GENERAL AGREEMENT ON TARIFFS AND TRADE

Thirteenth Session of the Contracting Parties

Disposal of Surplus Agricultural Products:

Discussion in Plenary Session

This item stems from the Resolution on the Disposal of Surpluses, of 4 March 1955, in which the Contracting Parties noted that it was the intention of individual contracting parties to liquidate agricultural surpluses in such a way as to avoid unduly provoking disturbances on the world market, and considered that any contracting party making arrangements for disposal of surplus agricultural products should consult with the principal suppliers of those products so as to achieve an orderly liquidation.

The experiences of the contracting parties under this Resolution were discussed at the Tenth, Eleventh and Twelfth Sessions when it was shown that there was continuing concern regarding the existence of large surpluses and the policies for their disposal. It was emphasized that the consultation procedures could be more effective in safeguarding the interests of other contracting parties.

Opening the discussion of this Session, Mr. W.T.M. Beale, United States, outlined the actions taken by the United States in this field during the year ending 30 June 1958.

Measures previously in force to limit the accumulation of agricultural surpluses or to dispose of them, once accumulated, were continued in the fiscal year 1958. These included the soil bank, acreage and marketing controls on major export crops and the donation of food to school children and needy persons in the United States and abroad. Surplus agricultural commodities valued at approximately $187,000,000 (at Commodity Credit Corporation cost) were donated in this way in the fiscal year 1958.

Mr. Beale said that as in other recent years agricultural surpluses were exported under the provisions of Title I, Public Law 480. Under this programme, commodities are sold through private channels. Payment is made in local currency, which is accepted by the United States Government. The Government, in turn, reimburses the United States exporter in dollars. The local currency proceeds are deposited to the account of the United States Government in the purchasing country and are used for purposes previously agreed upon with that country. Until the fiscal year 1958, about 60 per cent of the sales proceeds had been set aside for economic development loans to the governments of recipient countries. In the fiscal year 1958 about 37 per cent was set aside for this purpose, but another 12 per cent was earmarked for loans to private enterprise in the recipient countries under the provisions of the so-called "Coolcy" amendment.
Mr. Beale said that the United States continued during the past fiscal year its endeavour to avoid disrupting normal commercial trade through Title I sales. Experience gained in previous years contributed considerably to the success of these efforts. Title I agreements are concluded only after a careful analysis of the possible effect of proposed programmes on the commercial markets of other suppliers. As a result of such analyses, some proposals are rejected completely and others are modified in order to prevent possible harmful effects on normal trade patterns. In still other cases, where Title I programmes are feasible, the United States may specify quantities of the commodities involved to be purchased commercially, thus making sure, not only that room is left for normal trade, but that such trade actually will take place. In specifying that the recipient country obtain its normal imports commercially, a minimum amount to be purchased from the United States may be indicated. In many cases, however, it has been possible simply to indicate a global minimum, leaving to the importing country complete freedom of choice as to sources of supply. The latter system has been used to an increasing extent.

Mr. Beale said that Title I agreements totalling almost $749 million (including $76 million for ocean transportation) at world market prices were signed with twenty-three countries in the fiscal year 1958. The great majority of Title I agreements in that year were concluded with the less developed countries where definite possibilities for increased consumption existed.

Public Law 480 was extended up to December 1959 at the last session of Congress and an additional $2.25 billion (at CCC cost) was authorized for Title I purposes. It is not anticipated that this will result in any sharp change in the level of Title I exports.

Mr. Beale said that, as stated at previous sessions of the GATT, the United States has developed a system of consultative procedures on Title I programmes which it believes adequately protects the interests of other exporting countries. It generally works somewhat as follows: After a Title I proposal has been received and studied, consultations are held with supplying countries that appear to have a genuine interest in the particular market and commodities under consideration. Those consultations are held prior to the signing of an agreement and, to the extent feasible, in time to allow the most careful consideration of the views expressed by the other countries. In addition, since January 1958, the United States Government has been notifying the Consultative Sub-Committee on Surplus Disposal in Washington of the commodity composition of impending agreements, thus providing countries having only a marginal or intermittent interest in markets where Title I commodities are shipped an opportunity to make known their views, either directly to the United States Government or indirectly through the Sub-Committee. The United States is, furthermore, always willing to discuss with other countries surplus disposal problems as they relate to such countries' interests in general. The United States makes an earnest attempt to make its consultations on Title I programmes meaningful. Frank discussions on these matters during the past year have gone far towards dissipating misunderstandings with regard to surplus disposal objectives and operations, Mr. Beale said.
Mr. Beale said that under Title II of Public Law 480, commodities are donated to other countries to meet famine or other emergency relief requirements abroad. The commodities are generally distributed to needy people free or in payment for work done on relief projects.

Some $92 million worth of commodities at CCC cost (including ocean freight) were distributed in thirteen countries under Title II in the fiscal year 1958.

No special consultation procedure has been established for Title II transactions because of the need to act decisively when disaster strikes and because the commodities, being distributed freely to needy people afflicted by famine, flood or other extraordinary conditions, can hardly be considered as likely to displace the normal marketings of other countries.

Under Title III of Public Law 480, surplus food commodities are donated through voluntary relief agencies and intergovernmental organizations (UNICEF) for free distribution abroad and in the United States to people who do not have the resources to assure themselves an adequate diet. The foregoing foreign donation programme in the fiscal year 1958 totalled $272 million (at CCC cost) and encompassed eighty-five countries. These transactions fall into the same general category as Title II programmes and special consultation procedures have not been established for them.

Mr. Beale said that in addition to the donations just discussed, surpluses have been disposed of through the barter provisions of Title III, principally in exchange for strategic materials. Barter transactions are carried out by private traders and generally involve government participation only to the extent that it sells to such traders agricultural commodities and buys from them strategic materials, both at world market prices. Since May 1957 the Commodity Credit Corporation has insisted on evidence that barter transactions result in a net increase in the amount of agricultural commodities traded and that interest be paid for any time-lag between delivery of the agricultural commodities and delivery of the materials obtained in exchange. The volume of goods moved under barter has dropped sharply below previous levels. Contracts negotiated in the fiscal year 1958, for example, totalled only $65.1 million, compared with $272.5 in the previous year. About a third of the agricultural commodities included in the fiscal year 1958 contracts have been shipped. Additional commodities were shipped under contracts entered into in previous years. In view of the commercial character of these transactions, advance notification to other exporting countries is considered unnecessary. As in the case of all PL 480 programmes, however, the United States is ready to consult at any time with other contracting parties that feel their trade has been damaged by particular barter transactions.

Mr. Beale said that Section 402 of the Mutual Security Act requires that a portion of the aid given to other countries be provided in the form of surplus agricultural products. In practice, the products are sold, principally in the aid receiving countries, and the proceeds allocated to a variety of purposes, including economic development. Some $205 million were obligated for Section 402 sales in the fiscal year 1958, including $51 million for triangular transactions.
As an integral part of the United States aid programme, Section 402 sales entail no usual marketing commitment from recipient countries. Similarly, except in unusual circumstances, notification to other exporting countries of proposed Section 402 sales is considered unnecessary. The United States does endeavour, however, to avoid the displacement of other countries' commercial sales through Section 402 transactions and is always ready to review programmes with any country that feels its export markets have been adversely affected by them.

In conclusion, Mr. Boale assured the representatives of the Contracting Parties that the United States is fully cognizant of its responsibilities in the matter of surplus disposals and has every intention of adhering to the principles of the GATT Resolution and of the FAO in this respect. We are convinced, he said, that we have done a creditable job of disposing of billions of dollars' worth of surplus agricultural products with minimum damage to the interests and sensibilities of other exporting countries and that our record in this respect has steadily improved over the past year. We also take pride in the contribution made by United States agricultural surpluses to the accomplishment of such widely divergent objectives as feeding the chronically needy, providing food and clothing for victims of floods and other natural disasters, financing economic development projects in recipient countries, and providing funds for schools, colleges, scholarships and other educational purposes.

Mr. G.A. Rattigan, Australia, said that the consultations procedures had improved to some extent in the three years since the GATT Resolution had been adopted, but the problem of surplus disposals seemed no nearer solution. High price supports in the United States had encouraged production far in excess of normal domestic needs. Similar devices in other industrial countries had stimulated agricultural production to a point where normal imports of the supported commodities had been drastically reduced and in some instances to a point where imports surpluses had emerged.

Despite the huge sums of money provided by the United States Congress for PL 480 disposals, stocks of surplus commodities remained excessively large and in the case of some commodities the level of stocks had actually increased. Under the stimulus of such disposal problems United States exports of primary products had greatly increased in recent years and Australia feared that the position might be reached where surplus disposals would become regarded as an inescapable feature of international trade.

Australia fully appreciated the desire of the United States to assist in alleviating hunger and distress in needy countries but regarded it as incumbent on the United States to ensure that disposal of surpluses resulted in an overall increase in consumption and did not cause a disruption of normal trading patterns. A real danger in surplus disposals was that they would lead to a deterioration in the balance-of-payments position of commercial suppliers and if this became widespread the result could be contraction in the overall trade level of world trade. It was essential that countries receiving particular commodities as aid should continue to purchase such commodities commercially to the maximum extent that their
balance-of-payments position permitted. When a surplus disposal transaction appeared to involve any risk of disruption of normal trade, consultations between all interested parties should be held before the transaction was arranged.

Mr. Rattigan asked that surplus disposals be placed on the agenda of the Fourteenth Session.

Mr. Maurice Schwarzmann, Canada, said that Canada was particularly interested in measures designed to slow down and reduce the accumulation of surpluses. It was a matter, he said, that was closely related to the problem of excessive agricultural protectionism. In this the United States had an important role and a great responsibility. United States surplus disposal programmes had seriously cut into Canada's export markets, particularly for wheat. They also affected the long-term interests of importing countries by disrupting world market channels. However, he said, during the past year, as a result of modifications in the United States disposal programme, the extent of injury suffered by Canada had been reduced. Canada had found the former barter arrangements particularly damaging and objectionable. Changes in methods of operation under barter have restored to a competitive cash basis a substantial part of the export trade in wheat. Mr. Schwarzmann said that under PL 480 sales, the United States is giving greater regard to safeguarding commercial imports in accordance with normal trade patterns and, together with a greater measure of consultation, is providing more adequate protection of the interests of other commercial suppliers. Canada, he said, fully endorsed the principle that surpluses should be made available to meet emergencies such as famine or to alleviate chronic malnutrition, and to provide for new consumption in connexion with economic development of under-developed countries, and for programmes of a non-commercial nature. It was Canada's conviction that it was in the interest of both exporting and importing countries that such programmes should be directed towards increasing the consumption of the commodity by the amount of the disposal and should be additional to normal commercial sales. In conclusion, Mr. Schwarzmann said he hoped and expected that the whole problem of surpluses would be included in the work of the committee which would be dealing with matters raised in the Habstorl Report.

Mr. Finn Gundolach, Denmark, said that the Resolution of 4 March 1955 had not been without influence. Consultations had been carried out, in many cases with results. He expressed the appreciation of the efforts which the United States Government had made to adhere to the obligation to consult, and he hoped the United States Government would continue its efforts to carry out consultations with interested governments at an early stage, before disposal of surplus agricultural products takes place. However, Mr. Gundolach said, there are still many cases where surpluses are exported without or with only ineffective consultations, with the result that markets are greatly disturbed to the detriment of normal exporters. There had been, he said, a very serious experience this year with butter, where marketing of surplus products created complete confusion on the market, with the effect that prices dropped to a level only slightly above the level before World War II. This emphasized the need for broader and more effective consultations.
Every individual case needed examination and it was the Danish view that harmful effects could be avoided if the views of traditional exporters were taken into account. As to methods of reducing surplus stocks, Mr. Gundelach said that Denmark would find it quite reasonable if countries holding agricultural surpluses would let their own domestic consumers obtain the commodities concerned at the same price at which they are offered to consumers in other countries. It was depressing that only very slight progress had been made towards the solution of the underlying problem, that is the agricultural support policies in many countries. The essential solution to the surplus problem was the carrying out of a harmonization of production and consumption; as long as there was no balance between production and consumption there would continually be a surplus problem to the detriment not only of normal exporters but to international trade as a whole.

Dr. W.P.H. van Oorschot, Netherlands, referred to the fact that in the secretariat's note on FAO's activities in the field of surplus disposal, it was said that the problem of surpluses might well be considered as a permanent feature of the world agricultural economy. Views had been expressed in the United States that the problem might be with us for at least another five years. Fortunately, he said, both the United States Government and FAO give continuing attention to finding a solution to this problem. Small countries like the Netherlands suffer serious harm from disposals, by bigger countries, of even minor quantities of surplus products on the traditional markets for their products. He recommended the utmost attention and close co-operation between interested countries towards solving this problem.

Mr. L.V. Castle, New Zealand, said he agreed with the Netherlands delegate. The statement by FAO that the problem of surpluses may well be considered as a permanent feature of the world agricultural economy could not be accepted by New Zealand. In the view of New Zealand persistent surplus production is one effect of agricultural policies which are out of harmony with basic market requirements. The danger of permanency of surpluses arises if these policies continue to be followed. What is essentially required, he said, is some change in national policies which evoke surplus production. This point is well made in the Haberler Report, which points out that the basic long-term cure of the surplus problem can only come about by such policy changes. Mr. Castle said it was interesting to note the work being done by the FAO Committee on Commodity Problems and its Washington Sub-Committee in developing ways of disposing of surpluses in line with the principles developed by the FAO. Turning towards United States surplus disposals, he said that while New Zealand knows and appreciates the efforts made by the United States to dispose of its surpluses in ways which do not affect commercial suppliers, New Zealand's experience showed that these efforts have not been entirely successful. While he appreciated that United States surplus disposals under PL 480 had been of benefit and value in providing emergency and famine relief, aiding economic development and so on, he hoped that these eminently worthy ends - which can be achieved in other ways - would not be made the justification for continuing agricultural policies which result in surpluses. Regarding consultations, Mr. Castle said that in the past New Zealand had found such consultations useful and valuable, and appreciated the readiness with which the United States had consulted with them. He agreed that the item should remain on the agenda.
Shri T. Swaminathan, India, said that his country, as a beneficiary of surplus disposal, was very grateful for what had been done. He pointed out that most under-developed countries are in serious balance-of-payments difficulties and this will continue. Their volume of trade will sink unless they receive loans for development. If imports have to be cut it may be necessary to choose, for instance, in favour of food grains and cut other imports such as wool or wool tops, thus creating unemployment in the wool industry and intensifying economic difficulties. Therefore, he said, it is important in judging the effects of surplus disposals to take an overall view of trade problems. Consultations had been, in actual fact, held effectively over the last two or three years, and there had been much understanding and goodwill on all sides. His delegation would like to leave procedures as they are and not make rigid. Obligatory prior consultations were not always practicable. He agreed the item should be put on the agenda of the Fourteenth Session.

Mr. M.H.E.A. Baig, Pakistan, said that his country had greatly benefited from United States surpluses and he thanked the United States Government. However, disposal of United States cotton surpluses had resulted in lower foreign exchange earnings from Pakistan’s cotton exports, and he feared the situation was getting worse. In the first quarter of 1957 Pakistan received rupees 13½ crores compared with rupees 7½ crores in the first quarter of 1958. This trend was forcing Pakistan into making bilateral arrangements, which could not be avoided. Surplus disposals arrangements were of great interest to Pakistan and should be put on the agenda of the Fourteenth Session.

Miss A.M. Lough, United Kingdom, said that although the United Kingdom had a less direct interest in surplus disposals than some other countries, it agreed that it was important to see that surpluses do not distort the traditional pattern of world trade. The basic problem lay in agricultural protectionism, and in so far as the GATT was successful in dealing with this problem, so the difficulties caused by surplus disposals would disappear. Meanwhile, the United Kingdom felt that the GATT Resolution on Surplus Disposals and the FAO Principles on Surplus Disposals provided some safeguard for the interests of third countries.

In his summing up of the discussion, the Chairman, Shri L.K. Jha, said that he had the impression that in general delegations had come closer together on this problem and that there was a greater understanding of the commercial interests involved. It was agreed that the matter should go on the agenda of the next Session.