

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## SUBSIDIES

### Notifications Pursuant to Article XVI:1

#### Addendum

#### UNITED STATES

This notification<sup>1</sup> is made pursuant to the decision of the CONTRACTING PARTIES at the twentieth session. It reviews current subsidy measures, using data for the fiscal year 1 July 1964 to 30 June 1965, and significant subsequent developments through 31 December 1965.

The United States continues to use three general types of export subsidy programmes for agricultural commodities and products thereof. These are: payments under Section 32, Public Law 320, payments on export sales under the International Wheat Agreement, and sales by the Commodity Credit Corporation at less than the domestic market price.

On 5 November 1965, the President approved legislation which provided for farm programmes over the following four years. While the legislation amended some present programme provisions, no basic changes in farm policy were involved. The objective of farm legislation continues to be to devise farm programmes which maintain farm income, bring a better balance between production and use of food and fibre, and at the same time reduce surpluses and minimize the cost to the American taxpayer. The United States recognizes that agricultural support policies can have restrictive and disruptive effects on international trade, and it has been a constant aim of United States policy to limit and neutralize these effects in so far as possible.

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<sup>1</sup>The last previous general subsidy notification by the United States was issued in L/1948/Add.4. L/2601/Add.13 reports certain 1966 tobacco export provisions.

Export Payments Under Public Law 320,  
Seventy-Fourth Congress, Section 32

I. Nature and extent of the subsidy

A. Background - Section 32 provides a continuing appropriation which may be used to encourage the exportation of agricultural commodities and products thereof, to encourage the domestic consumption of such products, and to re-establish farmers' purchasing power by making payments in connexion with normal production of any agricultural commodity for domestic consumption.

Tobacco - Under a programme announced 16 February 1962, export payments were authorized on loan stocks of various types of tobacco from 1956 and earlier crops. This programme is intended to assist exporters of tobacco in encouraging the movement of earlier crops of tobacco under loan into export markets, and to help maintain the United States position in foreign markets.

B. Incidence - The payment-in-cash export programmes for tobacco from 1956 and earlier crops pledged to the Commodity Credit Corporation as loan collateral were completed in fiscal year 1965. Only 9 million pounds, less than 2 per cent of United States tobacco exports, were shipped under this programme in fiscal year 1965.

C. Amount of Subsidy - The estimated export value of tobacco shipped under this programme during the year was \$4.5 million, the average export payment was 9.2¢ per pound, and the recorded total of export payments was \$0.8 million.

II. Effect of the programme

The programme had little effect on the overall level of leaf tobacco exports. Exports under this programme amounted to less than 2 per cent of United States tobacco exports. The programme did, however, facilitate the disposition of tobacco held as loan collateral from 1956 and earlier crops which could not otherwise be moved into commercial trade channels because of accumulated storage costs.

Poultry - A new export programme under Section 32 was initiated on 22 September 1965, involving payments-in-cash on exports of United States Grade "A" chickens to Austria and Switzerland.

The programme operated on a weekly bid and acceptance basis, providing a specified cash payment per pound.

The purpose of the programme was to recover for the United States its share of poultry sales to Austria and Switzerland, which had declined because of subsidy practices of some third country poultry exporters. By subsidizing their chicken exports to these two countries, a number of European countries had been able to undersell efficiently-produced United States poultry, which had been exported without export payment assistance.

After extended but fruitless multilateral and bilateral discussions intended to persuade these countries to discontinue or modify their subsidy practices, the United States reluctantly concluded that a limited subsidy programme was the only means by which it could counter the subsidized competition directed against its poultry exports to Switzerland and Austria.

The programme was temporarily suspended in February 1966 due to changed market conditions.

### Payments of Export Sales Under the International Wheat Agreement

#### I. Nature and extent of subsidy

A. Background and authority - The United States made export subsidy payments on wheat and wheat flour exported under the International Wheat Agreement consistent with the benefits and obligations under that agreement.

B. Incidence - Rates on both wheat and wheat flour were established on a daily basis to take account of the difference between domestic prices and wheat agreement prices. Rates varied during the period covered by this report.

C. Amount of subsidy - Payments issued in fiscal year 1965 totalled \$34.1 million on the 129.5 million bushels of wheat including the wheat equivalent of flour exported under the International Wheat Agreement. This subsidy figure includes cash payments on exports of flour and the dollar value of payment-in-kind certificates issued in connexion with wheat exports.

#### II. Effect of subsidy

The programme was undertaken to implement participation of the United States in the International Wheat Agreement. The subsidy facilitated exports within the agreed range of maximum and minimum prices.

Export Sales at Less Than  
Domestic Market Price

I. Nature and extent of the subsidies

Some price-supported agricultural commodities cannot compete in foreign markets without some form of compensation to the exporter who purchases at the higher domestic price and sells in foreign markets at a lower world price. This compensation may be in the form of export payments in cash or in kind on exports from commercial stocks or may consist of sales of Government-owned or loan stocks at competitive world prices. Export programmes are constantly under review, and modifications are made as a result of agricultural legislation as well as to meet changing supply and export demand situations.

The Food and Agriculture Act of 1965 (P.L. 89-521, 3 November 1965) continues to seek compatibility between domestic and world market prices, particularly for grains and cotton. For these commodities it provides for price support loan rates at levels that would support prices in the domestic market near the prevailing world market price and provides for direct payments to maintain farm incomes.

Wheat - The legislation continues the 1965 voluntary wheat certificate programme through 1969 with some modification-of-programme provisions. For the 1966 crop, price support loans, at a national average of \$1.25 per bushel, and domestic marketing certificates will be available to producers who comply with programme provisions.

Export market certificates will not be issued to producers on 1966 crop wheat. To avoid interference and to remain competitive in world trade, exporters will be required to purchase export marketing certificates whenever world prices are above the United States market price. Exporters will continue to receive assistance when United States prices are above world market prices. The value of export certificates will be established on a day-to-day basis to reflect the difference between the United States and world price levels.

Cotton - The Food and Agriculture Act of 1965 authorizes a new programme for the 1966-1969 crops of upland cotton.

This legislation continues the one-price programme and also maintains the national and domestic allotment and price support concepts of prior years, but makes substantial changes in programme provisions. The new programme is designed to reduce cotton production, lower costs to the Government, and keep cotton competitive with man-made fibres and foreign production.

Price-support loans at approximately world price levels as well as price-support and acreage-diversion payments will be available to farmers who participate in the programme. With the exception of small farms, producers must divert at least 12.5 per cent of the farm cotton allotment to be eligible for price support loans and payments, which are set by law for the 1966 crop at 21¢ per pound for loans (middling one inch cotton at average location) and 9.42¢ per pound for payments. This relatively low loan rate compared with prior years will facilitate the movement of United States cotton in domestic or export channels without an equalization or an export payment. While provision is made for allocating a limited acreage to those farmers who wish to produce cotton for export only, no price support will be available for cotton produced on a farm with such export acreage or on any other farm in which the producer with export market acreage has a substantial interest.

#### Fiscal Year 1965 Operations

Prior to August 1964 the United States conducted "payment-in-kind" programmes for upland cotton under which subsidy payments were made to exporters who shipped eligible cotton. Beginning 1 August 1964, payments were made to handlers of cotton under a programme, authorized by the Agricultural Act of 1964, which made cotton available for export and domestic use at the same price. That programme was designed to expand domestic consumption of cotton produced in the United States and to maintain exports by the commercial cotton trade. Handlers who received payments thereby incurred obligations either to use the cotton in domestic consumption or to move into export outlets. The payment rate in fiscal 1965 under this programme was 6.50¢ per pound. Payments for cotton exported in fiscal year 1965 approximated \$103 million for upland cotton. Commodity Credit Corporation-owned stocks of upland cotton were made available at export prices on a competitive-bid basis under a cash-sales-for-export programme.

United States exports of cotton declined from 5,149,000 bales in fiscal 1964 to 4,491,000 bales in fiscal 1965. Other payment-in-kind export programmes were carried out in the same manner during fiscal year 1965 as reported previously. In April 1965 a payment-in-kind programme was initiated for flaxseed and linseed oil.

Wheat and Flour - Farmers co-operating in the 1964 wheat programme received a price-support loan of \$1.30 per bushel (national average) and domestic and export marketing certificates. The domestic marketing certificates for the 1964 crop were valued at 70¢ and the export marketing certificates at 25¢ per bushel. For the 1965 crop, the loan rate was \$1.25 per bushel and the value of the export marketing certificate was 30¢ per bushel. Payments issued in fiscal year 1965 totalled \$11.1 million on 22.8 million bushels of wheat and wheat products.

Rice - Exports of milled rice in fiscal year 1965 totalled \$203 million. The average export payment was \$2.22 per hundredweight. Total export payments under the Commodity Export Programme amounted to \$43.5 million.

Dairy products - Total exports of dairy products were valued at more than \$200 million. The extent of subsidy payment varied among the various dairy products. The total payments on exports during fiscal year 1965 were approximately \$38 million.

Flaxseed and linseed oil - On 12 November 1964, the United States Department of Agriculture announced a payment-in-kind programme to move flaxseed and linseed oil into export channels from market supplies. The programme was not implemented until April 1965, when it was determined that the maintenance of flaxseed and linseed oil exports required payments. Exports of flaxseed during the last two months of the fiscal year were assisted by payments-in-kind.

The average payment on flaxseed exports was 14.6¢ per bushel. The weighted average payment for flaxseed and linseed oil was 10¢ per bushel in terms of flaxseed. Estimated total export payments under both the export sales and payment-in-kind programmes amounted to \$0.4 million.

Cottonseed oil - During September and October 1964, over 4 million pounds of refined cottonseed oil were exported to Italy for child-feeding programmes. The sale was made at 13.125¢ per pound, about 5.25¢ below domestic market price. The estimated total differential between the domestic market price and the sale price was \$0.2 million.

Peanuts - Approximately \$12 million of the \$15.5 million of shelled peanuts exported in fiscal year 1965 consisted of sales from Commodity Credit Corporation-owned stocks at less than the domestic market price of peanuts. The export payment for peanuts is the estimated differential between domestic market prices for edible purposes and the sales price. The total differential in fiscal year 1965 was \$6.9 million.

## II. Effects of the subsidies

In all cases the subsidies were helpful in maintaining for the United States an equitable share of the world export trade of the products subsidized. Other effects of the subsidy programme have been (1) reduction of government holdings of commodities and (2) maintenance of farm incomes.

