

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.22/3

11 March 1965

Limited Distribution

United States Import Restrictions on
Agricultural Products

DRAFT REPORT OF THE WORKING PARTY

1. The Working Party has examined the tenth annual report (L/2340) 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 Working Party was grateful for the comprehensiveness and clarity of the United States report. Import restrictions currently in force applied to four groups of commodities: wheat and wheat products; cotton of certain specified staple length, cotton waste and cotton picker lap; peanuts; and certain processed dairy products.
3. Members of the Working Party said that after ten years they had not altered their view that the granting of a waiver in such general terms to a major trading country, had been an unfortunate development. This, in their view, had contributed to the present situation in which agricultural exporters were denied the trading opportunities which they might legitimately have expected when entering into the General Agreement. They recalled that under the terms of the waiver the United States was required to remove or relax each restriction permitted as soon as it found that the circumstances requiring such restriction no longer existed or had changed so as no longer to require its imposition in its existing form. They recalled with appreciation that in previous years action had been

taken leading to the removal of and relaxation in a number of import restrictions under the provisions of Section 22, but they noted that there had been no further changes since the Working Party had last reviewed the situation under the waiver in 1962. They recognized that no time limit was specified in the waiver but they recalled that originally the waiver had been granted by the CONTRACTING PARTIES in the expectation that it would be needed for a relatively short period only, so as to give the United States the opportunity to place itself in a position under which import restrictions in violation of the General Agreement would no longer be required.

4. Some members of the Working Party expressed the view that the maintenance of the waiver was contrary to the spirit of the Ministerial Decision taken in May 1963, initiating the Kennedy negotiations. Other members expressed the hope that also the entry into force of the new Part IV of the General Agreement would lead the United States to relax the remaining restrictions so as to promote exports of primary products, in particular from less-developed contracting parties. A member of the Working Party noted that a number of devices were applied by the United States in order to restrain production; he felt that in fact the long-term problem for the United States was how to improve the surplus situation, so that it would no longer require the use of quantitative import restrictions. In this connexion, some members pointed out that the present supply and demand situation of certain products in the United States had been greatly improved. They therefore asked the United States seriously to consider either the disinvocation of the present waiver or at least the removal of the remaining restrictions; this, in their view might lead to similar action by other countries. Such a development would be of particular significance at a time when the contracting parties were engaged in major trade negotiations.

5. Referring to the general trade negotiations it was pointed out that any relaxation of import restrictions permitted under the waiver could not constitute a concession which required counter concessions from any other contracting party.

6. The representative of the United States, in replying to the above statements, stressed that since the entry into effect of the waiver, ten years ago, several import restrictions had been removed so that at present they were applied to four commodity groups only; in addition quotas had been increased in respect of some of the items of these remaining groups. This was proof of the fact that the United States indeed had removed or relaxed each restriction when it was found that this was possible. At the time when the United States waiver was granted it was thought that price supports would be short-lived too. The United States had taken various measures to reduce acreage and marketings, and to make other adjustments in farm policies in order to reduce supplies, but the impact of technical developments on production could not have been fully foreseen. Furthermore he pointed out that the surplus problem for the United States could have been greatly alleviated if freer access to major importing markets were permitted. As regards the trade negotiations he pointed out that the United States had always stated that, in principle, it was prepared to enter into negotiations on all relevant elements of its agricultural policy. He pointed out that the discussion of Kennedy Round matters was not within the terms of reference of this Working Party.

7. Members of the Working Party noted that one of the important ways for the United States to reduce its surpluses was through non-commercial sales and grants. They pointed out that in some cases such disposals had had adverse effects on other countries' commercial sales, even though regular consultations were being held in compliance with the FAO Principles of Surplus Disposal. Some members pointed out that the requirement under PL.480 to protect United States' usual commercial marketings could pose problems for third-country suppliers. It was also pointed out that the long-term dollar credit sales under Title IV of PL.480 brought in an additional element of competition for third-country suppliers.

8. The representative of the United States stressed that all United States' surplus disposals were carried out in strict accordance with the FAO Principles of Surplus Disposal. Before the conclusion of any surplus disposal agreement, the trade pattern and the size of the market concerned were carefully examined and consultations were held with other supplying countries. This procedure gave the assurance that no agreements would be signed that would displace traditional commercial sales of other suppliers. Title IV sales were for countries in the "grey" stage in their economic development: not yet able to rely entirely on normal conditions of commercial sales and in such an economic stage as to require purchases for foreign currencies.

9. Several members of the Working Party expressed the view that it would assist the examination of the position on each of the groups of products covered by the waiver if information could be provided in the form of a factual balance sheet showing the supply and demand position over a recent period of years. This would show on one side domestic production and imports and on the other domestic commercial sales, consumption under domestic concessional programmes, commercial exports, non-commercial exports under each Title of PL.480 and the increase or decrease in stocks held by the CCC. The United States representatives promised to do their best to provide such information but pointed out that it might not be possible to do so in the course of the present examination.

10. In referring to the present United States wheat policy, the representative of the United States explained that the fundamental change in the 1964 wheat programme was a shift from a mandatory to a voluntary type of programme. This resulted in some differences in detail. There were for 1964 three different levels of price support namely, \$2.00 per bushel when accompanied by domestic marketing certificates; \$1.55 per bushel when accompanied by export marketing certificates; and \$1.25 per bushel when not accompanied by certificates. The intention of the United States Government was to maintain and improve farm incomes as well as to reduce the level of surpluses by this kind of programme.

11. Some members of the Working Party appreciated the serious attempts made by the United States Government to attain a better balance between supply and demand as regards wheat through the 1964 wheat programme. They noted, however, that the United States Government had so far not found it possible to make comparable arrangements for all products affected by the waiver.

12. The Working Party noted the statement made by the United States representative that his Government would formally notify the CONTRACTING PARTIES of the change in the United States wheat policy and would report on the operation of the 1964 wheat programme after one year's experience of its working. It would be ready to discuss this programme with contracting parties any time thereafter.

13. Members of the Working Party referred to the continued rise in efficiency and yield per cow and questioned the need for a policy of high price support throughout the dairy sector; they suggested that the situation of the less-efficient dairy producers could be remedied by measures other than price supports. It was their view that if present legislation did not allow support levels to be lowered sufficiently for effective control of output to be achieved, new legislation might be called for. They noted that per capita consumption of dairy products was actually falling. It was their feeling that this was due in large part to high consumer prices and that, as experience in other countries had shown, a reduction in the consumer price of dairy products by means of consumer subsidies, for example, would lead to a rise in consumption.

14. The representative of the United States pointed out that price support for milk production had already been for some years at the minimum allowed by law. While the average yield per cow was gradually increasing the number of cows was diminishing so that total milk output over a number of years had remained fairly stable. In addition the United States Government had launched a number of programmes to promote the consumption of milk and dairy products.

15. Members of the Working Party noted that United States import quotas for the main dairy products had remained unchanged since the waiver was granted in 1955 at a level which, in their view, was extremely low compared to total domestic

consumption; any increase in these quotas would thus affect the domestic situation to only a minor degree while having significant beneficial effects on international trade in dairy products. Pointing to the improved world supply and demand position for dairy products and the improved domestic situation in the United States, as reflected, for example, in the very substantial reduction in stocks, over the past two years, several members of the Working Party considered the present time to be propitious for a relaxation of restrictions at the frontier and expressed the earnest hope that the United States Government would increase the quotas on dairy products. In particular, those countries which had negotiated a tariff quota of 60 million pounds of butter under the General Agreement in 1947 were desirous of seeing present quotas increased, at least up to the level of the tariff quota. The representative of the United States stated that he had taken careful note of the observations made and the desires expressed in the meeting, and would bring them to the attention of his Government.

16. Members of the Working Party observed that the current price support for peanuts in the United States had been set above the minimum permitted under legislation and was high in comparison with the prices received by producers in African countries, even taking into account any differences in quality. They considered that the current high United States support price tended to operate against the interests of less-developed countries. Members of the Working Party also put questions regarding the programmes and operations relating to peanuts.

17. The representative of the United States stated that if the quality of peanuts produced in the United States was fully taken into account, the support price was not as high as might at first appear. He explained that most of the peanuts produced in the United States were not used primarily for oil, but mainly for direct consumption as nuts or peanut butter. The United States programme was based on relatively high price support and strict control of

production. Unless the farmer planned the acreage within the allotment he was not eligible for price support. There were two producing areas, the south east and south west (Oklahoma and Texas). About 75 per cent of the production was in the south-eastern area and 25 per cent in the south west. In the south-eastern part of the United States, there were few alternatives to peanut growing. He also explained that production control was exercised through acreage allotment and marketing quota schemes; under the former, acreages taken out of peanut growing did not have to remain fallow, but could be used for growing commodities not covered by a support programme. The representative of the United States stated that, in his opinion, if all controls were relaxed, and the price were allowed to find its own level, this would, lead to a move out of peanut production in the south-eastern part of the United States, and to an expansion of the area under crop and a considerable rise in production in the south-western part, resulting in a fall in prices and with no increase in imports.

18. In conclusion, members of the Working Party expressed the earnest hope that the GATT trade negotiations would lead to improved access to world markets for agricultural products, including that of the United States. They also urged that these negotiations should also include products, imports of which were now being restricted under Section 22 of the Agricultural Adjustment Act.