U.S. AGRICULTURAL ADJUSTMENT ACT:
SECOND ANNUAL REPORT

Delegations wishing to make corrections are asked to send them to the Information Officer, Conference Office, A-560, before 6 p.m. on Wednesday 31 October.
Second Annual Report by the United States Government on the waiver granted on 5 March 1955 in connection with the Agricultural Adjustment Act:
Discussion in Plenary Session

The Contracting Parties have discussed in plenary session the Second Annual Report of the United States Government under the Decision of 5 March 1955. This Decision recognized the difficulties arising from the terms of Section 22 of the U.S. Agricultural Adjustment Act and permitted the U.S. Government to apply conflicting measures under this legislation without being in violation of its obligations under the Agreement. Under the Decision the Contracting Parties will review annually action taken by the United States under this legislation.

In introducing the Second Annual Report, Mr. Carl Corse, United States, made the following comments:
(a) At the time of the Decision (in March 1955) import controls under Section 22 were in effect for nine commodity groups. Controls were permitted to expire with respect to three groups, namely: barley, oats and tree nuts. The report points out that the controls in effect during 1956-57 are the same as those which were in effect in 1955-56 except in two instances where modifications were made. The circumstances bringing about these changes and the details of the operations of all programmes under Section 22 during the past year are described in the report.

(b) Subsequent to the submission of this report, the U.S. President, on 2 October, directed the Tariff Commission to undertake an investigation under the provisions of Section 22 as to whether figs and dates will be imported during the 1956-57 crop year, in such quantities and under such conditions as materially to interfere with the current domestic programmes for these commodities, and to submit its findings and recommendations to him as promptly as practicable. Governments of the countries with interest in the trade of these products in the United States market were promptly notified of the President's action. Whether restrictions will be placed on the imports of these products will, of course, depend upon the President's decision, based on the Tariff Commission's findings and recommendation.
(c) The positive steps taken by the U.S. Government aimed at a solution of the problem of surpluses of certain agricultural commodities are described in the report. They include action to reduce new crop supplies and action to increase consumption. Special attention has been given to recent legislation authorizing a Soil Bank programme that will put into effect additional acreage controls which may be expected to have an important bearing on the problem of surpluses.

(d) The report discloses that there has been a marked improvement in the Government stock position in dairy products. This substantial decrease in Government inventories has been accomplished in great part through donation and sales at token prices for domestic and foreign school lunch and welfare uses. These sales were effected at a heavy loss to the Commodity Credit Corporation. The Government is still purchasing relatively large quantities of butter, cheddar cheese, and non-fat dry milk solids under the current price support programme. It will be necessary, therefore, to continue the present level of restrictions for a further period of time. However, the U.S. Government will continue to keep these and other restrictions applied under Section 22 under review as there is no intention to continue them any longer than necessary to prevent interference with the domestic programmes for which purpose these restrictions have been found necessary.

Mr. Finn Gundelach, Denmark, said that it was clear from the report that the U.S. Government had certainly made efforts to solve some of the basic problems and to avoid serious disturbances of international trade - in the latter respect unfortunately not always with full success. However, the report did not give much hope for the elimination of these restrictions, the effects of which had been felt for a number of years. Only two small alterations had been made in the restrictions, he said; one in a positive and one in a negative direction. It might be concluded that a stand-still had been reached in the elimination of the restrictions.

Mr. Gundelach said that the main reasons why the U.S. agricultural policy was of such great concern to Denmark was that it prevented Denmark from enjoying some of the advantages and rights of the General Agreement and of the tariff agreements which she had concluded with the United States. Furthermore, the accumulation of large stocks constituted a permanent threat to normal marketing
of Danish agricultural production. Denmark was particularly interested in the marketing conditions for dairy products. It was therefore with satisfaction that they had noted that stocks of these products had shown a downward tendency and that the U.S. Government had succeeded in increasing to some extent its internal consumption, he said. In spite of this development the U.S. Government had not found it possible to increase the very small import quotas for dairy products. Mr. Gundelach called attention to the fact that the quotas still in force for cheese had not been changed for four years. He had expected that the improved situation would have made possible some relaxation in this respect. It was hard to believe that an increase of imports in the U.S. by those relatively small quantities which Denmark and other countries in a similar position were able to provide could possibly have any harmful effects on the United States economy, whereas such an increase would be of great importance for the Danish economy.

Mr. Gundelach pointed out that the progress in the elimination of stocks in butter had partly been obtained by means of a considerable increase in the commercial export sales. These sales took place to a great extent in Denmark's normal export markets for butter and seriously disturbed these markets. Denmark greatly appreciated the efforts of the U.S. Government to increase the internal consumption for butter which, partly due to the artificially high prices, had dropped considerably compared with the consumption before World War II. He sincerely hoped that these efforts might be intensified so that commercial export sales to the detriment of normal butter exporters would be avoided. In conclusion, Mr. Gundelach suggested that the U.S. Report should be studied in detail in a working party.

Mr. A.B. Hockin, Canada, said that his Government had always regarded the waiver with considerable reserve in so far as it relieves the United States of substantial obligations under GATT. The existence of the waiver had a seriously damaging effect on GATT and the U.S. should take steps as quickly as possible to revise its agricultural policies so that the waiver would no longer be necessary. He was disappointed to note that in the period covered by the Second Annual Report practically no progress towards eliminating the restrictions had been made. However, the effect of recent U.S. agricultural
legislation, which included the Soil Bank programme had yet to be felt. This and other aspects of U.S. agricultural policy should be studied carefully in a working party.

Mr. J.B. Prendergast, New Zealand, said that New Zealand was one of the countries which had opposed the granting of the waiver to the United States. At that time their view was—and it still continued to be—that the import restrictions were imposed because of United States difficulties with their surplus problem which, in turn, was the result of their internal agricultural policy. The situation existing in the United States had, he said, grave repercussions for countries like New Zealand which are vitally dependent on exports of agricultural products. New Zealand's trade and economic security were threatened, not only through being shut out of the United States market, but also by the adverse effect on her export trade of the mere existence of the huge United States surpluses overhanging the world market and of the disposal of some of the surpluses overseas at concessional prices.

Mr. Prendergast said that his delegation attached the utmost importance to the annual reports which the United States was required to provide, showing the progress made towards eliminating and relaxing the restrictions and towards finding a solution to the underlying surplus problem. In this connexion the most promising step indicated in this year's report was the recent adoption of the Soil Bank proposals, which were designed to reduce crops by taking land out of production. But his delegation was disappointed that the United States had not found it possible so far to adopt more direct and positive measures to correct the unbalance between production and consumption of dairy products. He voted that United States stocks of surplus dairy products had been considerably reduced during the past year—largely by an increased rate of overseas disposals. Since the size of surplus stocks had been so materially reduced he would have thought that some relaxation of the restrictions on imports into the United States would have been justified.

Mr. S. Osman Ali, Pakistan, said that United States action on surplus disposals, particularly as concerning raw cotton, affected Pakistan closely. He noted that steps were being taken in the United States to restrict
production and increase consumption. It was important to see how these steps would work out in practice. He noted, however, that the United States supply of raw cotton for 1956-57 was, in fact, 1.5 million bales more than in 1955-56. In his view the problem of United States surplus disposal of cotton was going to last a long time. Mr. Osman Ali said that the problem was complicated by the fact that the United States employed a double price system under which export prices for cotton were lower than domestic prices.

Mr. G.A. Jockel, Australia, said that the United States report should be examined with care. Although, since the waiver was granted, the United States had reduced the number of commodity groups for which import controls are imposed, the most important controls still remained in force and there seemed little prospect of their removal. The Australian Government was most concerned about the effect of the disposal programmes on normal channels of trade. He noted that there had been no progress during the past year in relaxing import restrictions on dairy products. He considered that the United States report should be examined with increasing rigour each year so as to bring home to the United States Government the importance which the Contracting Parties attach to the removal of the restrictions in question.

Dr. W.C. Naudé, Union of South Africa, said that when the waiver was originally granted his Government did not vote in favour of it; these fears now appeared to be justified. Nevertheless his delegation welcomed the steps being taken by the United States to improve the position, particularly in view of the political difficulties involved.

Baron C.A. Bentinck, Kingdom of the Netherlands, said that in the opinion of his Government the United States had made considerable efforts to find a solution in the field of agricultural production by inaugurating a Soil Bank programme. This programme, in his view, would be more effective than the system of acreage allotments and marketing quotas. On the other hand the establishment of the Soil Bank indicated that the United States Government had chosen a policy of restricting production rather than adapting price levels. Since the Soil Bank programme aimed primarily at a reduction of the
production, it would result in a decrease of the surplus stocks, which in itself was a good thing. But on the other hand it would still maintain the "protective umbrella" over world markets and, as a consequence, it still made necessary the isolation of the United States market as regards some agricultural products and therefore the need to have recourse to the provisions of the United States waiver. Apart from the protection given by the waiver other complementary measures, such as export subsidies, were required and were likely to be required in the future. Most of the products supported by United States agricultural policy could not be completely absorbed by the home market and, in his view, the Soil Bank alone would not bring production and home consumption into balance. Therefore part of the production had to find consumers abroad, and because of the high price levels in the United States this was by no means an easy operation. A wide range of export incentives had been instituted and many of them did not fully comply with the philosophy of GATT.

Baron Bentinck referred to United States restrictions on imports of cheese which were of special concern to the Netherlands. The United States report stated that these restrictions had to be continued. He would have considered that types of cheese which did not compete with the United States product, because of their prices, and because of the fact that United States production of these types of cheese is negligible, would have been imported free of restrictions. Yet imports of some of these types were restricted and he would seek some information about the criteria used in the selection of the types on which restrictions have to be maintained.

In conclusion, Baron Bentinck said that, in view of the impairment of concessions granted by the United States by the maintenance of import restrictions on dairy products, the Netherlands had been authorized by the Contracting Parties in each of the last four years to limit their annual imports of wheat flour from the United States to a maximum of 60,000 metric tons. He regretted to state that United States import restrictions on dairy products had remained substantially unchanged during the past years and he was instructed to request an extension for another year of the authorization
to apply a limit of 60,000 tons on imports of wheat flour from the United States.

The Contracting Parties decided to refer to a working party the examination of the United States report and the Netherlands' request as stated above.