1. The Working Party has examined the eleventh annual report (L/2604) 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 lengths, cotton waste and cotton picker lap; peanuts; and certain processed dairy products.

3. Some members of the Working Party recalled that from the beginning they had been opposed to the granting of a waiver to the United States Government for the maintenance of import restrictions on certain agricultural products. They had been concerned about the extent and the open-ended character of the waiver. They expressed the view that import restrictions covered by the waiver had had serious effects on world trade in temperate agricultural products and had contributed to the imbalance which had been developing in the benefits derived from the General Agreement between exporters of agricultural products and the industrialized countries. They expressed regret that while in their view the waiver had been intended to have a short duration only, the United States Government after eleven years still had not found it possible to relinquish the waiver completely.

4. Members of the Working Party recognized the restraint shown by the United States Government in the use made under the legal freedom given under the waiver and they expressed appreciation for the efforts made by the United States over the years to remedy the situation and to withdraw or relax the restrictions on certain
products. They noted with disappointment, however, that for some time no further relaxations in the import restrictions had been made and that in the present report no hope for any such relaxations in the near future was given. Some members of the Working Party drew particular attention to the recent marked changes in the general situation of the dairy sector. They recalled that on previous occasions they had urged the United States Government to enlarge the import quotas for dairy products, in particular for butter, and regretted that this had had no apparent effect. Because of the present improved market situation they requested the removal or relaxation of the restrictions on dairy products. Indeed, in the view of some members the present situation seemed particularly favourable for the United States to dispense with the use of the waiver completely.

5. Some members of the Working Party referred to the Food and Agriculture Act of 1965 which, it was understood, had the objective of improving the balance of supply and demand. It was suggested that by discarding or at least relaxing the present import restrictions on dairy products the determination of the United States Government to attain this objective would be underlined and such action would also provide a positive influence for the Act to have the intended effects. It was also recalled that the United States Government had subscribed to the Kennedy Round ministerial resolution on improving conditions of world trade for agricultural products. The United States delegation had not yet put forward an offer on dairy products, but it had indicated that a priori the liberalization of the quotas was not excluded. The eleventh report under examination was so negative on any improvement in the quotas that there seemed to be a contradiction with the objectives of the Kennedy Round.

6. Members of the Working Party expressed the desire to have the opportunity, in due course, to examine the provisions of the new Food and Agriculture legislation under the GATT.

7. Members of the Working Party noted with appreciation the measures taken to dispose of surpluses externally in accordance with the Food and Agriculture Organization Principles of Surplus Disposal. They generally felt that the consultations held to avoid adverse repercussions of such disposals on world trade had been conducted in a satisfactory way.

8. Some members expressed concern about recent measures which could be interpreted as a certain change in the American thinking on surpluses. If this was the case, it was feared that non-commercial sales, by means of tied sales provisions and by increased use of local currency for market development, might tend unduly to stimulate United States commercial exports to the detriment of other exporting countries while upsetting traditional trade patterns.
9. Another member of the Working Party stated in this connexion that his country had been adversely affected by sales on concessional terms to its traditional markets. As an example he pointed out that since 1954/55 shipments under Public Law No. 480 to LAFTA-partners had increased more than fourteen times, while in the same period commercial sales from the United States to these countries had increased by 2 per cent only.

10. A member of the Working Party stressed the importance for developing countries to increase by all possible means their foreign exchange earnings. Since a number of developing countries were important exporters of peanuts he made a plea to remove the import restrictions maintained under the waiver, so as to create improved export opportunities for the developing countries concerned.

11. In reply to questions concerning the termination of the Military and Veterans Administration Milk Programme and the possible reduction of donations to schools and institutions, the representative of the United States stated that certain legal authorities had expired and some changes in internal financing of such programmes had become necessary; but otherwise the disposal of milk to such agencies was expected to continue without significant change. Donations to schools, needy persons and institutions in the United States were not likely to be reduced.

12. The United States report had stated (page 5) that the United States "all crop" production index reached a record level of 117 in 1965 (1957-59 = 100). In answer to a question, the representative of the United States said that the 1965 index for all livestock and livestock products was 112, one point below the previous record of 1964. For dairy products alone, the index remained at 104, the level of the preceding several years. Total farm output was 116, the highest on record and four points above 1964.

Cotton

13. Wishing to bring the information given in the report up to date the representative of the United States said that his Government had just announced a new programme for cotton. Under this programme the national acreage was expected to be cut by 4.6 million acres to a new level of 10.8 million acres; there was, furthermore, a possibility of an additional reduction by 800,000 acres.

Peanuts

14. A member of the Working Party noted that, according to the report, import controls were being continued to prevent imports from materially interfering with the United States Government programmes. He asked in what way imports would interfere. The representative of the United States explained that of the two major uses of peanuts, peanuts for oil extraction and large ones for edible purposes as nuts, only the latter were being imported into the United States in significant quantities. There were, however, only few countries that produced this type; although the restrictions applied to both types of peanuts, only the edible type was in practice being affected by the controls. Although United States support prices for peanuts were fixed above world prices, imports of peanuts for oil extraction could not compete because of the competition from soybeans.
Wheat

15. A member of the Working Party put a series of questions relating to the policy implications of the new Food for Freedom Act which was under consideration in both Houses of Congress. Replying to these questions, the representative of the United States explained that under the proposed legislation diverted acreage would be called back into production only if necessary to meet the objectives laid down; he was unaware of any intention to expand production of wheat or the other commodities under discussion. However, the Government needed a flexible standby authority in order to cope with emergency situations such as that which had presently arisen in India. If such a situation should arise again in the future, and could not otherwise be met by supplies available in the United States or elsewhere, he had no doubt that the necessary acreage reserve would be brought back into production. The legislation provided only the authority to carry out such measures; whether this authority would in fact be used depended on the contingency. The basic policy of his Government was to bring about a balance between supply and demand before attempting to relax production controls. There was therefore no contradiction with the proposals made in the Group on Cereals. The new legislation would make clear, as the previous one had done, that food aid was not to replace normal commercial trade. Concessional sales were made only on request and the quantities supplied were generally below the quantities actually requested. They took account of historical performance patterns and the views of interested third countries which were regularly consulted. The member of the Working Party stressed that his Government had never doubted the good intentions of the United States legislation, but he also stressed that the interests of other commercial suppliers must be respected. Some members of the Working Party considered that surpluses by the mere fact of their existence and surplus disposals always had a negative effect on normal trade.

16. A member of the Working Party expressed the view that as in three of the commodities discussed, namely cotton, peanuts and wheat, acreage allotments and other restrictions were being applied to production, there might be no need to maintain the waiver, as the United States Government was entitled to maintain import controls by virtue of Article XI:2(c) of the General Agreement. The representative of the United States commented that the effects of the new legislation might prove to be such as to eliminate the need for quotas on wheat under Section 22, since as a result of changes in price and support policies, there might be no need for quotas for price reasons. He pointed out that the Act had been passed only in December 1965 and would not be in operation until the new crop year. As the price situation for grains was at present fluid, predictions could not be made. Furthermore the future procurement policies of the USSR and mainland China added a further uncertainty. It might be found desirable to maintain
restrictions on a contingency basis, to be invoked, for instance, as a defence in addition to the normal tariff against subsidized exports. If the United States found that it could safely relinquish the waiver it would certainly do so. A member of the Working Party observed that the United States already had antidumping and countervailing powers for keeping out subsidized products, and could also invoke the relevant provisions of the GATT. He considered that the threat of dumping was therefore not a sufficient reason for maintaining restrictions as a standby.

**Dairy Products**

17. Members of the Working Party pointed to the changed situation in the United States dairy sector. For twelve years the number of milk cows had shown a steady decline and there had been a marked decrease in the dairy herd in the past year. Milk production had shown a sharp decline in 1965. Surplus stocks of dairy products had virtually disappeared; at present the CCC held no cheese and butter, and only a very small quantity of skimmed milk powder. Prices of dairy products had increased and, in their view, were likely to increase further. Consumption per head had declined still further and would continue to do so if price trends were not reversed. This situation provided urgent reasons for the removal or relaxation of quota restrictions now so that prices and consumption could be improved. It was pointed out that if this was not done there would be growing support for the view already expressed in the United States that increased domestic production was the best protection against inflationary prices at the consumer level. Pressure to adopt measures to increase domestic production could lead to a return to the massive accumulation of surplus stocks as in the past involving additional substantial costs to the United States Government, increased problems of surplus disposal and the present restrictive quotas becoming permanent and perhaps even being intensified. Members of the Working Party also drew attention to the extremely small size of the quotas in quantity and in relation to United States production. It was pointed out that the total quantity of the quotas was a mere 32 million pounds compared with the 123,200 million pounds of milk produced in 1965/66, that is less than 0.03 per cent of United States milk production. Many of the quotas had shown no change since the waiver was granted. Members of the Working Party recalled that the waiver had been granted in order to give the United States time to solve the problems of surpluses; their virtual disappearance and the present dairy situation should be a reason for discontinuing it.

18. Several members of the Working Party, noting that butter quotas had remained unchanged since the waiver was granted in 1955, requested that the United States Government should at least increase the quota to the level of the tariff quota of 60 million pounds negotiated with certain suppliers in 1947. They recalled that the existence of stocks had been invoked as a reason for not putting the concession into force.
19. Replying to several questions, the representative of the United States observed that the provisions of the new Food and Agriculture Act were not, as far as dairy products were concerned, very different from those under the previous legislation. One difference was that the production of fluid milk was being made more attractive in relation to manufacturing milk. He added that as regards the dairy sector, the Act provided for a referendum by farmers in individual districts, which meant that the Act would be implemented less quickly here than in other commodity sectors. He also pointed out that import quotas on certain cheeses had been raised some years ago, but were currently not being filled.

20. Replying to a question regarding the criteria applied to export subsidies, the representative of the United States said that the principal consideration was to put United States exports on an even competitive footing with world prices; of the US$329 million net expenditure by the CCC during the year ended 31 March 1965 for dairy price support and related programmes, the amount for dairy export subsidies was US$44.7 million. He added that at present no subsidies were paid on exports of dairy products.

21. The representative of the United States referred to a question put earlier by a member of the Working Party and he reaffirmed that his Government continued to subscribe fully to the objectives of the Kennedy Round. There was no change in the United States' position in this regard and his Government was ready to enter into negotiations on all relevant elements of its agricultural support policy.

22. The representative of the United States went on to say that his Government recognized that there had been a change in the dairy situation, as reflected by current figures. It was also true that the CCC was virtually out of stocks of dairy products. The reasons why restrictions had been maintained in spite of this were, firstly, a genuine uncertainty and lack of confidence in appraising the supply and marketing prospects, particularly whether the situation of firm prices and low stocks was an enduring situation or only a temporary phenomenon. The other reason was that the balance, which the dairy as well as the wheat sector seemed to be approaching, was the result of various disposal programmes, production controls or acreage restrictions. All these, however, involved great costs to the Government and the taxpayers. Without these measures, and if only commercial marketings had taken place, the market would still be in a surplus situation. As an indication of his Government's intentions and desire to liberalize trade in dairy products to the greatest possible extent, the representative of the United States referred to certain arrangements with certain exporting countries on the voluntary restraint of exports of Colby cheese and Junex, a high butter-fat ice-cream mixture. These arrangements, which had been entered into in order to avoid action under Section 22, had expired on 30 June 1965 and 31 December 1965 respectively; and his Government had allowed them to lapse. Also, imports of these products from other countries were increasing.
23. The representative of the United States further observed that the application of the waiver and the possibilities of modifying or relaxing the dairy import restrictions under Section 22 of the Agricultural Adjustment Act were now under intensive study at the highest levels of his Government. He hoped that his delegation would have an announcement to make soon on this subject.

24. The Working Party welcomed this statement by the representative of the United States. Many members felt that the waiver had been applied for too long a time and hoped that the announcement to be made by the United States Government could be considered as an indication that the end of the quota system might be in sight at last.

25. The representative of the United States again affirmed his Government's intention promptly to terminate any restrictions imposed when it found that circumstances requiring the action no longer existed, and to modify restrictions whenever changed circumstances warranted such modifications.