GENERAL AGREEMENT ON TARIFFS AND TRADE
Eleventh Session of the Contracting Parties

Disposal of Surpluses

At the close of the Review of the General Agreement in March 1955 the Contracting Parties noted that it was the intention of individual contracting parties "to liquidate any agricultural surpluses in such a way as to avoid unduly provoking disturbances on the world market that would adversely affect other contracting parties". The Contracting Parties considered that any contracting party making arrangements for the disposal of surplus agricultural products should undertake a procedure of consultation with the principal suppliers of those products with a view to achieving orderly liquidation of stocks. At the Tenth Session, in 1955, it was made clear that this problem of surplus disposal was one of the most serious confronting world trade and that the consultation procedures relating to such disposals were matters of serious and continuing concern to many contracting parties.

Opening the discussion of this item at the current Session of the Contracting Parties, Mr. Carl Corse, United States, spoke on developments since the Tenth Session and gave the results of the United States agricultural surplus disposal programmes in the fiscal year ended 30 June 1956, as follows:

(a) Sales of Local Currency (Title I, Public Law 480) Some 38 agreements (and supplements) were concluded with 25 countries. These agreements had a combined value of about $600 million at export prices. The principal commodities sold for local currencies under these agreements were wheat and flour, feed grains, rice, cotton, fats and oils, tobacco and dairy products. Since the end of the fiscal year 1956, additional agreements have been concluded, the most notable being the one concluded with India on 29 August 1956, involving the sale for rupees of about $360 million worth of agricultural surpluses over a period of three years.

(b) Disaster Relief (Title II, Public Law 480) The United States made available $110 million worth of food for urgent disaster relief requirements in 16 countries during the fiscal year 1956.

(c) Voluntary Relief Programmes (Title III, Public Law 480) Donations of government-owned surplus farm commodities to private voluntary relief agencies for free distribution to needy peoples overseas, in the fiscal year 1956, totalled 997,000 tons of food valued at $255 million.

(d) Barter (Title III, Public Law 480) The programme of bartering government-owned agricultural commodities for foreign-produced materials for stockpiling and current use by United States government agencies resulted in the negotiation of contracts valued at some $315 million by the Commodity Credit Corporation. Exports under the barter programme in the fiscal year 1956 were valued at $298 million.
(e) Economic Aid (Section 402, Public Law 665) The United States Congress directed that a minimum of $300 million of the aid authorized for the fiscal year 1956 should be given in the form of surplus agricultural commodities.

(f) Triangular Transactions Some $48 million worth of surplus agricultural commodities were sold in industrial countries, mostly in Western Europe. The local currency funds resulting from those sales were used to purchase industrial goods which were shipped to the underdeveloped countries for which aid had been programmed under Section 402, Public Law 665.

Mr. Corse drew attention to what the United States Government was making possible in the field of economic development and mutual defence with the proceeds from the surplus disposal programmes, as well as the United States Government's sincere efforts to strike at the root of the agricultural surplus problems through readjustment of domestic farm production. On the subject of consultations that had been conducted with other countries regarding shipments under Title I of Public Law 480, Mr. Corse said that his Government was fully aware of the interests of other agricultural exporting countries and had sought to take reasonable precautions against disrupting world market prices or displacing the export marketings of other countries. In the future the United States Government hoped to continue consultations to the maximum extent that was feasible.

Mr. G.A. Jockel, Australia, pointed out that shipments of United States agricultural surpluses had increased substantially in the past year and that Australia's export trade was increasingly threatened. Mr. Jockel stressed two points in particular. First, he drew attention to a new type of transaction by which a country, in order to receive United States surpluses for local currencies, was obliged to purchase, commercially, prescribed quantities of the same commodities from the United States. The Australian Government considered that the market for these commodities should be open to all exporting countries. It was inconsistent with reasonable fair trade practices to attach to surplus disposals conditions which could distort the pattern of competitive trading. He hoped that the United States delegation would take careful note of this point of principle. Secondly, on the subject of consultations, Mr. Jockel said that the techniques used by the United States Government for disposing of surpluses were constantly changing, which led to apprehension in other countries that new markets would be attacked. Australia emphasized the importance of consultations and, in particular, stressed that they should be held earlier, with adequate time for a study of the information and for negotiations to be held. During the past year the Australian Government had sometimes been given only a few days in which to give its views and it was impossible to submit a considered statement in such a short time. On some occasions they had learnt of a United States measure only after arrangements had been concluded and publicly announced. In general the consultations procedures had been an inadequate safeguard. He welcomed the appreciation in the United States statement on the value to them of consultations and felt that the system could be made to work if the spirit of the GATT resolution was observed. Australia had never denied the need for United States surplus disposal operations, provided there was no adverse effects on international trade. But adequate steps had not yet been
taken to protect normal export trade interests. There should be a substantial improvement in the consultation procedure.

Mr. Finn Cundelach, Denmark, said that last winter exports of butter from surplus stocks took place to Western European countries which form the normal market for Danish butter. These exports caused serious disturbances to that market. He pointed out that large surplus stocks continued to cause uncertainty and instability in the markets of a number of farm products and thus constituted a permanent threat to the economies of the countries which export these products. Since the disposal of surplus stocks mainly affected smaller countries without a strong economic structure, the General Agreement should, in the view of his Government, contain strict rules which could regulate the liquidation of surplus stocks. He supported the Australian view on the need for effective consultation procedures, and said that no consultations could be effective unless countries holding surplus stocks were willing to give full consideration to recommendations from interested contracting parties. In the view of his Government a lasting solution to the problems of surplus stocks could only be found through a price policy which would bring a better balance between supply and demand. Such a policy should be directed to an increase in consumption rather than a decrease in production. If sufficient outlets could not be found on the home markets, the countries holding surplus stocks should primarily endeavour to find markets in countries which suffer from time to time from shortage of foodstuffs. Finally he drew attention to the plans for the creation of food reserves, which were considered by his Government as a possible solution to the surplus problem which would be to the benefit of all parties concerned.

Dr. C.M. Isbister, Canada, said that the Canadian Government had made clear to the United States Government its concern about the increasing amount of money allocated to surplus disposals from time to time, about the increasing quantity of exports from the United States on concessional terms and about the increasing number of countries whose markets are being affected. The Canadian Government noted with regret that, with respect to United States surplus disposals of wheat, there was decreasing evidence that Canadian representations, through the consultations procedure, were having an effect on the actual United States transactions. Dr. Isbister stressed that damage to normal trade is particularly likely to arise when the United States requires a country purchasing a surplus on concessional terms to undertake first to purchase a specific additional quantity from the United States for dollars. His Government regarded this as a discriminatory practice which prevented other exporters from competing for whatever commercial markets may exist in the countries concerned. He earnestly requested the United States delegation and the United States Government to give further study to this point. In conclusion Dr. Isbister underlined the great importance of ensuring that United States surplus disposal programmes do not damage the commercial interests of other contracting parties and that the consultation procedures recommended under the GATT resolution are made effective. If the normal trade of exporting countries is severely affected through surplus disposal activities, the difficulties of these countries are increased and progress towards the kind of trading system for which GATT stands may be seriously impeded.
Baron C.A. Bentinck, Netherlands, drew attention to the studies of the surplus disposals problem undertaken by the Food and Agriculture Organization and in particular to the set of rules elaborated by FAO. These rules all came down to the same principle that a disposal of surplus commodities ought to be directed towards new outlets or, in FAO terms, possibilities for additional consumption should be utilized or created. His Government considered it vitally important that this rule be observed because it was the only way to avoid disrupting normal international trade relations. In recent months they had noticed that new methods of disposal were being used or that old methods were being applied more aggressively. As a result of United States surplus disposals the Netherlands’ share in a certain market declined and sometimes, for certain commodities, this decline was complete. Commenting on United States triangular trade practices Baron Bentinck said that under this method the surplus commodities are not sold but are sent at the expense of the United States Government to undergo some form of industrial processing before entering into the market of the country finally receiving them. For example, the Netherlands was only slightly interested in export trade in cotton but was very interested in exports of textiles; as a result of a United States triangular deal the Netherlands had recently experienced a sharp decline in exports of textiles to a certain market. Baron Bentinck also drew attention to a great number of commodities (apart from the products more or less regularly in surplus production) occasionally earmarked by the United States Government as surplus. They range, he said, so to say from fruit juices to turkeys. In some cases the whole surplus stock of such a commodity is pushed with one move into one market at prices below and sometimes far below United States domestic prices and sometimes even below ruling market prices. In this way these stocks cause unrest on the market where they are sold and harmfully interfere with the interests of other exporting countries. In conclusion Baron Bentinck stressed the importance of the rule of additional consumption. This rule, he said, can best be observed if the countries principally interested in surplus disposal consult each other in advance and discuss the possible effects on their trade relations and the methods to be used. The surplus programmes would not only provide for control and subsidization in the exporting country but they would also lead the importing countries to maintain unduly their systems of import control and state trading, without which they would fear to be unable to take part to their advantage in those surplus transactions.

Mr. J.B. Prendergast, New Zealand, said that his Government continued to regard the problem of the disposal of surpluses as of the highest importance not only because the products in which surpluses have developed in recent years have been mainly agricultural products but also because of the disruptive effect that these surpluses have on international trade generally. As regards consultation procedures it was the New Zealand view that the onus for making the consultations effective clearly rested on the country distributing the surpluses. But the experience during the past year had been that New Zealand had not always been consulted by the United States on surplus disposals of dairy products in spite of the fact that the United States had been increasing its disposal of these products. Disposals of United States surplus stocks of butter had resulted in the loss of sales of New Zealand butter in a number of countries and New Zealand believed they had contributed to
to the decline in prices for butter in the United Kingdom, which was the main export market for New Zealand butter. New Zealand dairy producers were naturally alarmed about the present position. His Government was particularly concerned with sales of surplus products at concessional prices, i.e. "at competitive world market prices". This meant, in effect, that the goods were offered at a price lower than what the United States producer received for them. This was the equivalent of an export subsidy, and he hoped that the United States would be able to avoid recourse to this method of disposing of surplus dairy products. He appealed to the United States to provide an effective system whereby prior consultations between the United States and New Zealand Governments could take place on important disposal operations and whereby representations made by his Government would be taken into account before final decisions were taken.

Mr. A.G. Pollard, United Kingdom, said that in his view the problem of the disposal of surpluses was a symptom rather than a cause and that the problem was created by price supports. Prices that were too high led to over-production and to the increased use of subsidies to get rid of the consequent surpluses; this, in turn, engendered a feeling of insecurity among producing nations. He paid tribute to the goodwill of the United States in searching for devices to reduce surpluses and he hoped they would extend their ingenuity to improving the techniques for consultation and so remove the dissatisfaction expressed in this respect. The subsidies recently applied to United States exports of manufactured cotton goods were a matter of concern in relation to the provisions of the Revised Agreement.

Dr. W.C. Neudé, Union of South Africa, associated himself with the views of other delegates and said that the problem of surplus disposals was of great concern to his Government.

Mr. M.G. Mathur, India, pointed out that under the agreement recently signed with the United States, the purchase of United States surpluses were intended to supplement India's normal imports and would not disrupt established international trade. The added quantities were for the purpose of creating stocks to fight any tendencies towards inflation which might arise during the development of the Second Five-Year Plan and would thereby help economic development. He agreed with other speakers that surplus disposals should be effected only after prior notification and consultation. There was, however, advantage in not making procedures too rigid. The scope of consultations should be wide and should include, for example, not only exporters of raw cotton but also exporters of textile products.

Mr. O.P. Machado, Brazil, said that the present methods of dealing with the surplus disposals problem were not realistic enough, largely because of the lack of an international authority in the commodity field. He felt that the Contracting Parties were ignoring the real causes of the problem. The discussions at the session of the Contracting Parties were not sufficiently realistic and the matter should be studied by the Intersessional Committee before the next session.

Summarizing the discussion the Chairman said that there was continuing concern regarding the existence of large surpluses and the policies for their disposal, and that expansion of consumption both by exporting and importing countries, was most desirable. The Contracting Parties decided to retain the subject of surplus disposal on the agenda of the next session.