

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES  
Twentieth Session

## UNITED STATES IMPORT RESTRICTIONS ON AGRICULTURAL PRODUCTS

### Report of the Working Party

1. The Working Party has examined the eighth annual report (L/1836) submitted by the United States Government under the Decision of 5 March 1955, on import restrictions in effect under Section 22 of the United States Agricultural Adjustment Act as amended, on the reasons for the maintenance of these restrictions, and on the steps taken with a view to a solution of the problem of agricultural surpluses. On the basis of the report and with the assistance of the United States delegation, the Working Party has reviewed the action taken by the United States Government under the Decision.
2. The representative of the United States, in introducing the eighth annual report, drew the attention of the Working Party to actions taken by the United States Government during the past year under the provisions of Section 22, and in particular to the progress made by the United States Government in removing import restrictions on several products which had been previously covered by the import regulations under Section 22. He emphasized the judicious and careful way in which the United States Government had always used the authority granted under this Section and under the Decision of 5 March 1955. He expressed the intention of the United States Government to make a continuing effort to relax import restrictions on agricultural products still in force as quickly as the situation permitted.
3. The Working Party was grateful for the comprehensiveness and clarity of the United States report. The Working Party was pleased to note that since the last report the United States Government had found it possible to remove import restrictions on tung nuts and tung oil; these items were liberalized on 2 May 1962. Import restrictions currently in force applied to four groups of commodities: wheat and wheat products; cotton of certain specified staple lengths, cotton waste, and cotton picker lap; peanuts; and certain processed dairy products.
4. The Working Party was also pleased to note that on the basis of an investigation and report of the United States Tariff Commission it had been decided to increase the quota for blue mould cheese as from 30 March 1962, and

that the present annual quota amounted to 5,017,000 pounds; this was an increase of 850,000 pounds annually above the level at which the quota had been maintained since it was established on 1 July 1953. On the other hand, the Working Party noted that it had not been possible to increase the quotas on Cheddar cheese. The Working Party welcomed the rejection based on investigation and report by the United States Tariff Commission of a proposal for an import fee on the cotton content of textile imports to offset the difference between the cost of raw cotton to foreign mills and that which the United States mills were required to pay.

5. Members of the Working Party noted the view expressed by representatives of the United States in earlier discussions that, in respect of most products, even though covered by the terms of the waiver, the restrictions actually in force were nevertheless applied consistently with the provisions of the General Agreement. Some members enquired, if this was the case, whether there still was a need for continuing the waiver for these groups of commodities. They recalled that the implications of the waiver went far beyond the imposition of import restrictions in respect of a number of agricultural products and expressed the view that the continued existence of the waiver and maintenance of restrictions under it had an adverse effect on the formulation of trade and agricultural policies in other countries.

6. The representative of the United States pointed out that under the terms of the waiver his Government was required to report on all restrictions in effect under Section 22, regardless of whether or not they might, in the absence of the waiver, be compatible with the provisions of the General Agreement. It was for this reason that the eighth annual report under consideration included information in respect of wheat, cotton and peanuts, which were presently subject to production and marketing control in the United States. The possibility of renouncing the application of the waiver was, at the present time, not under consideration by his Government, since circumstances in respect of domestic considerations, which prompted the request for the waiver, had not so changed since the granting of it in 1955 as to permit such action.

7. Members of the Working Party were appreciative of such progress as had been made towards an eventual elimination of the remaining restrictions, but they expressed great disappointment that, in respect of dairy products, apart from some relaxation of import restrictions with regard to certain types of cheese, virtually no progress had been made during the period of validity of the Decision. They felt that these remaining products constituted what could be considered as the hard-core of the remaining restrictions and they expressed the view that the United States was faced with a purely structural problem in this respect. They appreciated the measures taken by the United States Government to deal with the problem of agricultural surpluses, but noted with concern that, particularly in the dairy sector, the situation had become more difficult over the past year. The Working Party recognized

that technical improvements had made a considerable contribution to increased farm production but some members pointed out that to a large extent technical improvements were possible only because of the high farm incomes maintained by high support prices. In their view, these were high cost technical improvements, which while increasing production had not sufficiently contributed to lowering costs.

8. The representative of the United States explained that a new Farm Bill had recently been enacted. The Act related primarily to wheat and feedgrains and some points which had been raised in the Working Party discussions on the United States Agricultural Waiver in previous years were reflected in its provisions. One of the primary objectives of the Act was improved supply management for cereals. In this respect the new legislation recognized some of the shortcomings of previous legislation under which wheat acreage, for example, had been reduced continuously from the levels in preceding years, but at the same time the development of technical improvements in agriculture had contributed to considerable increases in wheat production on the reduced acreage. For 1963 the wheat programme would not differ substantially from that of the preceding year. The minimum national acreage allotment was maintained at 55 million acres, but if farmers were prepared voluntarily to reduce their acreage still further they would receive the benefits provided for under the legislation for such voluntary reductions. In view of the fact that the 1963 programme will be similar to that of the previous year, it might reasonably be expected that wheat production would again be below total output in recent years. For 1964 the concept of supply management would involve the removal of acreage allotments, but it was assumed that the new price support system would encourage further reductions in the level of acreage and would lead to further improvements in the supply management position for cereals.

9. The representative of the United States further stated that a proposal had been put before Congress on new dairy legislation. The proposed legislation, which had not as yet been approved by Congress, recognized two main shortcomings in the present law. Within the authority now granted to the Administration, it might not be possible to fix the price support at a level which would provide for a satisfactory income to dairy farmers. As a second shortcoming, he referred to the requirement for the Government to support unlimited production of milk. The proposed new legislation attempted to overcome these shortcomings by affording dairy farmers a more adequate return in the framework of a supply management scheme. The support would be given only to the quantity of milk allotted to the individual dairy farmers based on estimated total needs. In case of milk production in excess of such allotments, the producer would be charged a surplus marketing fee not exceeding \$2.75 per 100 pounds. It was considered that these arrangements would serve to correct the current supply imbalance and to limit government expenditure, if the proposed legislation was enacted.

10. Members of the Working Party appreciated the information given by the United States representative on the new legislation in respect of wheat and coarse grains. They expressed the hope that the opportunity would be afforded, for example in the context of Committee II, to examine in more detail the effects of these changes in the United States agricultural policy on trade of the products concerned. They recalled that in previous discussions on the United States Waiver, considerable emphasis had been put on the continued growth of United States wheat production and expressed their appreciation that views on shortcomings of some United States agricultural programmes, expressed by the CONTRACTING PARTIES in these previous discussions were reflected in the new legislation.

11. Members of the Working Party, in discussing action taken by the United States under its Food for Peace Programme, drew attention to the provisions of Title IV of Public Law 480; under this Title, authority was provided for long-term supply and dollar credit sales of surplus agricultural commodities. They noted in particular that credit periods of up to twenty years were authorized and stated that such facilities might place commercial exporters in other countries in a disadvantageous position and might introduce an element of increased competition. They urged that the United States authorities should apply the authority given under this Title cautiously so as not to jeopardize commercial interests of traditional exporting countries.

12. The representative of the United States stated that, under Title IV of Public Law 480, up to 30 June 1962, only nine agreements each of a few years duration had been signed with six countries for total sales of \$57 million worth of commodities; this was to be compared with agreements on sales for foreign currencies under Title I amounting to \$1,500 million during the period from July 1961 to July 1962. He further explained that Title IV agreements on long-term dollar credit sales were concluded with countries which could not apply for foreign currency sales under Title I, but were not in a position to establish trade relations on strict commercial terms. To this extent, it was expected therefore, that the effect on existing competitive conditions in commercial markets would be limited. Sales under Title IV were effected at world prices. The same procedures were normally followed as in respect of Title I agreements, including consultations with principally interested exporting third countries. Prior to the signing of Title IV agreements the import situation of the countries concerned was carefully examined and due account was taken of the traditional import pattern, so that Title IV sales would be effected in addition to normal commercial purchases from traditional suppliers. It was envisaged that for countries in strong financial position the programme of long-term dollar credit sales would not be significant.

13. Members of the Working Party expressed interest in the Food Stamp Programme and noted from the report that coupons could be used to buy food - except for a few imported items - out of regular commercial supplies at authorized retail stores. The representative of the United States stated that the Food Stamp

Programme, which was still a pilot programme, was concerned with food products, which were in domestic over-supply or which were highly perishable, such as fruit and vegetables. The intention of the programme was to provide one means to increase the utilization of foods which were in plentiful supply in the United States.

14. In examining commodities for which Section 22 import regulations were still in force, the discussion centred particularly on dairy products. Members of the Working Party noted that milk production had increased by  $2\frac{1}{2}$  per cent in 1961/62 and that the milk support price had been reduced as from April 1962 from \$5.40 to \$3.11 per 100 pounds, which was the statutory minimum of 75 per cent of parity. They enquired whether this reduction was likely to have an effect on production and on prices to consumers. They noted further that, while production had been increasing, consumption had declined by a little more than 1 per cent. While realizing the serious nature of the problems in the dairy industry, which were being faced also in other countries, members also pointed to the very low per capita consumption of dairy products in the United States. They considered that a greater effort should be made to stimulate consumption. In this context it was pointed out that in the case of butter income elasticity of demand only played a minor rôle but price elasticity of demand was of great importance. They felt therefore that if action was taken to reduce the retail price of butter, for example, it might well have, in accordance with experience in other countries, an easing effect on the butter surplus situation in the United States, with consequential favourable effects on the butter situation in other importing countries. They pointed out that a slight increase in annual per capita consumption in the United States of, for example, one half pound, would amount to an increase in outlets for some \$2 million pounds a year. This did not seem much in the context of total United States consumption but for butter-exporting countries it could mean a considerable improvement in their present situation.

15. The representative of the United States replied that it was too early to judge the effects of the decrease in producer prices on production in 1962/63. He explained that, because of the price structure in the United States, it was unlikely that the decrease in the support price would be reflected in prices to the consumer. It was, however, conceivable that consumption would again increase, although it was not likely that per capita consumption would show considerable increases in the near future. The United States Government did not contemplate the granting of consumer subsidies either on milk or on other dairy products, apart from action taken under various programmes, such as the Special Milk Programme and the Military and Veterans Administration Milk Programme, the National School Lunch Programme, and donations to schools, needy persons and institutions in the United States. The granting of consumer subsidies on dairy products would raise the question of similar action in respect of competing products, such as vegetable oils.

16. Members of the Working Party drew attention to the fact that the present quota of butter imports, amounting to 707,000 pounds represented no more than 0.05 per cent of annual consumption in the United States. They felt that a considerable enlargement in the quota would not noticeably affect the United States market situation or interfere with the United States support programme. In this connexion they recalled that the United Kingdom, which had been the only large free importing market of butter, had recently been forced to introduce quantitative import restrictions, in order to meet the difficulties arising from the continuous disposal of subsidized low-priced butter on its market. They further recalled that a tariff quota on 60 million pounds of butter had been negotiated with the United States under the General Agreement and expressed the hope that the butter quota would be increased, at least up to the level of the tariff quota.

17. The representative of the United States stated that in accordance with the criteria set forth in Section 22 of the Agricultural Adjustment Act the quota in respect of products falling under this Section had been established at a level not less than 50 per cent of the total quantity imported during a determined representative period. Imports of butter in the representative period 1933-34 had amounted to 1.4 million pounds, and the butter quota had been determined accordingly at 707,000 pounds a year. The representative of the United States stated that at the time of negotiating the tariff concession there was a complete embargo on butter imports into the United States in accordance with Section 104 of the Defence Production Act. This Section had been replaced by the present legislation and under this legislation a quota had been fixed.

18. Members of the Working Party, while noting with appreciation the relaxation effected in respect of blue mould cheese, expressed disappointment that it had not been found possible to increase the quota on Cheddar cheese of which a number of countries were traditional exporters. The representative of the United States stated that relaxation in respect of Cheddar cheese had not been found possible since the Commodity Credit Corporation had been obliged to effect considerable purchases, and at present held extremely large stocks of Cheddar cheese.

19. In reply to a question whether dairy cow population had been increasing in recent years the representative of the United States pointed out that during the period from 1945 to 1962 the number of milk cows on farms had been continuously declining; in 1962 the cow population amounted to 17.3 million as compared to 23.6 million in 1940 and 25.1 million in 1945.

20. In reply to a question whether the decrease in the price support level of dairy products was likely to lead marginal producers to cease production, the representative of the United States stated that there had been a tendency over the past few years of a decrease in the number of dairy farms. It was,

however, difficult to ascertain whether, and to what extent, this tendency was related to fluctuations in the price support level. A more important consideration, however, was that, despite the declining milk cow numbers, total milk production had continued to increase because of growing milk output per cow.

21. Members of the Working Party, referring in particular to proposal for new dairy legislation, stressed the importance of reasonable consumer prices so as to encourage consumption. They would welcome any new legislative action, which would avoid the granting of guarantees without quantitative limitations; but in avoiding this shortcoming, it was also necessary to ensure that normal trade opportunities should not be inhibited through adverse effects on consumption. The encouragement of consumption, in their view, could make a very great contribution to an improved balance between production and consumption of dairy products in the United States. This in its turn could lead to a relaxation and eventual elimination of the import restrictions. The representative of the United States replied that under the new proposal through supply management a more satisfactory producer income would be sought, while maintaining the highest possible level of consumption. He, however, did not consider that the declining trend in per capita consumption of all fats in the United States was likely to be reversed in the near future.

22. Members of the Working Party emphasized that, while they had concentrated their comments mainly on dairy products, the absence of comments on other products did not reflect a lack of concern at the maintenance of restrictions on these products, but merely their reluctance to repeat once again points which had been made in previous examinations.

23. In concluding the review of the eighth annual report submitted by the United States Government, the Working Party, while appreciating the problems confronting the United States in its agricultural policy, stressed the urgent need for further progress to be made by the United States in dismantling the remaining Section 22 import controls maintained under the waiver. It was again recognized by the Working Party that such progress towards the removal of import restrictions by the United States would be an encouragement to other countries to take similar action and would have desirable effects on international trade generally, and particularly on the export opportunities of countries highly dependent upon exports of agricultural products.