

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Agricultural Waivers

UNITED STATES IMPORT RESTRICTIONS ON AGRICULTURAL PRODUCTS

Draft Report of the Working Party

I

THE UNITED STATES WAIVER

1. The Working Party has examined the Fourth Annual Report submitted by the United States Government, under the Decision of 5 March 1955, on import restrictions in effect under Section 22 of the Agricultural Adjustment Act, 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 (L/862). The Working Party has, on the basis of that Report and with the assistance of the United States delegation, reviewed the action taken by the United States Government under the Decision.
2. The Working Party was appreciative of the comprehensiveness of the Report submitted by the United States Government and the forthrightness with which the information was presented. While noting that there had been a reduction in the levels of the support prices of several commodities, the Working Party expressed regret and serious concern that since the submission of the previous Report there had been no progress towards the relaxation of import controls or the achievement of a better balance between supply and demand. Some members were concerned about what seemed to be an underlying assumption in the Report, that there was an evident need for the continued, and possibly indefinite, maintenance of the restrictions.
3. The Working Party noted that the import quotas for 1957-58 and those currently in force applied to six groups of commodities: tung oil (including tung nuts) and the five commodity groups already subject to import quotas in 1956-57, namely cotton and cotton waste, wheat and wheat products, rye and rye products, peanuts (including peanut oil) and a number of dairy products. In addition, flax seed (including linseed oil) had continued to be subject to an import fee. The restriction on tung oil was introduced in September 1957 and later, in April 1958, was extended to cover tung nuts. Except for the abolition of the restrictions on short harsh cotton no measures of relaxation were taken in the past year. Further, in September 1957, a one-year fee-quota had been introduced on almonds.

4. In discussing the Report, members of the Working Party placed special emphasis on the cardinal role of price policies in the operation of the agricultural adjustment programmes. The view was generally held that the high levels of support prices, because of their effects on both production and consumption, were the major cause for the continued imbalance between the demand for and supply of agricultural products. They had the effect of stimulating uneconomic production by giving farmers guaranteed prices and outlets for their output thus insulating them from the competitive forces of the world market. On the supply side, therefore, the situation could be improved by progressively restoring the operation of the market forces. On the demand side, high support and consumer prices could not but have the effect of limiting consumption. It was suggested that the United States Government consider the possibility of introducing some system which, by lowering the price for consumers generally, would stimulate increased consumption and would not require the imposition of import restrictions. Reference was made in this connexion to the very low per caput consumption of dairy products in the United States and to the experience of several countries where lower prices had brought about a rise of 10 per cent in the consumption of butter. Unless support prices were reduced there could be little prospect of relaxation or removal of import restrictions in the near future. The Working Party noted with disappointment that the Administration had been unsuccessful in securing legislation to expand the permissible range of support prices for dairy products, and urged that the United States Government pursue its efforts to lower the support prices as early as possible.

5. The representative of the United States drew attention to the considerable efforts which his Government was making to bring about a better balance between supply and demand and to restore the free price mechanism. Attempts had been made to narrow the gap between world and domestic prices by increasing consumption and lowering support prices. The Administration had so far succeeded in securing legislation which permitted support price levels to be lowered for some commodities during the 1958 crop season, but had been unsuccessful with respect to dairy products, peanuts and wheat. The Administration's policy was even more clearly borne out by the fact that for all commodities concerned present support prices had been fixed at the lowest level permitted by law. The United States representative also doubted whether lower prices would generally stimulate consumption. Per caput consumption of wheat had been declining over the past forty years which indicated a basic trend away from the consumption of wheat products.

6. The Working Party noted that, despite the reduction in acreages for the various crops, improved cultivation had led to larger production. It felt that this was nullifying the original purposes of this policy. Moreover, some members felt that this could lead to a rise in the unit cost of some products, and consequently to a widening of the discrepancy between domestic and world prices. The representative of the United States agreed that notwithstanding drastic reductions in the acreage for certain crops such as wheat, cotton and peanuts, production had considerably increased. This larger production had been the result of favourable weather conditions, technological progress and increased efficiency. The increased yields in dairy products were mostly the result of improvement in stock and the

availability of abundant and cheap feed; a practically unchanged quantity of milk had been produced by a steadily declining number of cows, which in June 1958 was 22 per cent below the mid-1944 level. In the view of the United States representative the intensification of production had not in general led to higher unit costs of production.

7. Particular attention was directed to the section in the Report dealing with dairy products. Several members of the Working Party noted the small size of the quotas for many of these products and observed that if, for example, the quota for butter, which represented only 0.05 per cent of total consumption in the United States, were increased to 1 per cent, imports would rise from 350 tons to 7,000 tons per annum. While not ignoring the legal and other difficulties involved in modifying the quotas, they would sincerely urge the United States Government carefully to consider the possibility of a gradual relaxation of the controls. Even a marginal restraint on domestic production and a small stimulus to consumption could lead to a large percentage increase in the volume of imports. Action to enlarge import quotas would greatly assist the countries exporting dairy products.

8. The representative of the United States recalled that the Agricultural Adjustment Act provided for the relaxation of the restrictions when, after conducting an investigation, the Tariff Commission found that the circumstances no longer required the imposition of restrictions in their existing form. He assured the Working Party that it was his Government's intention to terminate the restrictions as soon as they were no longer needed to protect the operation of the agricultural programmes. Although, in the view of his Government, the market situation for dairy products was not yet satisfactory, some improvement seemed to have taken place recently which, if continued, might enable the Government to introduce some relaxation in the restrictions as required under the provisions of Section 22.

9. It was also noted that import quotas were established for certain types of cheese but not for other types. Some members found it difficult to understand why unrestricted imports of specified types of cheese would interfere with the price support programme for milk and butterfat, while imports of other varieties would not have this effect. The continued application of import restrictions on these products caused serious damage to certain producing countries and they urged, therefore, that some upward revision of the level of the quotas be considered.

10. In examining the statistics of milk production, it was suggested that it would be of interest if future reports could contain information concerning trends in consumption and production of the principal dairy products and of any changes in the production pattern. The United States representative stated that he would bring this request to the attention of his Government.

11. Generally, the Working Party stressed the difficulties which the restrictions imposed under the terms of the waiver created for exporting countries. It also noted that the use of methods of protection invoking restrictions on imports increased pressure on the markets of other importing countries which allowed free access for foodstuffs.

12. The Working Party appreciated that the United States Government had endeavoured to tackle the fundamental causes which were responsible for a situation in which it was considered necessary to impose restrictions on imports. There was, however, still apprehension about the powers permitting restrictions of trade over the whole field of agricultural commodities under price support. In concluding the review of the United States Report, members of the Working Party expressed the hope that progress would be made in removing the restrictions in the coming year. They hoped in particular that the particularly stringent restrictions on dairy products could be relaxed.

13. While commending the steps which the United States Government had taken to make available advance copies of its Annual Report, several members of the Working Party underlined the importance their Governments attached to receiving the Report well before the Session in order to permit careful and thorough study. The representative of the United States explained that in order that the report might be of as much value as possible to the CONTRACTING PARTIES every effort had been made to include the latest essential information; the present report by his Government covered legislative measures relating to the agricultural programmes which had been very recently approved. Moreover, information on a number of products did not become available until July and August. Taking note of this explanation, the Working Party suggested that it would be useful if the United States Government could submit its Annual Report at least one month before the commencement of a session and include in a supplementary note references to developments that occurred and information that became available subsequently. The United States representative undertook to convey this request to his Government.

II

THE NETHERLANDS COMPLAINT UNDER ARTICLE XXIII

14. The Working Party also considered the question raised by the delegation of the Kingdom of the Netherlands and referred to it by the CONTRACTING PARTIES concerning the Resolution of 5 November 1954 on the United States import restrictions on dairy products. Recognizing that the benefits which the Government of the Netherlands expected from the concessions granted by the United States Government had been impaired by the restrictions imposed by the United States and that such restrictions had not been relaxed since the date of the Resolution of 5 November 1954, the Working Party agreed to recommend that the Government of the Netherlands, having recourse to the provisions of Article XXIII, be authorized to suspend the application to the United States of its obligations under the General Agreement to the extent necessary to allow it to apply a limit of 60,000 metric tons to imports of wheat flour from the United States during the calendar year 1959.