

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES  
Twenty-Fourth Session

## UNITED STATES IMPORT RESTRICTIONS ON AGRICULTURAL PRODUCTS

### Report of the Working Party

1. The Working Party has examined the twelfth annual report (L/2861) 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 representative of the United States, the Working Party has reviewed the action taken by the United States Government under the Decision.
2. The Working Party was grateful for the information contained in the United States report, and its clarity. 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 manufactured dairy products. The Working Party suggested that it would be helpful if future reports could provide additional statistical information on United States consumption of certain products, especially in relation to the volume of imports.
3. Members of the Working Party recognized the restraint shown by the United States Government in the use made of the legal freedom given under the waiver. They also recognized the progress towards liberalization made by the United States through the withdrawal or relaxation of restrictions on certain products in the past, but expressed their disappointment that the United States had found it necessary, in the case of dairy products, to introduce new restrictions which tended to offset the progress previously achieved. Their disappointment was all the greater in that the new restrictions had been applied in a sector where, at the time of the previous review, hopes had been held out for a further liberalization on account of a changed economic situation. They also regretted that the new restrictions had been introduced immediately after the conclusion of the Kennedy Round.
4. Some members of the Working Party felt that consideration should be given to whether the circumstances that had led to the granting of the waiver still existed. They appreciated the efforts made by the United States to remedy the

domestic market situation of the products covered by the waiver. In their view the report showed that the situation for some commodities had not improved in recent years, and they therefor expressed doubts as to the efficacy of the restrictions as a remedial measure.

5. It was suggested that the United States might consider alternative means of stabilizing the domestic market without recourse to quota restrictions on imports. To the extent that the imbalance underlying the situation for dairy products was due to low or decreasing demand, resort to consumer subsidies and government-sponsored publicity were suggested; on the supply side the United States might consider programmes of restructuring in the dairy industry which could reduce the need for high support prices. To the extent that the market situation for certain products in the United States was a reflection of the world situation, some members of the Working Party felt that a solution might be sought in concerted and collective multilateral action in the products concerned. In this connexion, mention was made of the International Grains Arrangement which fixed minimum and maximum prices for major wheats; the question was raised as to whether once the price commitments came into operation, the restrictions on wheat imports into the United States might not become unnecessary. Some members also expressed the view that an effective international arrangement on dairy products might help the United States to move faster towards the objective of an ultimate elimination of import restrictions.

6. Some members of the Working Party recalled that from the beginning they had been opposed to the granting of a waiver to the United States Government for the maintenance of import restrictions on certain agricultural products. They reiterated their concern at the open-ended nature of the waiver. In their view, the waiver gave no function to the CONTRACTING PARTIES beyond receiving information from the United States, hearing complaints and referring these to the United States to be considered in terms only of their own domestic laws and procedures; nor did it contain provisions for review or for effectively challenging the interpretation of the criteria as to whether or not certain imports "are having or are practically certain to have the effects for which Section 22 action is required". While appreciating the intentions expressed by the United States in the waiver and in the CONTRACTING PARTIES, to terminate or modify restrictions when this was warranted by changed circumstances, and also to take such basic measures as would reduce the need to resort to Section 22 of the Agricultural Adjustment Act, these members regretted that the United States Government had not, after twelve years, found it possible to relinquish completely the waiver which, in the view of these members, had been intended to have only a limited duration.

7. These members of the Working Party felt that the examination of the present United States report should take place against the background of the basis on which the waiver had been granted in 1955. While appreciating that the United States had, with some success in certain sectors, endeavoured to carry out its good

intentions, and that it had done much to be commended for, they considered that the time had come for a review of the waiver in the light of actual performance and present conditions. In their view, the waiver should be discontinued; failing this, they proposed that its terms should be so modified as to provide for a term no longer than three years. A member suggested that, in addition, the CONTRACTING PARTIES should call upon the United States to present proposals, at the next annual report examination, for the progressive relaxation of restrictions on products covered by the waiver.

8. Replying to the general statements of other members of the Working Party, the United States representative reaffirmed his Government's continuing belief in the advantages of liberal trade and its regret that restrictions remained necessary. He proposed that the individual points be taken up for each commodity sector in turn.

#### Wheat

9. Replying to questions, the representative of the United States agreed that the International Grains Arrangement was a new element in the world wheat market and noted that United States domestic legislation passed in 1965 appeared to be in harmony with the provisions of the Arrangement. The Arrangement was not yet in force; it was possible that its price provisions might allow the relevant part of the waiver to be changed without thereby changing the domestic situation. It was not logical to expect that the United States, as a major wheat exporter, would become an important import market. The question of the continued necessity of the restrictions would be considered when the Arrangement entered into force.

10. Replying to another question, the representative of the United States explained that the high United States wheat supply expected in 1967/68 was the joint result of good weather and over-adjustment to an earlier low stock situation, aimed at being able to respond fully to world emergencies. It was the continued policy of his Government to maintain stocks for normal requirements and to avoid excessive stocks, storage of which was an unwanted financial burden.

#### Peanuts

11. In reply to various questions, the representative of the United States said that United States production of peanuts had been around 2,000 million lb. a year until the 1950's, had then declined to about 1,500 million, and was presently at 2,400 million, a level not very much higher than twenty years previously. All the increases were results of technological improvements. The national acreage allotment for 1967 was set at the minimum allowed by law,

as it had been each year for the last ten years. The reason for the unsatisfactory state of the world market was that in the principal uses peanuts had to compete with other oilseeds. Although the United States had used all its powers permitted by legislation to hold down production, the Commodity Credit Corporation still had to take over stocks and sell at a loss domestically as well as for export. Peanuts were offered for sale at stated prices without distinction whether they were for domestic or export use; the CCC did not have continuing subsidies. Exports were only a minor part of usage of the peanut crop.

12. In the view of the United States representative, the absence of import restrictions on peanut oil or crushing peanuts would not lead to increased imports, because of their inability to compete technically with soybeans. In reply to subsequent questions he stated that there were no subsidies on soybeans or soybean oil.

#### Dairy products

13. Describing the situation in his country, the representative of the United States said that the dairy sector was in the throes of change and adjustment. The overall statistical averages which had showed a slight downward trend in total production in recent years concealed the individual components, namely, a radical decline in cow numbers and an increase in productivity per cow. Despite high productivity and heavy capital investments dairy farmers found themselves under continuous and disadvantageous relationships between prices and costs. In order to alleviate the situation of producers support prices had been raised to the virtual maximum allowed by law, i.e. nearly 90 per cent of parity. Nevertheless, dairy farmers' incomes were still the lowest of the entire agricultural sector. Many small producers were being forced to go out of business and to sell out their dairy cattle and equipment. The situation of dairy farmers was among the grave concerns of the United States Government. The changes in the economic structure of this sector were complicated by the changes in consumption patterns; consumption of major dairy products except cheese was declining. The best experts had consistently underestimated such changes and the future was very difficult to foresee.

14. Government-owned stocks at present reflected the import boom in 1966 and early 1967. Although Government purchases were now at a fairly low rate, stocks were still sizeable. If imports remained at the level indicated by the recent control action, the Government would still expect to take over some 2 billion lb. of dairy products, expressed as milk equivalent; these would be adequate, or slightly more than adequate, to meet the needs under the various domestic and foreign assistance programmes.

15. Certain members of the Working Party expressed considerable concern at the action which the United States Government had recently taken to intensify restrictions on dairy imports. They recalled the report of the previous review (L/2631) which referred to a changed situation in the United States where milk production had steeply fallen, surplus stocks had virtually disappeared, prices had increased and had been likely to increase further, and consumption had continued to decline. In their view this situation had called for a removal or relaxation of quota restrictions. Instead, the restrictions had been relaxed only slightly for Cheddar cheese. On the other hand domestic prices had been allowed to rise and, on 30 June 1966, support prices had been raised sharply to the legal maximum. In the view of these members of the Working Party, the result was that consumption had declined; production of dairy products had increased; imports rose in the only areas when this had been possible (i.e. on those products that were not subject to quotas), and the Commodity Credit Corporation had begun to accumulate stocks at a high rate. The expansion of imports had been an aggravating but not a basic factor in a situation which, in the view of these members was caused by the support policy.

16. Some members of the Working Party regretted that imports should have to bear the brunt of the United States Government's action. They pointed out that the new restriction had reduced imports to 1 billion lb. milk equivalent, which represented only about 1 per cent of United States production, and which was substantially less than the quota of 2.8 billion lb. that had been proposed by the Tariff Commission. They therefore queried the statement of the United States report (L/2881, page 11) that the President had acted on the Commission's report, and asked for the reason for the discrepancy in the two figures. The representative of the United States explained that the import level which had been established was that which would, according to the best forecasts available, preclude the necessity of large and increasing take-overs by the Commodity Credit Corporation. United States policy continued to favour liberal trade, but the rapid growth of imports had jeopardized this aim.

17. A member of the Working Party queried the statement in the report (L/2881, page 3) which said that the products placed under the new quota restrictions had been designed and produced only for the United States market to avoid the existing quotas. He pointed out that some of the products in question had been in existence for a number of years and were being marketed in his own as well as in another country. Certain members of the Working Party observed that the diversification of production was a sign of an industry's progress, and it was no more than normal commercial practice to place exports where there was demand and where possibilities existed. The United States representative pointed out that international trade statistics showed that the products had been exported almost solely to the United States.

18. Questions were raised regarding the effect of butter prices, both absolute and in relation to substitutes, on consumption. Reference was made to the rise of consumption in Canada following a reduction in price, and the consumption changes in the United Kingdom associated with price changes. Commenting, the representative of the United States said that consumption levels were not a reflection of price; in his country the gaps between butter and margarine prices were so wide that even a large subsidy granted on butter would not affect the level of consumption. The experience in other countries was not necessarily applicable to the United States situation; the decline in butter consumption was also to a large extent due to changes in dietary habits, i.e. concern among consumers regarding the effect of diet on weight and on heart disease.

19. Some members of the Working Party asked on what basis quotas were being established and allocated to individual countries, and observed that the selected reference period, which in the case of some dairy products was 1948-1950, seemed to be out of date, as some countries had had no trade at that time. Questions were also raised as to the allocation of licences. The representative of the United States explained that while it was true that quotas for the products mentioned had been based on an immediate post-war period, this was on the other hand a period when trade had been free of various administrative devices. Whenever quotas were being enlarged, his authorities tried to provide a reasonable share for new importers and, where possible, for countries whose trade in the reference period had been small. Because such imports into the United States had, since the mid-fifties, entered through quotas, using a more recent period would not make a substantial difference. The United States recognized that import shares should not be frozen and endeavoured to adjust them whenever there was an opportunity. In this connexion, the United States representative pointed out that many dairy products were accorded unrestricted entry and that it was the desire of the Government to retain this situation.

20. Concluding his remarks on dairy products, the representative of the United States said that, given the present state of the world dairy market, and in the absence of protective or contingency mechanisms against directed and administered imports, there was hardly any scope for the United States to rely solely on the market forces of theoretically free market competition. The United States regretted the necessity of import restrictions and would welcome a logical and sensible basis for their removal. The United States had faithfully lived up to its obligations under the waiver, it had done its best to keep restrictions from being too severe, and had relaxed them wherever it could. However, the United States by itself could not solve the world dairy imbalance.

21. A member of the Working Party, while recognizing that dumping and excessive export subsidization were prevalent in world trade in dairy products, considered with others that quantitative restrictions applied in accordance with the waiver could not be justified on the grounds of protection being required against such practices. Other provisions of the General Agreement and of United States legislation could be invoked for this purpose.

22. Another member of the Working Party expressed the view that the provisions of the General Agreement were not fully adequate to cope with the special conditions of international trade in agricultural products.

### Conclusions

23. The Working Party took note of the present difficulties in United States agriculture, in particular the difficulties faced by the dairy sector. It also recognized that the United States Government had, over the years, made sincere endeavours aimed at remedying this situation, with some success.

24. The members of the Working Party felt that in order to make these endeavours fully effective, the measures employed should be appropriate to the causes underlying the difficulties. They felt that imports were not the only cause of these difficulties, particularly in view of their small volume as compared to total United States production and consumption; imports should therefore not be made to bear the brunt of necessary readjustments.

25. The Working Party expressed its regret that the United States found it necessary to maintain the import restrictions under the waiver. Members expressed serious concern in particular that the United States Government had found it necessary to intensify restrictions in the dairy sector. They noted the statement of the representative of the United States that this action had been necessary in order to avoid the excessive accumulation of surplus inventories.

26. Most members of the Working Party agreed that to the extent that the difficulties encountered by the United States dairy sector were a reflection of the world dairy situation, multilateral solutions should be sought that would be equitable and mutually acceptable to producers, exporters and consumers. To this end, some members of the Working Party expressed the hope that the CONTRACTING PARTIES would collectively seek to find a solution that would not only permit the United States to liberalize its import restrictions but would also help to improve access to other markets, and would promote order and price stability in international trade.

27. Certain members of the Working Party asked that the United States Government in the meantime re-examine its programmes in the dairy sector with a view to reducing or eliminating the need for the continuation of import restrictions; and to reconsider its recent action with a view to liberalizing its restrictions on dairy products.

28. Some members felt that the waiver should be discontinued, or at least modified so as to provide for a definite time limit. A member suggested that, in addition, the United States be called upon by the CONTRACTING PARTIES to present proposals at the next annual review, for the progressive relaxation of restrictions on products covered by the waiver.

29. The representative of the United States stated he would report to his authorities the results of the deliberations, including the intensity of criticism and the increasing sentiment - as reflected in the discussion of the Working Party - that the waiver should not go on indefinitely. Without wishing to prejudge the results, he was prepared to suggest to his authorities that the need for the continuation of the waiver should be re-examined. He was aware of the dissatisfaction countries felt about the situation in the world dairy market, a dissatisfaction in which his authorities shared. He would also transmit to his authorities the suggestions made for improving the report by additional statistical supporting data.

30. The Working Party was grateful to the representative of the United States for his exhaustive replies and for his readiness to report the views of the other Working Party members to his authorities.