the support-price producers had reduced by  $1\frac{1}{2}$  million acres the area under soya bean production. The CCC was now disposing rapidly of soya bean stocks accumulated from the 1958 crop, at 20 cents per bushel above the current support price or the market price whichever was higher. Stocks of 40 millions lbs. accumulated in 1958 were now down to about 9 million lbs. If CCC had not accumulated stocks of 40 million lbs. in 1958 and reduced the support prices in 1959 there would have been a far greater acreage in production in 1959. Mandatory price supports were in operation for cotton, and it was therefore believed necessary to have support on cotton-seed or soya beans. The law required that if a support programme was in effect for one of these commodities the other must be supported at such a level as to cause the two commodities to compete on equal terms on the market. In general, with a rapidly expanding domestic market for meat, the price-support programme on soya beans had been valuable and had encouraged stability in the United States market. The price support for peanuts was at the minimum level permitted by law and a minimum acreage allotment was in effect. No other administrative action could be taken at the present time.

#### Other Commodities

60. In conclusion, the Committee considered a request that had been made for the inclusion of wool as an additional commodity in the consultations with the United States.

#### Wool

61. One member of the Committee enquired as to the form of price support which had been in operation for wool in 1947 when his country had negotiated a tariff concession, what changes there had been since that time in the level and methods of price support and whether there had been any changes in the stated aims of the wool programme since that time. The United States representative stated that the programme in effect at the present time was different from that in operation early in 1947 which had been based on the authority contained in the Agricultural Adjustment Act of 1938. In 1947, price support for wool had been at a level of 42-3/10 cents. per lb. equivalent to 101 per cent of parity. This programme, operated under a discretionary price-support authority, was discontinued on 15 April 1947 and there was no price support of wool for the ensuing 4 months. Price support of wool became mandatory, from 15 August 1947 by the Act of 5 August 1947. Price support, through purchase, was thus continued until the passage of the National Wool Act,

which provided for support of prices to producers through deficiency payments, beginning 1 April 1955. The National Wool Act, which recognized wool as an essential and strategic commodity and pointed to the need for a reasonably stable market to avoid the possibility of production for domestic needs being impaired by price fluctuations, was enacted in 1954. The price-support level was now 62 cents per lb. or 86 cents of parity. The incentive payment made represented the difference between the national average support price of 62 cents per lb. and the season average price.

62. One member of the Committee considered that, even though returns to United States producers for wool and meat might be less closely related than in his own country, nevertheless the support price for wool was high in a period when meat prices were also high and enquired whether this was taken into account in determining the applicability of the eight criteria to which reference had been made for other commodities. The representative of the United States stated that the eight factors referred to did not apply in determining the level of price support for wool; authority for this was contained in the National Wool Act. In general, the support price for wool was set at the level deemed necessary to achieve the domestic production target of 300 million lbs. of shorn wool annually.