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WORKING PARTY ON UNITED STATES IMPORT RESTRICTIONS ON AGRICULTURAL PRODUCTS

Responses by the United States to Written Questions from the European Economic Community

The United States authorities have supplied the following replies to the written questions from the EEC which were circulated to members of the Working Party as Spec(88)45 of 20 September 1988.

Question 1: In the section headed "Steps being taken to balance agricultural supply with demand" it is stated with regard to dairy products that "... the Food Security Act of 1985 provided for reductions in milk support prices."

Q: Does this mean that the drop in "milk support prices" is in itself a significant element in the efforts made to adjust the supply of dairy products?

- A: Yes, the support price reductions authorized by the Food Security Act of 1985 would have gradually balanced the supply and demand for dairy products in the United States without the additional authorities provided. The authorized reductions which could have accumulated to $2.00 per hundredweight of milk were in addition to the $1.50 reduction in the support price which occurred in 1983-85.

  The additional elements of the 1985 Act - assessments on dairy farmers and the Dairy Termination Programme - supplemented the price support cuts and brought supply into alignment with demand more quickly than price cuts alone.

  In response to lower milk support prices, market prices for dairy products have risen at a slower rate than the prices of other foods and all consumer goods; and consumers have responded by increasing purchases by more than 11 per cent since 1983. Some of this increase in consumption must also be attributed to a national advertising and promotion programme funded and operated by United States dairy farmers.

Q: Should not the trend in the feed grain support price also be taken into account? Is it not the combined movement of these two parameters which influenced milk supply?

- A: The cost of feed is a significant cost in the production of milk. The trend in feed support prices, however, must be considered along with the other factors that impact on the domestic market price of feed because this is the price faced by dairy farmers. As an example, this past summer the United States Congress, recognizing that the drought would raise feed prices, agreed to raise the support price for milk by $0.50 per hundredweight for three months (April-June 1989) to help dairy farmers cope with possible higher feed prices.

Q: What has been the trend of the milk/feed price ratio?

- A: First, it must be noted that comparing published feed prices with milk prices is not a valid comparison unless milk prices are adjusted to reflect mandatory assessments on dairy farmers as authorized by several agriculture and budgetary laws. These assessments vary, and totalled as much as $1.00 per hundredweight since first authorized in 1982. As a result, the "effective" milk/feed price ratio which actually influenced dairy farmer decisions was not as favourable to dairy farmers as published.

  Market prices of feed grains fed to dairy cows dropped steadily from 1984 through the third quarter of 1987 reflecting in part changes in the support levels for feed grains. Although the milk price support level also was declining during this period, there were periods when market conditions raised milk prices significantly over the support level. For example, as the Milk Diversion Programme (January 1984-March 1985) reduced market supplies of milk, competition actually increased milk prices nearly $0.75 while the support level was reduced $1.00. Similarly, the Dairy Termination Programme (April 1986-September 1987) also reduced supplies to the point where market demand took over and raised market prices for milk. Despite a $0.50 reduction in the support price and an assessment on producers that ranged up to $0.52 per hundredweight, the market actually increased the effective price to dairy farmers.

  To summarize then, although consideration is given to feed prices when establishing the dairy support price, the milk support price does not constrain market prices which can rise as a result of tightening supply and demand conditions.

Q: Is a rise in this [M/F] ratio in 1986/87 not evidence of the ineffectiveness of United States measures to control milk supply?

- A: On the contrary, if the government had employed more stringent economic measures than provided for in the 1985 Act, or if to meet some social objective a base-quota programme had been instituted, it is possible that our government's commitment to the American people to assure them an adequate supply of dairy products would not have been met in 1988.

By mid-1987, the full impact of the voluntary Dairy Termination Programme was being felt by the industry. Also, commercial use of milk and dairy products was expanding much more than analysts had projected. As a result, competition for farm milk by dairy processors hightened and farm milk prices rose. During the fourth quarter of 1987, manufacturing milk prices averaged $0.86 hundredweight (or nearly 8 per cent) above the support level. Government stocks were available at that time and kept milk prices from rising further.

So far in 1988, increases in demand have continued to out-pace increases in milk production and government purchases of products other than butter have virtually ceased. As market conditions have continued to tighten, milk prices have risen and the government has no stocks of cheese or non-fat dry milk to limit the rise.

Question 2: With regard to support measures for peanuts, a distinction is drawn between quota peanuts, which receive full support, and non-quota peanuts. If such a distinction is made on the domestic market, what is the justification for the fact that both types of peanuts are shielded from imports by the waiver?

- A: Quota and additional (non-quota) peanuts are supported at substantially different levels. For the 1988-crop, quota peanuts are supported at $615.27 per ton and additional (non-quota) peanuts are supported at $149.75 per ton. The legislation intends for quota peanuts to move into the domestic edible market and additional peanuts to move into the export and crushing markets. However, the legislation also provides for the purchase of additional peanuts from loan for domestic edible use at no less than the quota support level, plus cost. Therefore, all peanuts moving into the United States domestic edible market must be purchased at a minimum of the higher quota support level. The Section 22 peanut import quota limits the amount of lower-priced foreign peanuts moving into the United States domestic edible market.

Question 3: The Statement "The new legislation also contains a number of provisions designed to make United States cotton available to world markets at competitive prices" at the bottom of page 2 appears to be a reference to "marketing loans".

Q: Is the increase of United States exports the primary method of adjusting supply and demand for cotton?

- A: No. Several provisions contained in The Food Security Act of 1985 (the 1985 Act), which amended the Agricultural Act of 1949 (the 1949 Act), can be utilized to more closely balance the United States upland cotton supply with demand.

The 1949 Act provides that if the Secretary of Agriculture determines that the total supply of upland cotton, in the absence of an acreage reduction programme (ARP) will be excessive, taking into account the need for an adequate carry over to maintain reasonable and stable supplies and prices and to meet a national emergency, the Secretary may

provide for an upland cotton ARP. The maximum ARP requirement allowed under the 1949 Act is 25 per cent which was the level in effect for both the 1986 and 1987 crops of upland cotton. In addition, the 1949 Act provides that the Secretary may make land diversion payments to producers of upland cotton if the Secretary determines that such land diversion payments are necessary to assist in adjusting the total national acreage of upland cotton to desirable goals. Finally, the long-term conservation reserve programme (CRP) authorized by the 1985 Act was designed to remove from production for ten years highly erodible land that might otherwise be planted to programme crops such as upland cotton. Thus far, over 1 million acres of upland cotton base have entered the CRP.

Q: Do the cotton market loan provisions apply only to production for export? If products intended for the United States market can also benefit from them, what have been the consequences for cotton price trends in the United States?

- A: No. The marketing loan provisions apply to United States cotton sold for both domestic use and export. In 1985, before enactment of the 1985 Act, United States domestic mill use of upland cotton totalled 6.3 million bales. In contrast, domestic mill use during marketing years 1986 and 1987 totalled nearly 7.4 and 7.6 million bales, respectively. Domestic cotton prices have generally reflected trends in the world cotton price.

Question 4: The table on page 4 gives data on CCC stocks, in particular for milk and sugar.

Q: What has become of the amounts stocked in the past, in 1983 or 1984?

Q: Could the United States provide a breakdown of CCC uses of these stocks?

- A: The United States acquired government owned sugar stocks only in 1985. These stocks, which totalled approximately 430,000 tons, were sold for ethanol production (120,000 tons raw cane), to the Peoples Republic of China (180,000 tons raw cane), and for unrestricted use (130,000 tons refined beet).

  The Attachment to this document contains tables which provide the answer to the EC's question for dairy products:

Question 5: It is stated (fifth paragraph) that "The 1985 Act continues the annual $50,000 limit on total combined deficiency and diversion payments". According to a variety of sources, cotton planters receive sums well in excess of this $50,000 limit. Is this true, and if so, what are the reasons?

- A: The Food Security Act of 1985, as amended, provides that the total amount of deficiency and diversion payments that a person shall be entitled to receive under one or more of the annual programmes for wheat, feed grains, upland cotton, extra long stable cotton and rice is limited to $50,000. In addition, the total of the following payments,

combined with the total deficiency and diversion payments is limited annually to $250,000 per person: (1) disaster payments; (2) any gain realized by repaying a loan at a lower level than the original loan level; (3) any deficiency payment for wheat or feed grains attributable to a reduction in the statutory loan level; (4) any loan deficiency payment; (5) any inventory reduction payment; and (6) any payment representing compensation for resource adjustment (other than diversion payments) or public access for recreation.

The term "person" is defined by statute and by regulation. New regulations effective on 1 August 1988, are used to determine whether certain individuals or legal entities are to be treated as one person or as separate persons for the purpose of applying the payment limitation provisions. Under the new regulations an individual may not receive a payment under a programme either directly or indirectly from more than three permitted entities. Thus, under the existing regulations and statutes, a cotton producer may indirectly receive benefits in excess of $50,000, but not more than $100,000 over the per person limitation, if that producer is involved in more than one legal entity.

Question 6: Could the United States provide information on the effects of the subsidies authorized by the Bureau of Reclamation, in particular as regards changes in the area planted to cotton?

- A: Subsidized water, provided by the Bureau of Reclamation (BOR) has had little impact on the area on which cotton is grown in recent years. The effects were greater when the projects were first completed, most recently in central California in the mid-1970s. In recent years, commodity policies, such as the PIK programme of 1983 and ARP requirements of the 1949 Act, have had a much more significant impact on cotton acreage. The water subsidies consist of the difference between the cost of providing water (primarily capital costs of building dams, reservoirs, canals and pipelines) and the payments made by farmers for use of that water.

  Less than 10 per cent of United States cotton acreage, accounting for about 16 per cent of United States cotton production, benefits from BOR water subsidies. This acreage has actually decreased since 1979 from 1.1 million acres to 724,000 acres in 1986, the most recent year for which data are available. Production on this acreage has also declined from 2.2 million bales in 1979 to 1.6 million in 1986.

Question 7: Page 8: with regard to peanuts the United States document does not disguise the fact that limits on production were eliminated in 1985 ("acreage allotments were suspended").

Q: What measures are now actually applied for the limitation of production of peanuts in the United States.

- A: US peanut production is not limited; however, marketing of peanuts for domestic edible use is limited by the national poundage quota and the quota price support level. The Agricultural Adjustment Act of 1938

requires that the national poundage quota be set for each marketing year at the estimated domestic edible, seed and related use. Additional peanuts may be grown for crushing or export, or placed under a loan, but the support level for such peanuts is significantly lower than that for poundage quota peanuts. No limits are placed on production of additional peanuts, but the lower support level tends to discourage excess production.

Q: In the absence of effective production limitation measures, what is the justification for maintaining quantitative import restrictions?

- A: Under the Section 22 statute, import restrictions must be kept in place if their removal would result in material interference in the operation of the support programme involved. Reducing or eliminating the quantitative import restrictions on peanuts could displace United States quota peanuts in the domestic edible market, and the Commodity Credit Corporation could lose as much as $500 for each short ton of quota peanuts pledged as collateral for a price support loan.

Question 8: On page 13 the United States notes that milk production has increased.

Q: How does the United States justify this increase?

- A: Given the tight supply and demand conditions in the United States in 1988, it is fortunate that a moderate policy was selected to correct the supply-demand imbalance. Had resources been drawn out of milk production more rapidly in 1986 and 1987, United States consumers would be paying much higher prices now in 1988. If consumer demand and price levels call for additional supplies, milk production must be allowed to expand.

Q: Is is not due to the "voluntary" nature of the supply reduction measures introduced?

- A: No. Not all offers to participate in the Dairy Termination Programme (DTP) were accepted. Additional resources could have been removed under that programme if desired. It now appears that the production resources removed by way of DTP and those that left dairying in response to the lower support price was just about right considering the continuing increases we have seen in commercial consumption.

  There are indications that the resources that left dairying during the past two years were less efficient, leaving us with a very efficient and healthy dairy production industry. Such efficiency could not have been achieved with an involuntary programme.

Q: In these circumstances, is it possible to speak of effective production limitation measures for milk in the United States?

- A: Yes, in terms of the balance of supply and demand in the United States market, our measures have been very effective. It must be

remembered that the United States, unlike the EC, does not have substantial surplus dairy production. Thus an increase in United States production, on the scale cited in our report, does not necessarily result in an increase in stocks or exports as it would in the EC.

Question 9: It is recalled that the United States is not self-sufficient in sugar.

Q: What has been the trend in the rate of self-sufficiency for sugar?

- A: The United States has become more self-sufficient. Currently the United States produces 87.5 per cent of its sugar requirements and 95 per cent of its sweetener requirements.

Q: What are the measures taken to adjust sugar supply and demand and do these measures also concern sweetening products which compete directly with sugar?

- A: There are no measures in place to adjust domestic supply or demand for sugar or other sweeteners in the United States, other than the maintenance of the existing support prices. Such measures have not been considered necessary, since there are no surplus stocks of sugar in the United States.

Question 10: With regard to sugar-containing articles, could the United States specify how the quotas - introduced in 1985 for some products - have been managed. In particular, at what times have the import quotas of interested countries been exhausted?

- A: The quotas for certain sugar containing products, in particular TSUS items 156.45 (3,000 short tons), 183.01 (7,000 short tons), and 183.05 (84,000 short tons), were established by presidential proclamation to maintain the integrity of the domestic price support operations by bringing under control imports of certain dry mixtures. These quotas were established on a fiscal year basis and are filled early in the quota period.