

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES  
Nineteenth Session

## UNITED STATES IMPORT RESTRICTIONS ON AGRICULTURAL PRODUCTS

### Draft Report of the Working Party

1. The Working Party has examined the seventh annual report (L/1549) 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, 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 seventh 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 expressed the intention of the United States Government to make a continued effort to relax import restrictions on agricultural products still in force as quickly as the situation permitted, and expressed the hope that this might lead to their eventual elimination.
3. The Working Party was appreciative of the comprehensiveness and clarity of the United States report. The Working Party noted with appreciation that since the last report had been submitted by the United States Government, import restrictions on peanut oil, flaxseed, linseed oil, and rye, rye flour and rye meal, had been removed. Import restrictions currently in force applied to five groups of commodities: wheat and wheat products, cotton and cotton waste, peanuts, tung nuts and tung oil, and a number of dairy products. The Working Party also noted that the United States Tariff Commission had recently instituted an investigation in order to determine whether the circumstances were so changed as to permit the removal of existing quotas on tung nuts and tung oils. The Commission had not found, however, that the conditions were changed sufficiently to warrant a recommendation that the quotas be terminated. The Working Party further noted that after the completion of its investigation for the purpose of determining whether import quotas on blue-mold and cheddar cheese should be enlarged or eliminated the United States Tariff Commission found it impossible to

make a recommendation for modification or elimination of these quotas now in effect. It was also noted that as from 11 September 1961, total imports of cotton products produced in any stage preceding the spinning into yarn were restricted to an annual quota of 1,000 pounds.

4. While stating that they had always been concerned over the broad scope of the Waiver granted to the United States in 1955, members of the Working Party were appreciative of the restraint that the United States Government had exercised in implementing the Waiver. Members of the Working Party, although not unmindful of some meaningful relaxations or elimination of import quotas which had taken place since the Waiver had been granted, nevertheless noted with disappointment that during the period under review no such progress had taken place for some items and particularly for dairy products. Members of the Working Party stressed that the spirit of the Waiver Decision had been based upon the expressed hope and indeed the expectation of a number of contracting parties that import regulations would be maintained by the United States Government for a fairly short period of time, that in the interim conditions would permit a progressive liberalization and that thereafter market forces would be permitted to operate freely.

5. The representative of the United States pointed out that due account should be taken of the considerable progress made by the United States Government in eliminating import restrictions since the Waiver had been granted in 1955. Several commodities had in fact been removed during past years from the list of products to which Section 22 import control applied. He also pointed out that the seventh annual report under consideration contained, in conformity with the terms of the Waiver, information on all agricultural commodities subject to Section 22 import regulations, regardless of the applicability of Article XI of the General Agreement to wheat, cotton and peanuts, which were presently subject to production control in the United States. The representative of the United States reiterated in this connexion that it was the firm intention of his Government to make continued efforts with a view to achieving an eventual elimination of the remaining import restrictions under the Waiver when it was found that the circumstances requiring the action no longer existed.

6. Members of the Working Party were concerned about a serious imbalance between supply and demand which still existed in the United States market with respect to certain commodities, despite the various measures taken by the United States Government, for instance, the requirements enacted for acreage reduction. They considered that these measures being pursued by the United States Government appeared to be less than adequate. The representative of the United States pointed out that the United States continued to take actions designed to bring about a better balance between supply and demand of the commodities concerned. For instance, of five groups of products to which Section 22 control was still in force, three groups of products, wheat, cotton and peanuts, were at present subject to restriction of production through acreage allotment and marketing quotas. In the case of wheat, the new legislation provided for a compulsory cut in

acreage equivalent to 10 per cent below the previous legal minimum; the legislation also provided incentives for a further reduction of wheat acreage by an amount up to an additional 30 per cent of the allotment. Reduction of cotton production was also envisaged through the use of acreage allotment, marketing quotas, and the acreage reserve programme. Acreage used for peanut production had been reduced sharply under the acreage allotment, and marketing quotas, to the adjusted minimum specified by law. The representative of the United States stressed that these measures had brought about drastic reductions in the acreage planted to these three crops and thus contributed to a great extent to the long-term objective of achieving better balance between supply and demand. He pointed out in this connexion that while the acreage planted to cotton in the United States had been considerably reduced in recent years, production of cotton in a number of other countries had increased. Before the introduction of the acreage control, the United States had accounted for about 51 per cent of the total world production of cotton while the United States' present share of production was reduced to some 30 per cent. There were no similar production controls in relation to dairy products.

7. Members of the Working Party felt that the existing high level of support prices tended to inflate the return of the more efficient farm unit and to stimulate over-production. They stressed that the price support policy being pursued by the United States Government was one of the factors, if not the principal contributing factor, to the existence in the United States of very substantial stocks of surplus agricultural products. The general view of members of the Working Party was, therefore, that further action should be taken by the United States Government with a view to avoiding excessive agricultural production. Members of the Working Party stressed that even a relatively small degree of relaxation by the United States of the existing import controls and a marginal reduction in support price levels would be expected not only to bring about greater possibilities for access to the United States market, but also to achieve the afore-mentioned objective. In this connexion, the Working Party noted that Committee II had concluded in its third report (L/1461) that some moderation of agricultural protection, through its effects on production and consumption, would have a substantial percentage effect on the volume of international trade.

8. The Working Party noted that the United States report stated that in all cases Section 22 import regulations were maintained where, and to the extent, necessary to prevent imports from materially interfering with domestic production and marketing control programmes, price support programmes, or other operations of the United States Department of Agriculture. Some members of the Working Party wondered whether the legislation had not been observed somewhat over-enthusiastically. These members found it difficult to believe that the present level of import restrictions was necessary even taking into account the existing high level of support prices. They expressed serious concern that the higher the support prices, the more the United States Government might feel the continuation of import restrictions to be necessary. The representative of the United States explained that import regulations under Section 22 were in no way designed to serve

in themselves as a kind of producer price support measure. The Commodity Credit Corporation (CCC) of the United States was responsible for implementing domestic support programmes and, in particular, for maintaining producer prices at the support levels. To the extent that the domestic price level for agricultural products exceeded world market prices, imports would be attracted towards the United States market sometimes in substantial amounts. These imports would place a severe burden upon the price support programmes at times when the CCC intervened in the market in an effort to keep the domestic price up to the support price level. In these circumstances it was compulsory for the President to exercise import regulations under Section 22.

9. In discussing actions taken by the United States Government to utilize surplus commodities in continued efforts to encourage increased consumption, members of the Working Party referred to the United States Food For Peace Programme. Under this Programme operations under PL.430 and Section 402 of the Mutual Security Act were co-ordinated and additional and improved ways were sought to use United States food surpluses to combat hunger. They felt that for a variety of reasons contracting parties generally would support this new approach to utilizing food surpluses. They expressed some concern, however, that while agricultural support programmes and agricultural protection in the United States remained unchanged, this new impetus given by the United States Government to the utilization of surpluses might lead to the generation of new surpluses. While recalling in particular that the CONTRACTING PARTIES, when granting the Waiver in 1955, had noted the intention of the United States Government to continue to seek a solution of the problem of surpluses of agricultural commodities<sup>1</sup>, they stressed that it would be essential for any programme of utilizing surpluses to have as one of its basic principles the assurance that the appearance of new surpluses could effectively be avoided. The representative of the United States emphasized that the United States Government was equally concerned not to generate new surpluses. The basic concept of the United States Food for Peace Programme was to utilize the abundance of food supplies available to promote higher levels of nutrition and the economic development of food-deficient peoples. Although the Food for Peace Programme did not include any specific guarantee of avoiding the appearance of new surpluses, the United States initiative in this programme did not in any way imply a change in the policy of striving to prevent the accumulation of surpluses.

10. While appreciative of the efforts being made by the United States in many directions to encourage consumption, members of the Working Party nevertheless wondered whether these efforts were being nullified by the continuation, and now the raising, of already high support prices. These members also wondered whether the Government funds for the consumption programmes, worthy as they were, might not be more usefully directed toward lowering consumer prices which appeared to be the first and the best road to increased consumption.

11. Members of the Working Party noted with interest that as one of the measures designed to increase consumption of surplus agricultural commodities

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<sup>1</sup>BISD, Third Supplement, page 34.

and improve the diet of low-income families, a Food Stamp Programme was in operation in the United States, and requested more information on this Programme. The representative of the United States explained that the Programme was a reflection of the efforts on the part of the United States Government to increase utilization of agricultural products which were in surplus supply. At present, however, the Programme was in operation on a pilot basis. Further planning and policy determination with respect to the effectiveness of this approach in improving the diet of low-income families and in increasing the consumption of agricultural products were largely dependent upon the results of the careful study being made of this project. Under the present project, families participating in the Programme purchased food stamp coupons in amounts about equal to their recent expenditures for the eligible food and additional stamps were provided at no cost in amounts determined necessary for the family to purchase a more nutritious diet. It was expected that if, as a result of the current study, the project proved to be effective, the United States Government would consider its expansion.

12. In examining commodities for which Section 22 import regulations were still in force, the discussion centered particularly on dairy products. Members of the Working Party noted with disappointment that butter, cheese, dried milk products and articles containing butter fat continued to be subject to Section 22 import regulations. They further noted that butter and cheese production in the United States was rising again and this trend was evident also in condensed milk and dried whole milk production. In their view, such an increase in production could be attributable at least partly to the higher support prices which had been raised in September 1960, March 1961 and July 1961. In this connexion, they noted that the Agricultural Act of 1949, as amended, required price support for milk and butterfat to producers at such a level (from 75 to 90 per cent of parity) as would assure an adequate supply, and the opinion was expressed that this legislation was somewhat too generously applied by the United States Administration. The representative of the United States confirmed that production of dairy products had in fact increased during the past year and the prospect for the next marketing season was again for a continuance of this trend. Such an increase in production might be partly due to the increase in the support prices. He said, however, that the major portion of such increase in dairy production could more directly be attributed to increased efficiency of production in recent years. While the total number of dairy farms had been reduced, the number of cows per dairy farm unit had increased. The reduction in the total number of cows had been offset by an increased yield per cow.

13. Some members of the Working Party pointed to the extremely small size of the import quotas established for dairy products. For butter, for instance, the total import quota established under Section 22 of 707,000 pounds had not been made subject to any modification since the Waiver had been granted in 1955 and represented only 0.05 per cent of the total market of the United States. Members of the Working Party doubted whether a significant increase in the quota for butter would materially affect or interfere with the price support programme of the United States Government. It was pointed out in this connexion for example that an increase in the import quota for butter to only 1 per cent of the total United States market would raise imports to the level of some 7,000 tons; this would hardly affect a total United States

market of three quarters of a million tons and would mean little to the United States but much to exporting countries. These figures were merely used as an illustration of the small size of the present quota. It was recalled that a tariff concession on 50 million pounds of butter had been negotiated with the United States under the General Agreement and the view was expressed that this should be the minimum import quota.

14. Members of the Working Party expressed concern about the effects of higher support prices on consumption of the main dairy products. They requested information on consumption trends in the United States with respect to the main dairy products. The representative of the United States referred to Table 1 contained in the United States report (page 29 of document L/1549) which gave some information on the utilization of dairy products in the United States. Over the past ten years per capita consumption of certain dairy products in the United States had dropped considerably, although milk consumption had been subject to a relatively small change and consumption of non-fat dried milk had increased rapidly during the last ten years.

15. Members of the Working Party noted that the three-year decline in milk production in the United States had been reversed in 1960 when production had reached 122,920 million pounds. Invited to comment on this trend, the representative of the United States explained that such an increase in milk production was attributable to various factors. Firstly, the increased efficiency of the dairy production in the United States had to be noted. Secondly, the pattern of the United States meat production had followed the movement of meat prices which during the years of 1957-59 had been sufficiently attractive to lead to an increased slaughter of dairy cattle for meat consumption. This was the major reason for the three-year decline in milk production, but at the same time it contributed to greater efficiency in dairy production by a more selective elimination of less-productive cows. Subsequently, however, the reversal of the trend of meat prices had led to a reduction in the number of cattle for slaughter; this was one of the principal factors contributing to the increase in milk production in 1960. Thirdly, the representative of the United States recognized that the rise in the past years in the support price level for milk had contributed to some extent to the increase in milk production. He added that price support programmes for dairy products were mandatory in the United States but the level of support prices must be determined by the United States Administration. In response to a question as to whether the United States Government considered the possibility of introducing any form of production control for dairy products, as in the case of wheat, the representative of the United States stated that the level of agricultural production, including dairy production, in the United States had always been under careful examination by his Government and that the possibility of some form of production control was not ruled out.

16. Members of the Working Party expressed disappointment that the United States Tariff Commission had made no recommendation for modification or elimination of the existing quotas for blue-mold and cheddar cheese on the ground that situations were not so changed as to permit increased imports without materially interfering with the price support programme for milk and butterfat; they noted, however, that the President had not yet announced his decision on this matter. They expressed the hope that despite this recent finding by the Tariff Commission, the United States Government would nevertheless be in a position in the near future to enlarge the existing import quotas for such varieties of cheeses. The representative of the United States pointed out that attention should be drawn to the fact that Section 22 import quotas for some of the dairy products concerned had been considerably enlarged in the past few years and that the United States Government had repeatedly demonstrated that it would try to remove remaining import restrictions on dairy products as quickly as the situation permitted.

17. Members of the Working Party also expressed concern over other aspects of the problem. These included the differentiation in the amounts of import quotas between different types of cheese; the effect of high support prices in themselves creating the income which enabled farmers to finance improvements for higher yields from smaller acreage; the tendency to over-emphasize the rôle of the problems of the lower income farmers; and the much diminished value of United States imports of certain dairy products compared with before the war.

18. In concluding the review of the seventh 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 more 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 agricultural exports.