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1

Results for U.S. Agriculture

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UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

A Report Prepared at the Request of the

SUBCOMMITTEE ON INTERNATIONAL TRADE
ABRAHAM RIBICOFF, *Chairman*

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WASHINGTON, D.C. 20540

April 17, 1979

Honorable Abraham Ribicoff, Chairman
Subcommittee on Internal Trade
Committee on Finance
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to forward to you the report entitled "Multilateral Trade Negotiations: Results for U.S. Agriculture," which was prepared under the direction of Harvey R. Sherman, of the CRS staff. It responds to your request of July 20, 1978, relating to your concern for the implications of the MTN agreements for U.S. agricultural trade.

Agricultural trade, which has more than doubled in the past quarter-century, and which accounts for about a quarter of U.S. farm cash receipts, is a vital component in the nation's foreign trade picture. More important, agriculture's net contribution to our balance of payments is running at approximately $10 to $12 billion annually, and has been consistently positive since 1960. This record has been maintained in spite of a wide variety of trade barriers in overseas markets which have been erected to achieve domestic policy objectives, particularly in two important U.S. markets, the European Economic Community and in Japan. These barriers were important objectives of U.S. negotiators at the recently-concluded trade negotiations.

The enclosed report discusses the results of the long and difficult negotiations vis-a-vis agreements reached on several trade problems, as well as concessions received and granted for twelve commodity groups important among U.S. agricultural exports. It summarizes agricultural trade gains for the U.S. as a result of the negotiations, and details agricultural policies in the two most important U.S. export markets, the European Community and Japan.

We hope this report will contribute to your subcommittee's deliberations on the trade negotiations, and that we may be of further assistance to you in the future.

Sincerely,

Gilbert Gude
Director

MULTILATERAL TRADE NEGOTIATIONS:
RESULTS FOR U.S. AGRICULTURE

A Report Prepared For

The Congressional Research Service

By

Schnittker Associates

Washington, D.C.

April, 1979

INTRODUCTION

This report assesses the impact of the current round of Multilateral Trade Negotiations (MTN) on the agricultural trade of the U.S. The report was prepared for the Congressional Research Service of the Library of Congress.

The purpose of of this report was to evaluate the effects on U.S. agricultural trade of concessions received or granted in the MTN for the following commodities: almonds; beef; canned peaches and fruit cocktail; citrus fruits; dairy products; lumber (Japan); poultry; rice; oilseeds and products; tobacco; vegetable protein concentrates and isolates; and wine.

Three commodity agreements -- wheat, beef and dairy -- are also examined. Finally, the implications of three agreements on codes dealing with subsidies, safeguards, and standards are discussed.

Agricultural trade policies are usually an integral part of domestic agricultural policies. One chapter of this report is devoted to a description of domestic agricultural policies in Japan and the European Community (EC), the two major trading partners from whom agricultural trade concessions were sought. The descriptions of these agricultural policies provide a policy background against which to evaluate agricultural trade gains.

The gains or losses in trade due to commodity concessions received or given by the U.S. are measured in terms of the annual net increase in trade by 1987, the end of the transition period for application of the trade barrier reductions. Net annual trade gains or losses were analyzed instead of the value of trade covered by concessions because it was felt

that this is a more accurate measure of the effect on trade. Using value of trade on which concessions are received or given distorts actual trade gains. A very small concession on a commodity whose value of exports is large in the base period overestimates potential trade gains. Conversely, a large trade barrier reduction on a commodity whose value of exports in the base period was relatively small could severely understate the potential trade gain.

Most of the information and data describing the MTN requests, offers, and concessions were obtained from unpublished material from the trade negotiations themselves. This study is based on information and data derived from the MTN as of March 15, 1979. Results of negotiations subsequent to that data are not reflected in this analysis.

Chapter 1 provides a discussion of agriculture in previous MTN's, the historical difficulty of negotiating agricultural trade concessions, and the U.S. objectives for agriculture in the current MTN. The second chapter summarizes the results of the MTN in terms of concessions received and granted by the U.S., the value of these concessions by commodity group and country, and other aspects of the negotiations such as commodity agreements and codes of behavior in international trade. The first two chapters are designed to give the reader a comprehensive view of the agricultural portion of the MTN's covered in this report. Greater detail on the history of commodity trade in the products covered, the calculations of trade gains, commodity agreements, and codes is presented in the subsequent chapters.

The report is organized into the following chapters (with page numbers):

1. AGRICULTURE AND TRADE NEGOTIATIONS

A. Introduction

The difficulty of reducing barriers to agricultural trade has been reemphasized with each successive round of Multilateral Trade Negotiations (MTN) since World War II. Major participants in the MTN have argued that agriculture presents special problems that cannot be solved within the framework of the General Agreement on Tariffs and Trade (GATT) because trade barriers on major agricultural products are often linked directly to domestic agricultural policies. Any change in the form or level of trade protection may be tantamount to a change in domestic agricultural policy. Such domestic policies reflect complex economic, social, and political forces in each country; and most countries feel that these are sovereign matters to be determined in national legislatures and not in international trade negotiations.

In actuality, most agriculture trade barriers take the form of quotas, variable levies, and special commodity agreements designed to achieve domestic policy objectives. GATT has had little success in dealing with such nontariff barriers (NTB's). Furthermore, because most major agricultural trading countries are almost exclusively either exporters or importers of major temperate zone commodities, it becomes very difficult to reach agreements on "balanced" reductions in trade barriers within the agricultural sector.

The situation in industry has been simpler. Most industrial trade barriers are tariffs that are not generally linked to complicated domes-

tic policies and programs. It has been relatively easy to deal with tariffs in the MTN because most nations are both importers and exporters of industrial products they have accepted linear tariff cutting rules (e.g. 50 percent reduction in tariffs) within the framework of GATT, and it has been possible to balance concessions and benefits from country to country.

Progress has been made in reducing tariffs on agricultural products, but this form of protection represents only a minor aspect of agricultural trade barriers. Nontariff measures are the dominant form of protectionism, they have grown in importance, and they have proved difficult to negotiate. As pointed out by the Williams Commission: 1/

> In no sector of the economy are domestic and international policies more closely related than in agriculture. Their interdependence is almost always a consequence of government policies, especially in many industrial countries which seek to improve farm income primarily by means of price supports. These support prices are in many cases determined with too little regard to market conditions or to changes in agriculture itself: rapid technological progress, increases in labor porductivity, reductions in the number of farms, and increases in the number and importance of larger, highly mechanized farms.
>
> High price supports have stimulated major expansions of uneconomic production in many countries. To find outlets for this expanded production, these countries have increasingly curtailed foreign access to their home markets, and have disposed of surpluses by means of export subsidization.
>
> Particularly adverse have been the trade effects of the Common Agricultural Policy developed by the European Community during the 1960's. The high prices fixed under this policy--supported primarily by means of variable import levies--have prevented effective price competition and forced third countries into the position of residual suppliers. Further-

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1/ United States International Economic Policy in an Interdependent World, Report to the President submitted by the Commission on International Trade and Investment Policy, July 1971, p. 141. For an extensive discussion of agricultural trade barriers, their trade effects, and costs, see D. Gale Johnson, World Agriculture in Disarray, (London: Fontana/Collins, 1973).

more, the Community has used export subsidies agressively to dispose of surpluses produced under the stimulus of its high support prices."

The U.S. has been very concerned about growing agricultural protectionism and has resolved to include the agricultural sector in all trade negotiations. This resolve was strengthened following the formation of the Common Agricultural Policy (CAP) of the European Community (EC) and the enlargement of the EC from six to nine countries.

B. Previous MTN Rounds

The Dillon Round

The Dillon Round of trade negotiations, concluded in 1962, represented a turning point with respect to agricultural trade negotiations. The EC began to formulate its CAP during the course of the Dillon Round. While there was little specific information about the CAP at that time, it was clear that it would inevitably raise the level of protection for some members of the EC. Furthermore, the U.S. and others were concerned that the level of protection eventually afforded by the CAP would be higher than the average that then existed in the EC. (This did turn out to be the case.) Because the EC was in the early stages of formulating its CAP, it was unable to negotiate a broad range of agricultural trade issues. As a consequence, there were relatively small gains in agricultural trade liberalization, and almost all of them dealt with tariffs.

There were two parts to the agricultural component of the Dillon Round. The first phase dealt with the EC's replacement of national member-country tariff schedules with a new common external tariff, under GATT Article XXIV:6. Whenever a customs union like the EC is formed, Article XXIV:6 requires that increases in certain tariff rates must be offset by compensatory decreases in other rates so that the new duties are not higher than the general incidence of the individual country duties prior to the formation of the union. At the conclusion of this negotiation, the EC granted concessions to the U.S. on over $500 million worth of trade, but left unresolved U.S. negotiating rights [1/] under the GATT for exports of corn, sorghum, ordinary wheat, rice and poultry (with a total value of $159 million in 1958) to the EC. These rights were set forth in the so-called "standstill agreement," which was made because the U.S. deferred decisions on what to do about the not-yet-developed CAP of the EC, intending to negotiate these rights later.

The second phase (or reciprocal round) of the negotiations involved tariff reductions whereby the U.S. obtained trade concessions on $160 million worth of U.S. agricultural exports and granted concessions on $142 million of agricultural imports, based on 1960 trade levels. [2/]

[1/] Specified as those held by the U.S. as of September 1, 1960, in the Joint Declaration by the U.S. and EC signed March 7, 1972. These "rights" were claims the U.S. made for market access to the EC for these commodities.

[2/] GATT Tariff Conference and American Agriculture, Summary of the results of the tariff negotiations recently concluded by the United States in Geneva with other contracting parties to the GATT, Foreign Agricultural Service, USDA, updated, pp. 1-3.

The results of the Dillon Round were not clear because the formulation of the CAP and its accompanying import systems had not been completed. Therefore, it was difficult to estimate what the U.S. received from the EC at the end of the Dillon Round. This left U.S. agriculture curious, uneasy, and concerned.

The Kennedy Round

The generally disappointing results of the Dillon Round and concern that the CAP would further increase agricultural protection in the EC strengthened the U.S. resolve to include agriculture in the Kennedy Round of negotiations. Christian Herter, chief U.S. negotiator, stated that "my Government will not be prepared to conclude negotiations until equitable tariff and trade arrangements have been developed for agricultural products." 1/ The other agricultural ministers involved in the negotiations also stressed the importance of agriculture and adopted the following resolution as part of the Kennedy Round Charter:

> That, in view of the importance of agriculture in world trade, the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products. 2/

1/ Press Release, U.S. Office of Special Representative for Trade Negotiations, May 17, 1963.

2/ Quoted in Agricultural Trade and the Proposed Round of Multilateral Trade Negotiations, Report prepared at the request of Peter Flanigan, Assistant to the President for International Economic Affairs for the Council on International Economic Policy, Committee on Agriculture and Forestry, U.S. Senate, Washington, D.C., 1973, p. 1.

The Kennedy Round of negotiations began in 1963 and ended in 1967; during this time the United States continuously insisted that concessions on agriculture had to be an integral part of a successful trade negotiation. As the structure of the CAP emerged, it became increasingly clear that it would insulate the EC market from outside suppliers. The EC's policy achieved a harmonization of agricultural prices among the member countries. This inevitably meant that surplus producing countries within the EC (such as France) would receive large price increases, their production would be stimulated, and the EC would become progressively more self-sufficient in major products like grains, meats and dairy products. The U.S. viewed the Kennedy Round as a vehicle for moderating the growth of agricultural trade barriers in the EC and for maintaining an export market for key U.S. agricultural products. 1/

While agreeing that agriculture should be included in the trade talks, the EC argued that its Common Agricultural Policy (CAP) was in the process of being formulated and, therefore, could not be negotiated. Furthermore, the evolving CAP was the only major common policy of the EC. It was the "glue" that held the EC together. Members of the EC viewed attempts to negotiate agricultural policy as a threat to the EC itself.

1/ Ernest H. Praeg, Traders and Diplomats (Washington, D.C.: The Brookings Institution, 1970), pp. 144-146.

The results of the Kennedy Round were very disappointing for the agricultural sector, falling far short of what the U.S. had expected and of the large gains made in industrial trade liberalization.[1/] This led one U.S. government official to comment that for agriculture, it was the wrong negotiation at the wrong time.[2/] Most of the gains in agriculture were in tariff cuts, but tariffs represented only a small part of agricultural protectionism.

The U.S. received tariff concessions on $866 million worth of agricultural trade and gave concessions on agricultural items whose trade was valued at $860 million (including nearly $260 million in tropical products). The agricultural trade involved in tariff cuts represented about 10 percent of U.S. total industrial and agricultural trade. Of the tariff concessions received by the U.S., 80 percent were reductions and the rest consisted of binding existing duty rates, most duty free. About two-thirds of the concessions granted by the U.S. were tariff cuts and the rest were duty bindings, whereby the U.S. promised not raise the established duty during the agreement period.

1/ For more detailed discussions of the results, see Report on the Agricultural Trade Negotiations of the Kennedy Round, FAS-M-193, Foreign Agricultural Service, U.S. Department of Agriculture, September 1967 and Agricultural Trade and the Proposed Round of Multilateral Negotiations, Report prepared at the Request of Peter Flanigan, Assistant to the President for International Economic Affairs for the Council on International Economic Policy, Printed for the use of the Committee on Agriculture and Forestry, U.S. Senate, April 30, 1973.

2/ Irwin Hedges, "Kennedy Round Agricultural Negotiations and the World Grains Agreement," Journal of Farm Economics, vol. 49, no. 4, December 1967, p. 1335.

During the Kennedy Round of negotiations, a Grains (Wheat) Agreement was signed establishing a minimum price for U.S. No. 2 Hard Red Winter Wheat, f.o.b., Gulf Ports, at $1.73 per bushel, with comparable prices at other export points. The Agreement also provided that participating countries would contribute 4-1/2 million tons of cereals for a multilateral food aid program, with 2 million tons of this total to be suppled by the U.S. Supply-demand forces quickly made the pricing provision of the Grains Agreement obsolete, and a new International Wheat Agreement without pricing provisions was negotiated in 1970.

Attempts also were made to negotiate international arrangements for meats and dairy products that would lead to trade liberalization. These efforts were unsuccessful, and attention shifted to the development of bi-lateral arrangements between principal exporting and importing countries.

C. Further Problems for Agricultural Trade

U.S. concern over increasing agricultural protection throughout the world continued even after the Kennedy Round ended. During the 1960's and early 1970's, the United States moved away from price supports as the primary mechanism for supporting farm increase to a system of direct income payments for wheat, feed grains, rice and cotton. This permitted a lower level of price support that was geared to world market prices. Of the major agricultural commodities, only dairy products and sugar are still supported well above world price levels.

But during the same period, other leading agricultural trading countries pursued high price support policies for their major agricultural products,

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and the E.C. even increased its levels of protection. These trends ran counter to U.S. efforts to encourage freer competition in world markets.

By 1971, an overvalued dollar resulted in a U.S. balance of payments deficit, but other countries refused to reduce import restrictions or revalue currencies to help with the problem. As a consequence, the U.S. unilaterally suspended gold convertibility and placed a 10 percent surcharge on imports in August. On December 18, 1971, the Smithsonian Agreement was signed. The U.S. agreed to an 8.5 percent devaluation of the dollar in exchange for a package of short-term concessions from the EC, Japan, and Canada and a commitment to consider more basic issures in 1972 and later.

Agreement was reached on the short-term trade concessions in February 1972. The EC promised to add 1.5 mil. tons of wheat to its stocks in 1971-72, not use export subsidies to undercut U.S. grain exports in 1972, reduce duties on oranges in the summer months for two years, reduce grapefruit duties for one year, and discuss EC tobacco taxes. The U.S. agreed to add 10 percent of its grain production to stocks in 1971-72 and to withdraw 24 million acres from grain production in 1972. Japan gave some short-term concessions. At the same time, the EC and Japan agreed to support comprehensive Multilateral Trade Negotiations covering both industrial and agricultural products beginning in 1973.

Expansion of the EC

The treaty of accession of the U.K., Ireland, Denmark, and Norway to the EC was signed in January, 1972. Norway, in a subsequent referendum, failed to ratify the treaty.

U.S. concern about growing agricultural protectionism in the EC was increased further by the expansion of the EC to nine members. This meant that the high levels of protection afforded many basic agricultural commodities would be applied to a much larger agricultural base. Furthermore, the EC had now insulated an additional portion of the European market from open market forces. This was especially significant in the case of the U.K.--one of the world's most important open agricultural markets.

The expansion of the EC necessitated a GATT Article XXIV:6 negotiation to deal with new E.C. members who needed to increase their duties on agricultural items. In the spring of 1973, the U.S. pressed the EC for concessions on a total of 496 items, including 125 agricultural items other than grains, and proposed talks on grains to include the standstill rights left over from the Dillon Round. The EC agreed to talk about standstill rights, but insisted they were separate from the Article XXIV:6 negotiation.

The EC held that no compensation would be made for increases in British, Irish, and Danish duties on agricultural items, previously bound to the U.S., because the U.S. was adequately compensated by decreases in industrial duties when these three countries joined the EC. In January 1974, the U.S. settled the Article XXIV:6 negotiations with small concessions on oranges and tobacco from the EC.

In the standstill talks, the U.S. agreed not to pursue its grain rights (market access claims) any longer and to wait and see what could be done in the MTN.

D. Tokyo Round of Negotiations

During 1972, the GATT committees on Industrial and Agricultural Trade set up programs to help member countries prepare for the next round of the MTN,

and the U.S. and EC began preparing their basic positions. The EC continued to hold that its Common Agricultural Policy was not negotiable; it also expressed the view that agriculture is a special problem and general trading rules for other products are not applicable to agriculture. The U.S., on the other hand, wanted to extend the general GATT trading rules to agriculture in order to free up world agricultural trade.[1/]

One hundred and five countries joined the "Toyko Declaration" in September 1973, launching the MTN. The declaration finessed the U.S.-EC dispute over separation of agriculture and industry by proclaiming that the negotiations "shall cover tariffs, NTB's, and other measurers -- in both agricultural and industrial products," that "the negotiations shall be considered as one undertaking, the various elements of which shall go forward together," and that "the approach to agriculture negotiations should take account of the special characteristics and problems in this sector." [2/]

The dispute between the U.S. and the EC continued in the matter of organizing the trade negotiations on agricultural matters. The EC's position was that agriculture is a special case, that rules governing trade negotiations on industrial commodities should not apply to agricultural commodities, and that all agricultural negotiations should be handled within one Agricultural Group set up to handle agricultural problems.

The U.S. position was just the reverse -- that tariff and non-tariff negotiations should be handled in the Tariff and the Non-Tariff Measures

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1/ Subsequently, the Trade Act of 1974 required that agriculture be negotiated in conjunction with the industrial sector. While the President was given authority to negotiate substantial tariff reductions, the Act required Congressional approval of changes in NTB's and of implementing legislation.

2/ As quoted in John Hudson, "Agriculture and the MTN in Perspective," unpublished paper, April 13, 1977.

Groups. The U.S. contended that trade issues are essentially the same, whether they apply to an agricultural commodity or to an industrial product.

Although inaugurated in September 1973, little progress was made on the Toyko Round until 1977. In July of 1977, Ambassador Strauss agreed to drop the U.S. insistence that agriculture be negotiated along with industry on the condition that there would be a "substantial result for agriculture" in the MTN.

The basic issues in the current round of the MTN are not much different from those in the Kennedy Round. High agricultural price supports within the EC have lead to gains in agricultural self-sufficiency and surpluses in some commodities, as the U.S. had feared they would. Japan's restrictive agricultural policies also have become an issue in the MTN's, particularly as they relate to Japan's continued large surplus balance of trade with the United States.

The EC and Japan have shown no more interest in agricultural trade liberalization recently than they have in the past. The EC continues to argue that its CAP is not negotiable. Japan is reluctant to expose its producers, especially in the areas of beef and citrus, to increased competiton from imports. Nevertheless, some progress has been made, and this is discussed in the following chapters.

Chapters 3 through 14 analyze concessions received and given by the U.S. on some of the agricultural commodities covered in the MTN.

Efforts were also made to negotiate three commodity agreements as part of the Toyko Round. Agreements were reached for beef and dairy products, but negotiations on a new wheat agreement were not successful. These negotiations are described in Chapters 15, 16, and 17.

Finally, the Toyko Round also included negotiations to establish codes

of behavior with respect to the use of nontariff barriers. The codes are designed to enlarge upon, clarify, and interpret various GATT principles relating to international trading practices. Many of the GATT principles have been shaded, or even ignored, in recent years; and the codes represent an attempt to revitalize these principles.

Codes on subsidies and countervailing duties, safeguards, and standards relate to agricultural trade, but the codes on government procurement and customs valuations do not pertain directly to agriculture.

Each of these codes provides a mechanism for dispute settlement, requiring consultation and a panel of experts to resolve issues if this is not done through direct consultation by the affected countries. Emphasis is placed on rapid action, and time periods for settlement are specified. Most of the codes provide for special and differential treatment of developing countries. Chapter 18 provides a discussion of the results of negotiations on codes.

2. AGRICULTURAL TRADE GAINS IN THE MTN: A SUMMARY OF RESULTS

The agricultural component of the MTN is discussed in four parts: the trade concessions made to the U.S. by other countries; concessions made by the U.S. to other countries; the results of the negotiations with respect to three commodity agreements (wheat, beef, and dairy); and codes dealing with subsidies, safeguards, and standards.

A. Trade Concessions Received by the U.S.

The U.S. sought tariff and nontariff barrier trade concessions on 10 of the commodity groups covered in this study: almonds; beef; canned peaches and fruit cocktail; citrus; poultry; rice; soybeans and products; tobacco; vegetable protein concentrates and isolates; and wine. In 1976, total U.S. exports of these products were valued at $6,939 million, and the value of exports to countries from whom trade concessions were sought was $1,947 million. Total exports of these products in 1976 represented 30.2 percent of total U.S. agricultural exports of $22,996 million. Exports to countries from whom concessions were sought represented 8.5 percent of total agricultural exports (Table 2-I).

The annual increase in trade resulting from the concessions received from other countries is estimated to be worth $407.9 million by 1987, the end of the transition period for the MTN. These concessions represent an increase of 20.9 percent over exports of $1,947 million to the countries involved in 1976. Detailed discussions for each commodity are provided in Chapters 3 to 14.

Table 2-I

Agricultural Trade Gains in the MTN, by Commodity

U.S. Exports for Which Concessions were Sought	Export Value, 1976		Annual Increase in Trade By 1987 Due to Concessions	
	Total	On Which Concessions Sought	Value	Percent
	million dollars			
Almonds	109.1	85.8	4.8	1.2
Beef	211.5	137.1	190.3	46.7
Canned Peaches and Fruit Cocktail	47.6	17.8	2.5	0.6
Citrus	357.0	195.8	43.2	10.6
Poultry	181.0	84.0	28.3	6.9
Rice	628.7	78.5	3.2	0.7
Soybeans & Products	4,419.0	872.4	55.8	13.7
Tobacco	940.4	454.8	78.6	19.3
Vegetable Protein Concentrates and Isolates1/	39.3	17.1	1.4	0.3
Wine	5.7	3.8	-	-
Total	6,939.3	1,947.1	408.1	100.0
Total U.S. Agricultural Exports	22,996			

1/ 1978 export value

The trade gains are unevenly distributed among the 10 commodity groups. Farm commodities account for 90.3 percent of the total trade gain: beef, 46.7 percent; tobacco, 19.3 percent; soybeans and products, 13.7 percent; and citrus, 10.6 percent. Trade gains in relation to the 1976 value of trade with countries from whom concessions were sought are estimated to be over 10 percent for several products: beef, 139 percent; poultry, 34 percent; citrus, 22 percent; and canned peaches and fruit cocktail, 14 percent.

The U.S. sought trade concessions on wine in 7 countries whose imports from the U.S. amounted to $3.8 million. No concessions were granted.

The estimated trade gains are primarily the result of concessions obtained from a few countries or regions and on a few commodiites, as shown in Table 2-II.

Japan and the EC together account for almost four-fifths of the estimated trade gain, with their respective shares being 40.8 and 39.1 percent. In the case of Japan, the major trade concesions were for beef and citrus, accounting for 68.5 and 24.5 percent, respectively, of the estimated total agricultural trade increase from that country. For the EC, three commodities account for 98 percent of the U.S. trade gain for that region: tobacco with 47 percent; beef, 38 percent; and poultry, 13 percent.

Mexico accounts for nearly 14 percent of the total trade gain from all countries, and almost all of Mexico's concessions came from liberalization of nontariff barriers on soybean meal.

Table 2-II also indicates that most of the trade gains come from concessions on nontariff barriers, rather than from duty cuts. As mentioned in the previous chapter, the Tokyo Round went much further than previous ones in dealing with the nontariff barriers which are the dominant form of trade protection for agricultural products.

Nearly 75 percent of the annual trade gains were achieved through liberalization of nontariff barriers, and only 25 percent were the result of tariff reductions. The nontariff barrier concessions are primarily increased beef quotas in Japan and the EC, together accounting for 61 percent of the total gains in trade covered by NTB's. Other items of significance in the

Table 2-II

Agricultural Trade Gains in the MTN by Country and Type of Trade Barrier

Commodity	Country				Trade Barrier	
	Japan	EC	Mexico	Other	Tariffs	Non-tariff Barriers
	million dollars					
Almonds	2.0	-	-	2.8	2.3	2.5
Beef	114.1	60.6	-	15.6	3.8	186.5
Canned Peaches & Fruit Cocktail	1.0	0.3	0.4	0.8	1.9	0.4
Citrus	40.9	-	-	2.3	7.1	36.1
Poultry	7.9	20.1	-	0.3	8.0	20.3
Rice	-	3.1	-	0.1	-	3.2
Soybeans & Products	0.1	-	55.0	0.7	0.8	55.0
Tobacco	-	75.0	-	3.6	76.9	1.7
Vegetable Protein Concentrates and Isolates	0.6	0.2	-	0.6	1.4	-
Wine	-	-	-	-	-	-
Total	166.6	159.3	55.4	26.8	102.2	305.7
Percent of Total Trade Gain (%)	40.8	39.1	13.6	6.5	25.1	74.9

NTB category are soybeans and products (meal in Mexico), citrus, and poultry. Of the tariff concessions, tobacco accounts for 75 percent, with almost all of it coming from the EC.

A number of countries agreed to bind current duty levels on some products. While these concessions are of some value, they do not in themselves lead to an increase in trade. Consequently, such concessions are not included in the estimates of trade gain. The more important duty bindings are soybeans in Japan (with a trade value in 1976 of $675 million) and in the Philippines and Taiwan (with a combined 1976 trade value of $151

million). Other duty bindings involving small amounts of trade include concentrated orange juice in Australia, fresh oranges and lemons in Indonesia, soybean meal in Austria and the Philippines, and soybean oil in the Philippines.

In addition to the commodities discussed above, the U.S. sought concessions from Japan on lumber and plywood dealing with standards and inspection (Chapter 8). Japan has accepted U.S. standards for lumber, but it has not yet agreed to halt inspection of milled lumber imports from the U.S.

On plywood, Japan has agreed to try to develop mutually acceptable performance standards by 1980. However, even if an agreement is reached by that date on plywood standards, execution of the agreement may be delayed if regulations under the Japanese Building Standard law must be changed.

The effect of these concessions on U.S. exports cannot be measured quantitatively at this time. Although the agreements reached with Japan will undoubtedly increase the flow of U.S. lumber and plywood exports to Japan, the Japanese preference for their traditional method of construction must be overcome before there can be a dramatic increase in exports of these products.

Concessions Not Received by the U.S.

There were some major U.S. requests on commodities to which no significant offers were made in the MTN.

The EC, the largest market for U.S. almonds, refused to reduce its 7 percent ad valorem duty on U.S. imports. The U.S. had requested a reduction so that Spain (when it joined the EC) would not have an undue competitive edge over the U.S. in the EC market.

The U.S. requested import duty reductions from the EC on fresh oranges, grapefruit and lemons, and orange and grapefruit juices. The EC offered only to reduce its import duty on fresh grapefruit from 4 to 3 percent ad valorem; this was not judged to be sufficient to encourage trade in citrus fruits.

Canada did not respond to the U.S. request for concessions on canned peaches and fruit cocktail. Receiving two-fifths of U.S. exported canned peaches and one-half of the fruit cocktail, Canada is the largest market for U.S. canned fruit exports.

Nineteen countries did not respond to U.S. requests for concessions on poultry imports. Of the eighteen countries or country groups granting concessions, only four made offers which will have more than negligible trade impacts.

The U.S. wine industry received no measurable benefits in the trade negotiations. Canada, a major market, refused to modify its NTB's; and Mexico and Caribbean countries also refused to make offers.

B. Trade Concessions Made by the U.S.

The U.S. was asked to make a number of trade concessions in agricultural products, and several were granted. The only one of significant trade value is for dairy products. The U.S. offer is on cheese and consists of three parts (see Chapter 7):

- The U.S. offered a cheese import quota of 124.7 thousand metric tons per year for the 1980-86 period;
- "Pricebreak" cheese, currently excluded from the U.S. import quota and being imported at a rapidly rising rate, would be included in the new quota offer; and

- Countervailing duties would not be applied to cheese exports by the EC and other supplying countries who use export subsidies, provided such cheese is not sold at prices below U.S. domestic prices.

In 1978, the U.S. imported 50 thousand metric tons of quota cheese and 42.8 thousand metric tons of "pricebreak" cheese. Pricebreak cheese is not now subject to quota, but it must sell in the U.S. at the Commodity Credit Corporation's purchase (support) price for Cheddar cheese, plus 7 cents a pound. The new quota, which would cover both quota and pricebreak cheeses, would be about 32 thousand metric tons (tmt) larger than the 92.8 tmt imported in 1978. Sheep and goat cheeses, whose imports are small and stable, would remain outside the quota.

The probable rationale behind the U.S. concession was to allow larger cheese imports in the near future in order to slow the growth of pricebreak cheese imports, which have risen from 9.8 to 42.8 thousand metric tons between 1968 and 1978 and are projected by USDA to continue to grow.

The U.S. offer also included the provision that the EC and other supplying countries would be permitted to resume export subsidies subject to a commitment not to undercut domestic cheese prices. No countervailing duty action would be taken by the U.S. authorities under these conditions. This concession is an explicit recognition by the U.S. of the EC system of export subsidies.

The cost of the U.S. MTN offer on cheese is calculated by comparing results of the trade offer with what would have prevailed under our current import system through 1986, the last year of the transition period for implementing trade concessions under the MTN. The costs during the 1980-86

period are as follows:

- The average annual increase in cheese imports would be 7.1 tmt, ranging from 15 tmt in the first two years of the period to no difference by 1986;
- The average annual U.S. farm price of milk would be 1.9¢/cwt lower, ranging from 6.4¢/cwt lower in 1980 to no price difference in 1986; and
- The income of dairy producers would be reduced annually by an average of $22.5 million ranging from $76.3 million lower in 1980 to no difference in 1986.

After 1986, the MTN offer would result in lower U.S. cheese imports than would occur if the present system were continued because the proposed quota would effectively limit the growth of imports of pricebreak cheeses.

The MTN offer on cheese leaves a number of points undefined. These include:

- The calculation of the U.S. domestic prices at which the EC and other countries using export subsidies must sell at in the U.S. to avoid countervailing duty action;
- The price at which imported "grinder" cheese -- low quality cheese processed in the U.S. -- will be allowed to sell in the U.S.; and
- The allocation of export licenses with respect to country of origin, especially in the case where a country not using export subsidies sells to the U.S. at a price lower than the EC required selling price.

Several countries requested duty concessions from the U.S. on agricultural commodities other than dairy products. Many of these requests were denied: a request on almonds from Tunisia; for canned and frozen peaches from Australia; for live turkeys from Canada; and for wine from Argentina, Romania and Turkey.

The U.S. granted tariff concessions on a number of other imported agricultural products, but these concessions would have no effect on trade either because duties are already very low or because, as in the case of beef, imports are subject to quotas. Such concessions and the countries requesting them include: beef, Australia, New Zealand and Mexico; offal, Canada; canned and pickled beef and veal, Argentina and Brazil; canned grapefruit segments, Israel, Jamaica, Tunisia, and Mexico; ugli fruit, Jamaica; coconut and palm oil, Philippines; and tobacco, Canada.

C. Commodity Agreements

Attempts were made to negotiate three commodity agreements for wheat, beef, and dairy. The negotiations were successful for beef and dairy, but unsuccessful for wheat.

The United States took the lead in proposing a new International Wheat Agreement (IWA). The main new feature was an international system of nationally-held wheat reserves totaling 25-30 mmt. These reserves would be subject to pricing rules with respect to stock acquisition and release, in order to provide a significant measure of world price stability. Agreement could not be reached on the key elements of the wheat reserve proposal -- acquisition and release prices, the size of the total reserve, the size of each nation's reserve, and financing the cost of reserves held in de-

veloping countries. The 1971 IWA has been extended to June 30, 1981, providing for consultations among signatories on world wheat trade issues and for at least 4.1 mmt of food aid annually to developing countries.1/

The Arrangement Regarding Bovine Meat merely provides a mechanism to enhance the flow of information among countries. It will have no effect on world meat trade. An International Meat Council will be established under the auspices of the GATT and will meet twice a year. Participating countries are expected to provide the Council with information necessary to monitor international meat trade, including reports on production, consumption, stocks, prices, and trade. The Council can determine if there is a serious imbalance in the international meat market and recommend solutions to affected governments; however, these governments are under no obligation to act on these recommendations. All decisions by the Council must have the unanimous consent of participating governments.

The International Dairy Arrangement is also designed to enhance cooperation and exchange of information among signatories, although it does contain economic provisions specifying minimum export prices for milk powder, milk fat and certain cheeses. These pricing provisions will not affect U.S. trade in these products since the minimum prices fall well below U.S. market and support prices. An International Dairy Council will administer the agreement. The Council can recommend actions to governments if world trade problems exist, but such recommendations are not binding and can be made only with unanimous consent of the signatories.

Under the Dairy Arrangement, Special Management Committees are to be established to administer provisions dealing with minimum prices. Member countries can ask the Management Committees to consider pricing disputes

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1/ The U.S. Senate must confirm this extension before it becomes effective for this country.

with non-member countries. If a meeting is not held within two days, the injured member country may take unilateral action to correct the problem, pending a meeting of the Management Committee.

D. Codes on Subsidies, Safeguards, and Standards

Codes have been negotiated dealing with subsidies and anti-dumping measures, safeguards, and standards. These codes recognize the importance of nontariff trade barriers (NTB's) and provide a framework for achieving greater discipline in their use. The codes also provide certain definite procedures for dealing with NTB disputes.

The code on subsidies and anti-dumping measures states that countries should not use export or domestic subsidies in a manner which displaces exports of other countries. The code allows the use of countervailing duties against subsidized exports if injury to a domestic industry can be demonstrated. Thus, although the code legitimizes the use of export subsidies, it is designed to prevent their excessive use. Procedures are provided under GATT for settling disputes. However, in the case of exporters, it may be difficult to prove trade injury in third country markets (see Chapter 18); and it may also be difficult to demonstrate injury to a domestic industry.

The code on safeguards permits countries to take temporary actions against imports when emergency relief to a domestic industry is required. This code is modeled after the safeguard features of the U.S. Trade Act. A country contemplating safeguard actions must first consult with the affected countries. If agreement cannot be reached, a country can temporarily withdraw tariff or other GATT concessions. The safeguard code does

not prevent a country from negotiating export restraints and passing legislation to implement them, such as the U.S. Meat Import Act of 1964.

The code on standards urges countries to adopt international standards to facilitate trade. If an exporting country feels an importing nation is employing unduly restrictive standards to limit trade, a public hearing can be held in the importing coutnry. If differences among countries cannot be settled through the hearing process, dispute settlement procedures are available under the GATT. The standards code will help resolve disputes on agricultural products dealing with overly restrictive standards on human health, safety, and plant and animal disease control measures.

E. Conclusions

The agricultural trade concessions received and given by the U.S. in the MTN can be viewed in several ways. In terms of total agricultural exports ($23 billion in base year 1976), the $408 million annual gain in U.S. exports resulting from the MTN is relatively small, only 2 percent. However, in terms of the value of trade in commodities on which concessions were sought (nearly $2 billion), the annual trade gain is 21 percent, a sizeable increase. And for some items, such as beef, the trade gains are very large in relation to the value of exports in the 1976 base year.

The trade gains are unevenly distributed among commodities and countries, with beef alone accounting for nearly 47 percent of the total gain. Three other commodities -- tobacco, soybeans and products, and citrus -- account for 44 percent of the total trade gain. With respect to

countries, Japan, the EC, and Mexico account for nearly 94 percent of the total agricultural concessions received by the U.S.

A significant aspect of the MTN is the progress made on reducing or eliminating nontariff barriers, which are the major barrier to trade in agricultural products. About 75 percent of the U.S. trade gains were achieved through liberalization of nontariff trade barriers. The codes on subsidies and anti-dumping measures, safeguards, and standards give explicit recognition to nontariff measures, are designed to introduce greater discipline in their use, and should provide a basis for more orderly trade in agricultural products.

The only agricultural concession of significant value offered by the U.S. is on cheese. The U.S. agreement to increase its cheese import quota will result in larger cheese imports until 1986; thereafter, imports are likely to be lower than if the current system remained in effect. Larger imports were requested by all the major dairy exporters. In the case of the EC, the U.S. offer on cheese was essential for reciprocal concessions from the EC.

3. ALMONDS

U.S. almond production and the industry's reliance on export markets (now accounting for over 60 percent of all sales) are both expected to grow. The MTN is viewed as a means of enlarging the export market so as to dispose of the additional U.S. supplies anticipated in the future.

A. MTN Results

The U.S. sought reduction of duties and the removal of moderation of NTB's in 12 foreign markets that imported $86 million worth of almonds out of the total of $109 million of U.S. almond exports in 1976. The largest market, the EC, made no concession in its almond duty, which is 7 percent ad valorem. The U.S. wanted that duty reduced so that Spain, when it joins the EC, would not have an undue competitive advantage over the U.S. in the EC market.

Japan made an important concession in its import duty, reducing it from 9 percent to 4 percent ad valorem. Based upon behavior of almond prices in the U.S. market [1/] and adjusting for the cost of delivering almonds to the Japanese market, this concession will ultimately result in an increase of almost 10 percent in U.S. almond exports to Japan. Valued at the average export price for shelled almonds ($1.00 per pound in 1977), gain in trade to Japan would be about $2.0 million.

1/ M. V. Rama Sastry, Supply and Demand for Almonds - Estimation of Linear Functions, California State University, Chico, Aug. 1972. This report indicated a price elasticity of -1.9 at the wholesale level.

The second important concession was the removal of an NTB by India. Although it had imported very few almonds prior to 1977, India's imports of U.S. almonds this season have been estimated at 2 million pounds, worth slightly over $2 million. Trade with India is expected to grow, although not as rapidly as the world market as a whole.

Switzerland cut its tariff from the equivalent of 3 percent ad valorem to zero. This is expected to lead to a 5 percent increase in exports to that country, ultimately worth about $200,000 annually.

Minor tariff concessions will lead to small increments in exports to Austria and South Africa. The trade gain from these two countries combined will be worth about $100,000 annually. Concessions received from Australia, Brazil, Israel, Mexico, New Zealand, and Argentina are either bindings of present (or even higher) duty rates or are subject to existing NTB's. None of these will be of any value in increased trade to the U.S.

A summary of these concessions is provided in Table 3-I. Total value of the increased trade from these concessions is estimated at $4.5 million annually by 1987, the end of the transition period.

Only Tunisia requested a decrease in U.S. almond import duties. The request was denied.

Table 3 - I

Summary of MTN Results for Almonds

Country or Group	1976 Exports to Country or Group		Nature of Concession	Value of Concession	
	Quantity mil.lbs.	Value $mil.		Quantity mil. lbs.	Value $mil.
EC	67.7	60.2	-	-	-
Japan	19.6	18.3	Duty Cut	2.0	2.0
India	*	*	NTB Change	2.5	2.5
Switzerland	3.6	3.3	Duty Cut	.2	.2
So. Africa	.7	.6	Duty Cut	.1	.1
Austria	.4	.4	Duty Cut		
6 Other Countries	4.0	3.0	-	-	-
Total from whom Concessions sought	96.0	85.8		4.8	4.8
Total U.S. Exports	122.9	109.1			

*Less than 50,000 pounds or $50,000.

B. Background on Almonds

Production

The entire commercial production of almonds in the United States is located in California. U.S. almonds are exported either in fresh or dried form, or as prepared or preserved almonds. About 83 percent of U.S. almond exports are classified as fresh or dried (almost all shelled), 9 percent blanched, and 8 percent tinned.

Almonds are also commercially produced in the Mediterranean area. During the last three seasons, the U.S. produced 54 percent of the world's crop and the Mediterranean countries produced the balance. Spain and Italy are the largest Mediterranean almond producers, contributing 24 and 11 percent, respectively, of total world production in recent years.

Over the past 25 years, world production of almonds has doubled (Table 3-II). The U.S. almond crop now is over 4 times as large as it was in 1950-55, when it accounted for about one-fifth of the total world supply. Mediterranean production has increased only about 25 percent and now contributes less than half the world crop, compared to over four-fifths of the world crop in the 1950-54 period. Within the Mediterranean region, Spain's production has doubled, but Italy has declined in importance as an almond producer.

Table 3-II

World Commercial Almond Production, Selected Years, 1950-78

Year	U.S.	Non-U.S.	Total World
	1,000 metric tons, shelled basis*		
1950-54 Avg.	18.1	75.8	93.9
1960-64 Avg.	29.8	79.3	109.1
1965	35.7	87.1	122.8
1970	64.4	92.9	157.3
1975	77.2	76.7	153.9
1978 Est.	86.2	103.1	189.3

* 1 ton in shell equals 0.3 tons of kernels.

Of the balance of the world almond producers, Iran, Portugal, and Morocco are the largest, producing 3,2, and 1 percent, respectively, of the world total. Production in each of these countries has declined since the early 1950's, when their combined production amounted to 15 per-percent of the world total crop. Algeria, Cyprus, France, Tunisia, and Yugoslavia supply the remaining 4 percent of world production.

Production of almonds in California and Spain is expected to increase during the next several years. Plantings of almonds in California have been heavy each year from 1966 through 1976. The bearing surface has been increasing so rapidly that the 1980 crop, if growing conditions are normal, could be more than one-third larger than the average of the record crops of 1976 and 1977.

Spanish production also will increase, although not as rapidly as in California. Heavy new plantings occurred in Spain from 1970 through 1974. Production of almonds will continue to deline in Italy, as almond trees are replaced by more profitable citrus and grapes.

California has a competitive advantage over the Mediterranean almond

producers because California yields are considerably higher than those in Spain and Italy; shelling rates in California are much higher than in the Mediterranean countries; and California almonds tend to be quite uniform in size, making them more adaptable for manufacturing than the Mediterranean almonds which are roughly shaped.

The continued increase in plantings of almonds in California verifies the profitability of U.S. almond production. Higher yields and shelling rates contribute greatly to the advantageous production situation in California relative to the Mediterranean region.

Trade

The export market is important to world almond producers. In 1950-54, two-thirds of the world crop was marketed in export channels; today over half the world crop is exported. During the past 25 years, world almond exports have increased 70 percent, due entirely to the rise in U.S. almond exports (Table 3-III). The Mediterranean area supplied 97 percent of the world exports in 1950-54. Since then, with one exception, the volume of Mediterranean exports has declined; this region now accounts for less than 40 percent of the world almond exports. Spain alone has been able to maintain its former share of world trade. Italy, which in 1950-54 supplied half the world's almond exports, now supplies less than 9 percent, shipped mostly to EC markets.

Table 3-III

World Almond Exports, Selected Years, 1950-1977

Marketing Year**	U.S.	Non-U.S.	Total World
	1,000 metric tons, shelled basis*		
1950-54 Avg.	2.0	60.8	62.8
1960-64 Avg.	6.1	61.9	68.0
1965-66	10.4	61.4	71.8
1970-71	31.0	48.1	79.1
1975-76	56.0	32.4	88.4
1977-78	75.3	40.6	115.9

* 1 ton in shell equals 0.3 tons of kernels.
** Begins July 1 for U.S.; July 1 for Morocco (except for 1977 which begins on August 1); September 1 for Italy, Portugal, Spain; September 23 for Iran; Calendar year for others.

The U.S., which was a net almond importer in 1950-54, now supplies over 60 percent of world almond exports. U.S. almond exports are widely distributed. During the last two seasons, 64 percent of total U.S. exports were shipped to Western Europe (primarily to the EC); 15 percent to Japan; 10 percent to Eastern Europe (almost three-fourths of this to the USSR); 5 percent to Canada; and the rest to Asia, Oceania, and Latin America.

About 70 percent of the exports of Spanish almonds now are shipped to markets within the EC, and 20 percent to other European markets. The balance is shipped to scattered destinations in the Middle East, Latin America, and Asia. The Spanish government started paying an export subsidy on almonds in November 1976. The subsidy at the time amounted to about 2 U.S. cents per pound.

Comparable data are not available for Italian almond exports, but earlier figures indicate that at least 85 percent of these are destined for markets within the European Community. Italian exports to markets outside

the EC receive an export subsidy. In early 1971 the subsidy amounted to 1.81 U.S. cents per pound. In November 1978, the subsidy was 8 units of account[1/] per 100 kg, or the equivalent of 6 U.S. cents per pound.

Prices of almonds have increased gradually over the past two decades. Recent export prices for California, Spanish, and Italian almonds, and producer prices in California and Spain, are shown in Table 3-IV. The prices for Spanish and Italian almonds are for hard-shell varieties; those for the California almonds are for soft-shell varieties.

Table 3-IV

Average Producer and Market Prices for Almonds
1972-73 Through 1977-78 Seasons

Season	Producer Prices		Export Prices, by Source		
	California	Spain	California*	Spain**	Italy***
	- - - - - - equivalent U.S. cents per pound - - - - -				
1972-73	.39	.22	.88	1.27	1.26
1973-74	.74	.32	1.40	1.66	1.65
1974-75	.45	.35	1.04	1.16	1.21
1975-76	.37	.27	.94	.98	.93
1976-77	.40	.21	.91	1.00	.99
1977-78	.52	.31	1.12	1.43	1.29

* FAS U.S. Ports
** C&F U.K. Ports
*** FOB Bari
Source of data: U.S. Department of Agriculture, FAS.

[1/] The EC uses a specially created standard of value called the unit of account. These prices are converted into national currencies at specified rates of exchange. There are, however, no UA notes or bills. Presently, 1 UA equals approximately $1.50.

4. BEEF

The U.S. requests for access to foreign markets in the MTN stressed the unique character of U.S. high-quality, grain-fed beef and sought to obtain special quotas for this product.

Requests were tabled with 20 countries. All but three of these maintained non-tariff barriers to imports of meats. The U.S. asked the EC to bind a levy-free quota of 10,000 metric tons (mt) of high-quality beef in 1978, with an annual growth of 5 percent annually after that. Japan was asked to increase its present commitment of 16,800 mt, provided domestic prices are maintained, to a 1983 total of 30,800 mt of high-quality beef. Similar requests for quota increases on high-quality beef for the hotel and restaurant trade were made of Finland, Israel, Korea, Norway, Spain, Sweden, and Switzerland.

In addition to these, there were requests of many countries for reduction in import duties, especially for variety meats, and for easing of NTB's other than quotas.

A. MTN Results

Exports

Ten countries responded to the U.S. requests for reductions in duties or modification of their NTB's on beef.

Brazil, Indonesia, Korea and Taiwan responded by binding their existing import duties, and hence no increase in trade will result from these concessions.

Canada offered to cut its import duty of one-half cent per pound on edible offals to duty free, provided the U.S. would agree to do the same with its similar duty. The import duties are roughly the equivalent of one percent ad valorem, and the trade is relatively small. The effect on trade of such duty cuts would be negligible.

Mexico offered to reduce its import duty on preserved beef from 20 percent to 10 percent ad valorem. However, Mexico retains its licensing on imports and also the official valuation for duty purposes. The concession is not considered of value in increasing exports to Mexico. (No shipments of this item were made to Mexico in 1976.)

Austria offered to establish a 300 mt import quota for high-quality beef in 1980. This quota is to grow until it reaches 600 mt in 1987. In 1976 the U.S. exported 35 mt of beef to Austria, valued at $.2 million. The 600 mt quota (valued at $5,000 per mt, the average price for U.S. beef exported in 1978[1/]) is worth $3.0 million.

The European Community offered to establish a new import category for high-quality beef, at a fixed duty of 20 percent ad valorem. U.S. choice and prime beef would qualify for this category, and the quantity authorized for importation is unlimited. However, it is believed that EC officials are thinking in terms of a limit of 10-15 thousand mt per year. Assuming this, an increase in imports of 10,000 mt annually by the end

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1/ 1978 average U.S. export prices were used to value the trade increases resulting from foreign concessions. Prices were depressed in 1976 and 1977. Prices in 1978 (the end of the liquidation phase in the cattle cycle) are more likely to reflect average price levels between 1979 and 1987.

of the transition period is attainable, the total value of which (at $5,800 per mt) is $58 million a year. (The assumed unit value for U.S. exports to the EC is 75 percent of the 1978 value for exports to Switzerland, based upon U.S. trade estimates).

In addition, the EC offered to reduce its import duties on beef variety meats by an average of 3.5 percent ad valorem. With a price elasticity of beef in the EC of -.7[1/], a tariff reduction of this size would result in a 2.5 percent increase in trade by 1987. In Calendar 1976, the U.S. exported 84,000 mt of beef variety meats to the EC, valued at $82.7 million. A 2.5 percent increase in this quantity, valued at $1,250 per mt (the average price of U.S. beef variety meat exports in 1978), results in a $2.6 million annual increase in the value of this trade by the end of the transition period.

Japan offered to establish import quotas for high-quality beef that would reach 30,800 mt in Japanese Fiscal Year (JFY) 1983. If these quotas would continue to grow until JFY 1987 at the same rate as the increase from JFY 1980 until JFY 1983, the quota in JFY 1987 would amount to 44,000 mt. This compares with Calendar 1976 U.S. beef exports to Japan of 15,500 mt. In addition to this, the Japanese agreed to establish a quota of 4,000 mt for imports of transversus abdominus (beef skirt -- plate) meat. This yields a total beef quota of 48,000 mt in 1987, or an increase of 32,500 mt over 1976, valued at $112.9 million.

Japan also offered to bind its import duty for beef at its present

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1/ Donald W. Regier, Livestock and Feed Demand in the World GOL Model. USDA, ESCS, Foreign Agricultural Report No. 152, September 1968, p. 26.

level. This is important in that it assures that Japan's import duty will not be raised when quotas are enlarged or removed. Finally, Japan reduced its import duty on beef variety meats from 25 percent to 15 percent ad valorem. Because beef is a luxury product in Japan, its price elasticity is quite high and is estimated at -1.8[1/]. Thus, a 10 percent decrease in duty will bring an 18 percent increase in exports to Japan by 1987. In Calendar 1976, the U.S. exported 5,700 mt of beef variety meats to Japan, valued at $5.6 million. The value of the increase in trade resulting from this concession is $1.2 million.

Switzerland established the following annual import quotas for beef: 300 mt for U.S. beef for the hotel and restaurant trade; 700 mt for high-quality beef, as defined by the U.S.; and 1,300 mt for high-quality beef, as defined by Switzerland.

If we assume that U.S. exporters will fill the entire quotas for the first two categories and two-thirds of the third, the U.S. should export 1,900 mt of high-quality beef annually to Switzerland. This concession is valued at $12.6 million. No growth factor is to be applied to these quotas, although the U.S. requested it.

A summary of the results of these concessions is provided in Table 4-I. About 60 percent of the trade gain is due to the Japanese concessions.

Imports

The U.S. offered to cut the import duty on fresh, chilled or frozen

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1/ Regier. Livestock and Feed Demand in the World GOL Model, p. 16.

Table 4-I

Summary of MTN Results for U.S. Beef Exports

Country or Group	Product	1976 U.S. Exports to Country or Group		Nature of Concession	Value of Concession Increased Exports	
		Quantity mt	Value $ million		Quantity mt	Value $ million
Austria	Hi. Qual. Beef	35	.2	New Quota	600	3.0
EC	Hi. Qual. Beef	0	0	New Import System	10,000	58.0
	Beef Variety Meats	84,000	82.7	Tariff Cut	2,100	2.6
Japan	Hi. Qual. Beef	15,500	46.5	Increased Quota	32,500	112.9
	Beef Variety Meats	5,700	5.6	Tariff Cut	1,000	1.2
Switzerland	Hi. Qual. Beef	346	2.1	Increased Quota	1,600	12.6
Sub-total	Hi. Qual. Beef	15,881	48.8		44,700	186.5
	Beef Variety Meats	89,700	53.3		3,100	3.8
	Total	105,581	137.1		47,800	190.3
1976 U.S. Exports	Beef & Veal[1/]	36,100	109.4			
	Beef Variety Meats	103,700	102.1			
	Total	139,800	211.5			

1/ Exports of beef and veal, fresh, chilled or frozen. Practically all such exports would have been defined as "high quality" beef.

beef and veal (the principal beef item imported into the U.S.) from 3 cents per pound to 2 cents per pound in response to requests by Australia, New Zealand, and Mexico. The reason for this concession is not clear, but it will have no influence on trade because imports are subject to P.L. 88-482 regulation.

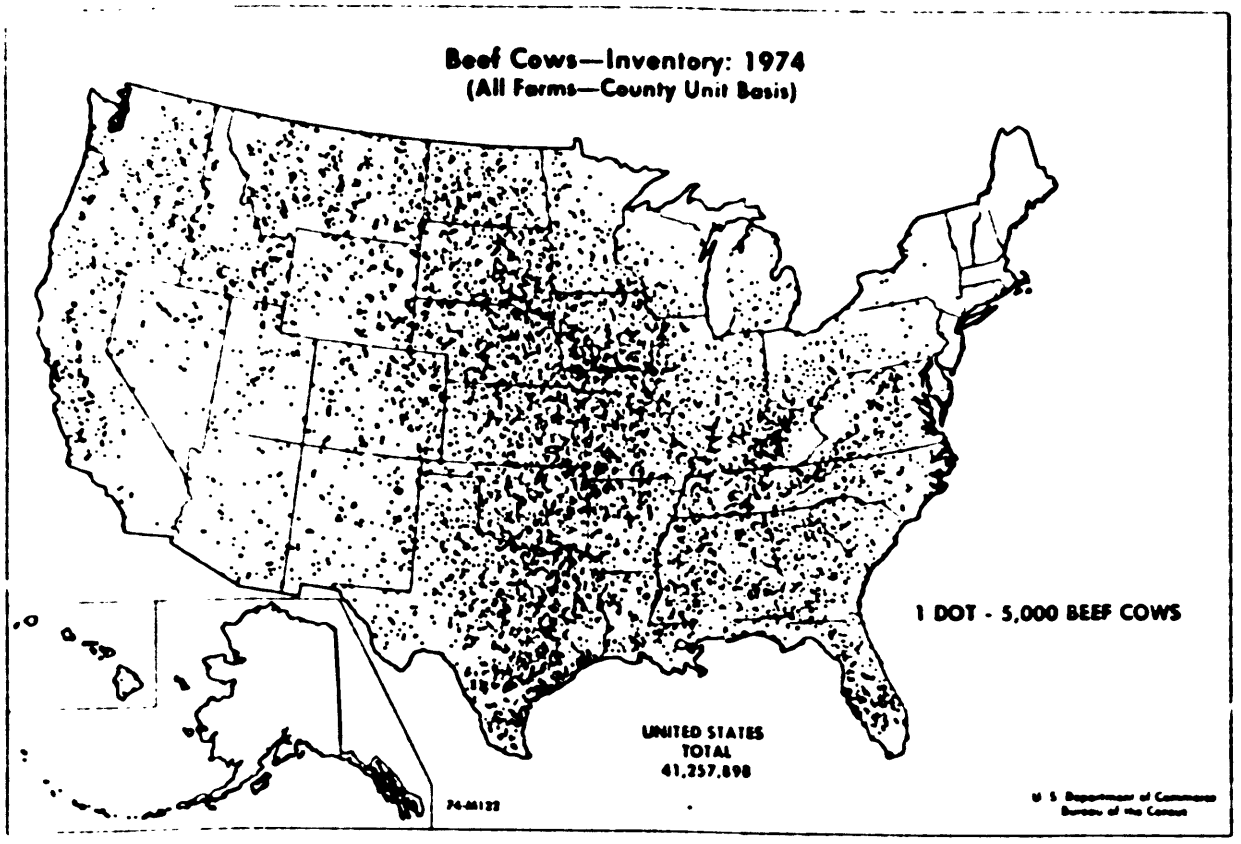
The U.S. offered to reduce its duty on edible meat offals in response to a Canadian request. Both countries will reduce their duties to zero. The current U.S. duty is 2.5 percent ad valorem on the more expensive offals; the Canadian duty is 0.5 cents per pound. The duties have been quite low and have had little or no effect on trade.

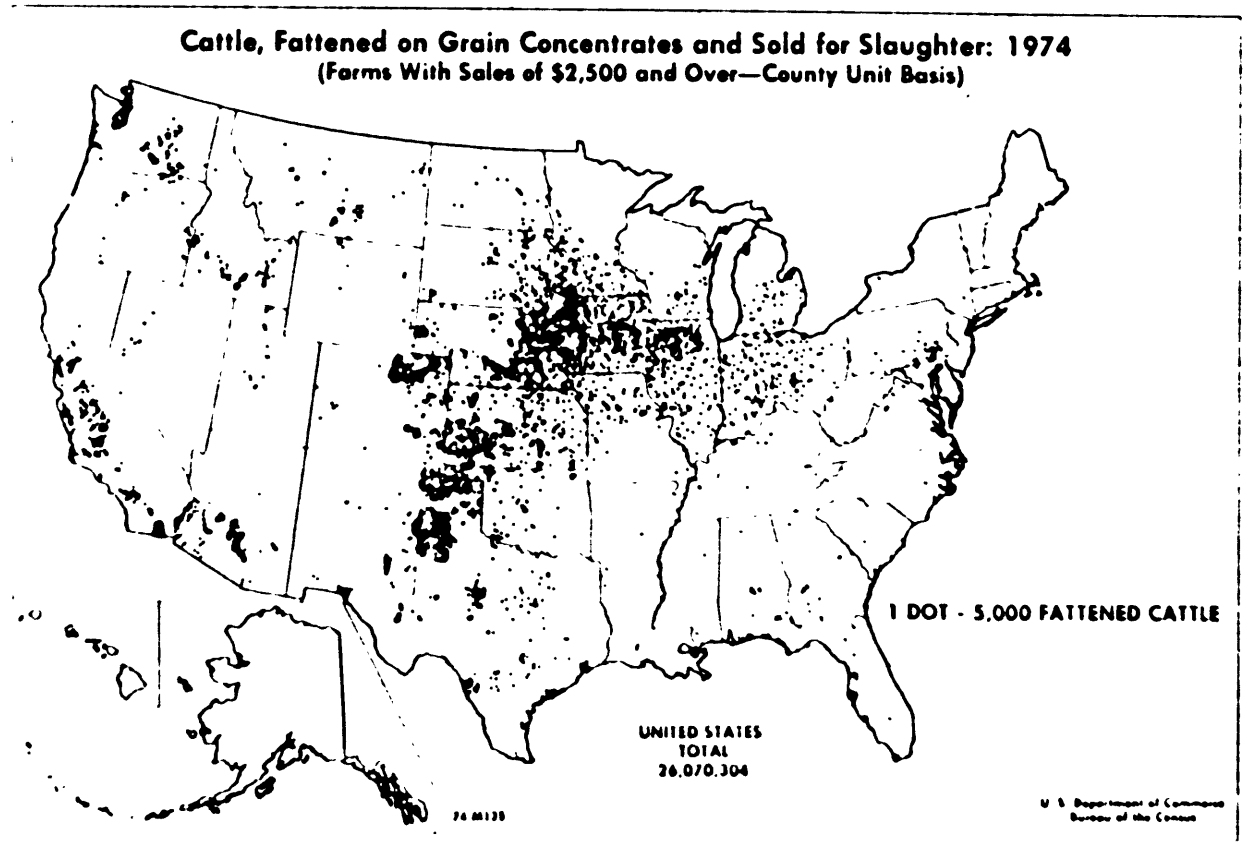
The U.S. also offered to reduce its import duties on cured or pickled beef or veal, on canned beef (both corned and other than corned), and on prepared or preserved beef and veal. These offers were made in response to requests from Argentina and Brazil. They are contingent upon Argentine and Brazilian offers to the U.S. on other commodities. The current U.S. duties on these items are relatively low. These commodities are no longer produced in significant commercial quantities in the U.S.

B. Background on Beef

World Beef Production

Beef cattle are produced in every state in the United States. The U.S. is the world's largest producer, with one-third of the total production. The EC and the USSR are second and third, each with about 15 percent of the total; Argentina and Brazil produce 7 and 6 percent, respectively, of the total.


Beef Cows—Inventory: 1974
(All Farms—County Unit Basis)
1 DOT - 5,000 BEEF COWS
UNITED STATES
TOTAL
41,257,898
74-M122
U. S. Department of Commerce
Bureau of the Census


Cattle, Fattened on Grain Concentrates and Sold for Slaughter: 1974
(Farms With Sales of $2,500 and Over—County Unit Basis)
1 DOT - 5,000 FATTENED CATTLE
UNITED STATES
TOTAL
26,070,304
74-M135
U. S. Department of Commerce
Bureau of the Census

World beef production has been increasing steadily and now is about 70 percent larger than it was in 1960 and 1961. Oceania, Central America, Japan and the USSR have been increasing production at a much faster rate, while the rate of growth in the EC, the U.S., Argentina and Brazil has been below average.

U.S. Exports

The United States exports high-quality beef (usually grain-fed beef grading U.S. choice or better) and beef variety meats. Exports of U.S. beef are very small, amounting to less than 0.5 percent of U.S. production during the last two years.

The U.S. beef exports are unique in world beef trade, however, because they are from grain-fed cattle rather than grass-fed cattle as are those from Oceania and Latin America. Although there are supplies of grain-fed beef in foreign countries, especially Canada and the United Kingdom, practically all beef traded on world markets is grass-fed.

Japan is the largest market for U.S. beef, receiving over 45 percent of total U.S. exports. Canada is next, with 15 percent; and the Bahamas third, with 6 percent. The balance is distributed worldwide, with the exception of Latin America other than Mexico and Oceania.

Exports of variety meats have increased steadily in recent years. About 70 percent are shipped to the EC and about 10 percent each to Mexico and Japan. Sixty-two percent of the variety meat exports have been beef and 34 percent pork.

Average U.S. beef exports during 1976 and 1977 were 39,000 mt, valued at $116 million. Beef variety meat exports were 107,000 mt, worth $96 million.

Major World Exporters

In 1960 and 1961, about 7 percent of the total world production was exported to world markets; 10 percent is exported now. Over half of the production in Oceania is exported, compared to 15 percent in Argentina and Brazil. Nearly 15 percent of current production in EC countries is exported to markets within and outside the Community, compared to 8 percent in 1960 and 1961.

Australia, Argentina, and New Zealand are the major world beef exporters. Together they account for two-thirds of total world beef exports, when the intra-EC beef trade is excluded.

Australia is the largest, with about one-third of world exports, and New Zealand third, with 13-14 percent of the total. Exports from these two countries have increased more rapidly than for the world as a whole. The United States is their largest market. Over half the Australian and 70 percent of the New Zealand exports are destined for the U.S. and Canada. Japan, the USSR, and the EC also purchase beef from Oceania.

Argentina's exports of beef, formerly the largest in the world, now account for about one-fifth of the world total. About two-thirds of the exported beef is chilled and frozen, one quarter canned, and the balance cooked and frozen. The EC now receives about half of the chilled and frozen exports, and the balance is destined to other European and South American countries. The U.S. will not accept chilled and

frozen Argentine beef because hoof and mouth disease is prevalent in Argentina. The EC and the U.S. are the major markets for canned and cooked and frozen beef from Argentina.

Import Systems in Major World Markets

Summary data showing world imports and exports by selected countries and for all countries are shown in Tables 4-II and 4-III. Table 4-IV provides data showing production, consumption, imports, and average wholesale prices for beef and veal in the major world import markets of the U.S., the EC, and Japan.

U.S. Imports of beef and veal into the U.S. are limited under the Meat Import Act, P.L. 88-482. The law is designed to allow imports of chilled and frozen beef and veal a share in the U.S. market equal to about 7 percent of U.S. production. In practice, imports have been limited under "voluntary" agreement with supplying countries to levels just under "trigger" quantities that are 10 percent higher than what the quotas would be if imposed under the law. Imports of the chilled and frozen products are received from Oceania, Central America, Canada, and Ireland -- i.e., areas that are free of foot and mouth disease.

Imports are subject to the sanitary requirements of the Wholesome Meat Act of 1967, which means that imports are subject to conditions of sanitation and inspection at least equal to those maintained in the U.S. This means that all foreign suppliers (except Canada, whose requirements are identical to those in the U.S.) maintain two inspection

Table 4-II

BEEF AND VEAL: IMPORTS BY SELECTED COUNTRIES AND TOTAL FOR ALL COUNTRIES, 1974-78 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Country	1974	1975	1976	Estimated 1977	Forecast 1978 1/
United States	747	808	953	890	1025
EC 2/	429	286	464	457	430
Canada	84	87	143	89	91
Japan	77	64	130	121	135
Spain	14	27	44	50	45
Greece	26	36	79	80	85
Switzerland	20	11	15	15	17
German Democratic Rep.	10	9	9	9	10
USSR	293	372	275	350	100
Brazil	53	29	27	35	125
Portugal	36	24	36	53	26
Other countries	253	626	778	825	850
Total	2,042	2,379	2,951	2,974	2,939

1/ FAS estimates. 2/ Excludes intra-trade.

Table 4-III

BEEF AND VEAL: EXPORTS BY SELECTED COUNTRIES AND TOTAL FOR ALL COUNTRIES, 1974-78 (CARCASS WEIGHT EQUIVALENT)
(In thousands of metric tons)

Country	1974	1975	1976	Estimated 1977	Forecast 1978 1/
P.L. 88-482: 2/					
Australia	486	744	860	1,087	1,000
New Zealand 3/	258	305	383	403	360
Canada	27	21	59	51	60
Mexico	29	14	23	30	30
Central America 4/	115	124	145	127	155
Subtotal	905	1,208	1,470	1,698	1,605
EC 5/	207	234	195	137	135
Argentina	289	266	534	605	760
Uruguay	120	113	195	129	134
Other countries	530	525	560	560	495
Subtotal	1,146	1,138	1,484	1,431	1,524
Grand total	2,051	2,346	2,954	3,129	3,129

1/ FAS forecast. 2/ Excludes Ireland. 3/ Year ending September. 4/ Includes Dominican Republic and Haiti. 5/ Excludes intra-trade

SOURCE: Reports of U.S. Agricultural Attaches

Table 4-IV

BEEF AND VEAL: CONSUMPTION, PRODUCTION, AND IMPORTS FOR UNITED STATES, EC AND JAPAN, 1972 TO DATE--CARCASS WEIGHT EQUIVALENT

Country and year	Per Capita consumption		Domestic production		Imports 1/			Share of world imports	Wholesale prices 2/	
	Quantity	Index 1972 =100	Quantity	Index 1972 =100	Quantity	Index 1972 =100	Share of production		Cents per kg.	Index 1972 =100
	kgs.		1,000 M.T.		1,000 M.T.		percent	percent		
United States:										
1972	54	100	10,377	100	905	100	9	35	116.62	100
1973	51	94	9,813	95	917	101	9	33	142.37	122
1974	54	100	10,716	103	747	83	7	37	144.14	124
1975	56	104	11,271	109	808	89	7	34	149.36	128
1976	61	113	12,166	117	953	105	8	32	127.56	109
1977 3/	59	109	11,845	114	890	98	8	30	128.33	110
1978 4/	56	104	11,300	109	1,025	113	9	35	160.00	137
EC:										
1972	25	100	5,506	100	952	100	17	37	186.62	100
1973	25	100	5,575	101	1,008	106	18	36	237.94	127
1974	26	104	6,585	120	429	45	7	21	229.98	123
1975	26	104	6,568	119	286	30	4	12	276.81	148
1976	25	100	6,529	119	464	49	7	16	281.44	151
1977 3/	25	100	6,379	116	457	48	7	15	304.72	163
1978 4/	26	104	6,480	118	430	45	7	15	350.00	188
Japan:										
1972	4	100	295	100	87	100	29	3	280.34	100
1973	4	100	227	77	194	223	85	7	478.31	171
1974	3	75	292	99	77	89	26	4	396.39	141
1975	4	100	353	120	64	74	19	3	487.22	174
1976	4	100	298	101	130	149	44	4	578.49	206
1977 3/	4	100	361	122	121	139	34	4	615.83	220
1978 4/	4	100	375	127	135	155	36	5	675.00	241

1/ Intra-trade excluded for EC and world total. 2/ U.S.: dressed fresh beef, good--600-700 pounds, Midwest; EC: Hamburg--wholesale price of bullock and heifers; Japan: fattened Wagyu cattle. 3/ Preliminary. 4/ Estimate.

SOURCE: Reports of U.S. Agricultural Attaches

systems -- one for their domestic shipments and one for shipments to the U.S.

The U.S. import duty on chilled or frozen beef is 3 cents per pound, the equivalent of 2.8 percent ad valorem based on average prices prevailing in October 1978.

EC. The Common Agricultural Policy for Beef and Veal, established in 1968, regulates imports so as to maintain EC market prices for live animals at a desired level called the "guide price." The guide price is set annually.

Each month a "basic levy" is determined, representing the difference between the guide price and the duty-paid import price for live animals of comparable quality. (Live animal prices are converted to prices for carcasses, quarters, cuts, etc. by means of coefficients.)

This basic levy may be adjusted each week according to the relationship of average EC live animal market prices to the guide price. For example, if the market prices average over 106 percent of the guide price, the levy is zero; if market prices are from 100 to 102 percent of the guide price, 75 percent of the levy is applied. If the market price is from 90 to 96 percent of the guide price, 114 percent of the levy is applied.

EC member states are required to undertake market intervention by purchasing cattle or beef or veal when domestic market prices fall below 90 percent of the guide price.

Export subsidies for the purpose of making EC products competitive on world markets may be granted on request. Slaughter premiums, to help deal with surplus conditions, also may be granted for cattle produced and slaughtered in the EC; but beef produced from this slaughter is not eligible for intervention purchases.

Imports are subject to duties of 16 percent ad valorem on live animals and 20 percent ad valorem on fresh, chilled, or frozen beef. The latter duty is bound in GATT for a levy-free tariff quota for imports of 38,500 mt of beef each year. Shares of this quota are allotted to each of the member states by the EC Council. EC import duties of 11 percent ad valorem on beef livers and 7 percent ad valorem on beef offals other than livers are bound to the United States.

The EC maintains sanitary requirements on imports of meats from third countries, and some of these requirements differ from those followed in the United States. Some member states, especially West Germany, demand more rigorous adherence to these standards than do others. Relatively few U.S. meat packing establishments are certified as eligible to export meats to West Germany.

The CAP on Beef and Veal effectively insulates EC producers from world market competition, and also provides export subsidies which enable excess Community supplies to compete on world markets.

Japan. Japan has the lowest per capita consumption of beef and the highest beef prices of any developed country because of its inadequate domestic production and its quota on imports. In the last two years, an average of 28 percent of Japanese beef consumption has been supplied

by imports, with the Australians supplying 84 percent, the U.S. 10 percent, and New Zealand 5 percent.

The Japanese beef quotas are issued semi-annually and broken into quotas for general trade, hotels, school lunch, Okinawa, and for boiled beef. Imports of variety meats are not subject to quotas.

The Japanese import duty on imports of beef or beef variety meats is 25 percent ad valorem.

Prices and Competitive Advantages

A rough comparison of wholesale prices for carcass beef in the United States, the EC, and Japan is provided in Table 4-IV.

A comparison of prices of live cattle in Australia, Argentina, the EC, and the United States is shown in Table 4-V. These prices are simple averages of monthly prices for Calendar 1976 and 1977, and for January-August 1978.

Table 4-V

Live Cattle Prices, Selected Countries

Country	Description	Calendar Year 1976	Calendar Year 1977	Jan-Aug 1978
		- U.S. cents per lb. -		
Australia	Bullocks (to 686 lbs) Brisbane	15.6	14.3	16.9
Argentina	Export Steers, Liniers	16.0	19.1	18.1
U.S.	Good Grade Steers, 7/800 lbs. Midwest	58.2	58.3	74.4
EC	Bullocks, Choice, Belgium	101.2	107.3	127.4

Source: USDA, FAS

The differences among the various prices are very great. The U.S. average price shown is 3.5 to 4 times the average prices shown for Australia and Argentina. In turn, the average price for steers in Belgium was almost twice as high as the U.S. price.

There is little doubt that Australia, Argentina, New Zealand, Brazil, and Uruguay possess a comparative advantage in the production of grass-fed beef. However, the beef exported by the U.S. has unique qualities when compared to the other beef traded in international markets, although the market for grain-fed beef is relatively small at the present time. It is likely that the U.S. will continue to be the major supplier of high-quality beef to the Japanese market. European imports of U.S. beef will also grow at a moderate rate, limited by the EC's protective policies.

5. CANNED PEACHES AND FRUIT COCKTAIL

A. MTN Results

Reductions in tariffs or non-tariff barriers were sought from the EC and eleven other countries which together received 94 percent of the total exports of U.S. canned peaches and 87 percent of the total exports of U.S. canned fruit cocktail and mixed fruits during 1976. All but Canada and Switzerland responded with concessions. Canada is the largest market for U.S. canned fruit exports, accounting for two-fifths of the canned peaches and half the fruit cocktail exported from the U.S. Thus, concessions were received from countries purchasing roughly one-half of the peaches and one-third of the fruit cocktail exported by the U.S.

The EC offered to fix the sugar-added duty [1/] at 2 percent ad valorem for both canned peaches and mixed fruits. The duty had averaged about 4 percent ad valorem in recent years; it also has been a nuisance because of the delays involved in establishing the amount of added sugar. In addition, the EC offered to reduce the ad valorem duty for mixed fruits from 22 to 15 percent. With a price elasticity of -1.1 [2/], the duty reductions would lead to trade increases of 2 percent and 10 percent, respectively, for U.S. canned peaches and fruit cocktail, for a

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1/ This is an additional duty that is levied when sugar is added to canned fruit.

2/ The price elasticity of -1.1 for canned peaches and fruit cocktail used in this paper is based on a price elasticity of -1.12 determined by Ergun Kip, Demand Relationships for California Tree Fruits, Grapes and Nuts - A Review of Past Studies, Special Publication 3247, University of California, Division of Agricultural Sciences, August 1978, p. 67.

total value of $.3 million annually by 1987. The estimates assume the full reductions in duties offered by the end of the transition period.

Japan offered duty cuts averaging 8 percent and 11 percent ad valorem, respectively, on canned peaches and fruit cocktail. These would lead to trade increases valued at $ 1 million, based on average U.S. export prices in calendar 1977 of $10.80 (for canned peaches) and $13.00 (for fruit cocktail) per case of 24 equivalent No. 2½ cans. (These prices were used in valuing all trade increases in this Chapter.) Calendar 1977 U.S. exports also were used as the base for calculating trade increases. They were considerably above 1976 exports, and are believed to more nearly reflect the growth in trade anticipated in the next few years. The Japanese offer has a higher value than that of any other country.

Sweden offered small duty cuts which were the equivalent of roughly 2 percent and 3 percent ad valorem for peaches and fruit cocktail, respectively. These cuts would lead to minor trade increases in the two canned fruits.

Austria and Finland each offered relatively large cuts in duties. Austria reduced duties by 11-13 percent ad valorem and Finland by 19 percent ad valorem. These markets are relatively small, and the total value of the trade increases is also relatively small.

Norway offered a duty reduction equivalent to 4.5 percent ad valorem on fruit cocktail. The estimated trade increase is negligible.

Taiwan, a new market for U.S. canned peaches and fruit cocktail, offered to cut its import duty from 85 to 45 percent ad valorem. Because of the magnitude of the duty cut and the recent growth in U.S. exports

to Taiwan, the calculated trade increase was based on 1977 U.S. exports and then arbitrarily doubled.

Mexico is the only country offering concessions that maintains effective non-tariff barriers on these two items. Mexico offered to establish an import quota of 50,000 cases of canned fruit cocktail annually. The U.S. exported 12,000 cases of fruit cocktail to Mexico in 1976 and 10,000 cases in 1977. We estimate that the U.S. will export approximately 40,000 cases annually by 1987. Because Mexico uses "official" prices for the determination of import values for duty purposes, any estimation of imports is hazardous, but we expect the increase in the quota to be worth $.4 million.

The Dominican Republic offered to reduce duties on both peaches and fruit cocktail, and Haiti offered a reduction on fruit cocktail. Both countries import small quantities of canned fruits, and the reductions offered were relatively small. The trade value of these concessions is negligible.

A summary of the concessions received from foreign countries, and their estimated value in terms of increased trade to U.S. exporters at the end of the transition period, is provided in Table 5-I.

Australia asked the U.S. to reduce its import duties of 10 percent ad valorem on prepared or preserved white fleshed peaches and 20 percent ad valorem on frozen peaches. These requests were not granted.

Table 5-1

Summary of MTN Results for Canned Peaches and Fruit Cocktail

Country or Group	Product	1976 U.S. Exports To Country or Group: Quantity 1,000 Cases	1976 U.S. Exports To Country or Group: Value $ Million	Nature of Concession	Value of Concessions Increased Exports: Quantity 1,000 Cases	Value of Concessions Increased Exports: Value $ Million
EC	Peaches	556	5.3	Tariff Cut	12	.1
	Cocktail	189	2.3	" "	19	.2
Japan	Peaches	369 ***	3.8	" "	54	.8
	Cocktail	97 ***	1.4	" "	12	.2
Sweden	Peaches	81	1.0	" "	2	.1**
	Cocktail	106	1.3	" "	2	
Austria	Peaches	42	.4	" "	6	.1
	Cocktail	43	.5	" "	5	.1
Finland	Peaches	31	.4	" "	6	.1
	Cocktail	24	.3	" "	5	.1
Norway	Cocktail	57	.7	" "	3	*
Taiwan	Peaches	34***	.3	" "	30	.3
Mexico	Cocktail	12	.1	Quota Increase	30	.4
Dom. Rep.	Peaches	1	*	Tariff Cut	*	*
	Cocktail	2	*	" "	*	*
Haiti	Cocktail	1	*	" "	*	*
Sub-Total	Peaches	1,114	11.2		110	1.4
	Cocktail	531	6.6		76	1.1
	Total	1,645	17.8		186	2.5
Total U.S. Exports	Peaches	2,311	24.9			
	Cocktail	1,790	22.7			
	Total	4,101	47.6			

* Less than 500 cases or $50,000.
** Allocated to Cocktail.
*** 1977 U.S. exports.

B. Background on Canned Peaches and Fruit Cocktail

Production

Ninety percent of canned peaches produced in the United States are California Clingstone peaches. Canned fruit cocktail consists of diced Clingstone peaches, diced pears, diced pineapple, grapes and maraschino cherries. The peaches, grapes and maraschino cherries used in fruit cocktail are produced in California, the pineapple is produced in Hawaii, and the pears are produced in California and the Pacific Northwest.

The U.S. is the largest producer of canned peaches and fruit cocktail in the world, providing over half the estimated world pack of canned peaches and almost two-thirds of the estimated world pack of canned fruit cocktail.[1/] Data relating to these packs are shown in Table 5-II.

World production, including U.S. production, of canned peaches has remained about the same for the past decade. Production in South Africa has increased, offsetting declines in Australia, while production in Greece has increased in response to Greece's duty-free access to the EC markets.

Exports

Exports of canned peaches and canned fruit cocktail are given in

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1/ Based on available pack data for major producing countries in the "free" world. Information is not available for Eastern European and centrally planned countries.

Table 5-II

Production of Canned Peaches and Fruit Cocktail[1/] in Specified Countries, Avg. 1970-72 and 1975-77[2/]

Country	Peaches: Avg. 1970-72	Peaches: Avg. 1975-77
	thous. cases equiv. 24 No. 2½ cans	
U.S.	26,440	27,671
So. Africa	5,242	5,891
Australia	4,423	3,091
Japan	3,291	2,667
Chile	507	412
Canada	369	275
Greece	2,040	3,794
Italy	1,078	1,225
Spain	1,400	833
France	617	361
Total	46,792	48,955
	Fruit Cocktail[2/]	
U.S.	14,144	14,987
So. Africa	1,304	1,785
Australia	2,027	1,256
Spain	1,177	1,024
Italy	1,705	1,748
France	1,000	1,066
Argentina	140	562
Greece	225	411
Japan	369	295
Total	22,091	23,134

1/ Includes mixed fruits.
2/ Marketing seasons beginning with June of the years shown. Source of data: USDA, FAS.

Table 5-III. Roughly 30 percent of the canned peaches and fruit cocktail packed in the major canning countries is exported.

The United States is the only major producer of canned peaches and

Table 5-III

Exports of Canned Peaches and Fruit Cocktail[1/] From Specified Countries, Avg. 1970-72 and 1975-77[2/]

Country	Peaches Avg. 1970-72 thous. cases equiv. 24 No. 2½ cans	Peaches Avg. 1975-77 thous. cases equiv. 24 No. 2½ cans
U.S.	2,997	2,725
So. Africa	4,473	5,139
Australia	2,670	1,591
Japan	22	4
Chile	84	181
Greece	2,064	3,779
Italy	399	883
Spain	253	75
France	39	7
Total	13,234	14,885
	Fruit Cocktail[1/]	
U.S.	1,963	1,938
So. Africa	1,106	1,544
Australia	892	668
Spain	976	640[3/]
Italy	1,207[3/]	2,130
France	177	186
Argentina	50[3/]	58
Greece	*	270
Japan	149	133
Total	6,490	7,567

*Less than 500 cases.
1/ Includes mixed fruit.
2/ Marketing Seasons beginning with June of the years shown.
3/ Partially estimated.
Source of data: USDA, FAS, Attache Reports.

fruit cocktail whose principal outlet is its domestic market. As a result, U.S. canners are less affected by changes in international markets than are the other major producers, particularly Australia and South Africa.

About 10 percent of the U.S. pack of canned peaches and 13 percent of the cocktail pack have been shipped to export markets in recent seasons. Canada is the largest market for these fruits, purchasing two-fifths of the U.S. canned peach exports and almost one-half of the canned fruit cocktail exports during the last two seasons. The EC accounted for 28 and 11 percent, respectively, of U.S. exports of canned peaches and cocktail in these years. Japan has become an important market for U.S. exports, receiving about one-fifth of the U.S. canned peach exports and 5 percent of the cocktail exports. Recent U.S. exports by principal destinations are compared with exports during the mid-1960's in Table 5-IV.

Most of Australia's and South Africa's canned peach and cocktail packs are exported. The canned fruit industries in South Africa and Australia were developed initially to provide these products for the British market. Until the expansion of the EC, they enjoyed preferential duty status in the U.K., which had a most favored nation (MFN) duty for canned peaches and fruit cocktail of approximately 12.5 percent ad valorem and admitted Commonwealth products duty free.

Both South Africa and Australia began expanding their markets to continental European countries in the 1950's and 1960's. Since the mid-1960's, South Africa has increased its share of West European markets,

Table 5-IV

Exports of U.S. Canned Peaches and Fruit Cocktail
To Principal Destinations Av. 1963-65 and 1975-77 Marketing Seasons

Market	Av. 1963, 1964, 1965 Market Seasons 1/		Av. 1975, 1976, 1977 Market Seasons 1/	
	Quantity (thous.cases)	Share (percent)	Quantity (thous.cases)	Share (percent)
		CANNED PEACHES		
EC-9	3,218	67	774	28
Other W. Europe	695	14	237	9
Japan	28	*	478	18
Canada	707	15	1,055	39
Other Countries	183	4	181	6
Total	4,831	100	2,725	100
		CANNED FRUIT COCKTAIL		
EC-9	1,728	55	219	11
Other W. Europe	365	12	342	18
Japan	29	1	104	5
Canada	768	24	927	48
Other Countries	265	8	346	18
Total	3,155	100	1,938	100

1/ Seasons beginning in June of the year shown
* Negligible

Source of data: California Cling Peach Advisory Board.

in part as a result of relatively favorable ocean transportation costs. The Australian share of West European markets has declined, and the Australian government is currently developing a program designed to restructure the canning industry to include the purchasing and selling

of canned deciduous fruits and to "control the marketing of all production."[1/]

In the early 1960's, the U.S. peach canning industry utilized "green drop" programs and other schemes designed to limit supplies in order to raise and maintain producer prices of Clingstone peaches. Since then, prices for competing crops, especially walnuts and almonds, have risen and become relatively attractive. As Cling peach orchards have grown older and yields have declined, growers have been replanting with walnuts and almonds. Thus, the existing and anticipated bearing acreage of Cling peaches in California will just barely produce supplies sufficient to meet the requirements of the domestic and export markets.

Import Systems in Major Markets

EC. The EC is the world's largest market for internationally traded canned peaches and fruit cocktail. In recent years, over 75 percent of the estimated world trade of canned peaches has been imported by the EC, although this does not include shipments of Italian canned peaches to Community markets. Similar data are not available for fruit cocktail, but the EC's share of world trade is believed to be comparable.

The current EC import duties are 24 percent ad valorem on canned peaches and 22 percent ad valorem for fruit cocktail. There is an additional duty for added sugar (above the natural sugar in the fruit). The ad valorem equivalent of the added sugar duty or levy has ranged between

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1/ The Food News Company, (London), vol. 7, no. 3, January 12, 1979, pp. 4 and 5.

zero and 7 percent. The principal difficulty encountered with this levy, however, is that each lot of canned fruit has to be sampled and tested in a laboratory to arrive at the added sugar levy. This can result in delays and complications with payment of duties and invoices. EC regulations require import licenses and security deposits, and authorize the limitation or the prohibition of imports in the event EC market prices for processed products are threatened.

Finally, the EC authorizes the payment of subsidies to EC canners of peaches, provided they pay established minimum prices to growers. 1/ For example, the current subsidy to French canners is 1.12 francs per 1 kilo can if they pay growers a price of 1.4741 francs per kilo.

Canada. The Canadian market is the second largest market for internationally traded canned peaches. There are no quantitative restrictions imposed on imports of th. e products into Canada. Current Canadian import duties are 1.25 cents per gross lb. for canned peaches and 2 cents per gross lb. for canned fruit cocktail. At current prices, these duties are equal to 9 percent ad valorem for canned peaches and 7 percent ad valorem for fruit cocktail.

Japan. The Japanese import market is the third largest market for imports of canned peaches, although it is probably not such a large market for canned fruit cocktail.

The Japanese import duties on canned peaches and mixed fruits are

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1/ EC Commission Regulation 1515/78, effective June 30, 1978.

25 percent ad valorem. There are no NTB's limiting imports of these items into Japan.

6. CITRUS FRUITS

Exports of citrus fruits accounted for over one-third of the value of U.S. exports of all fruits, nuts and preparations in 1976.

There were two major objectives sought for U.S. citrus products in the MTN. The first was to liberalize NTB's maintained by the Japanese that sharply curtailed imports of fresh oranges and citrus juices. The second was to reduce EC import duties so that the tariff preferences that the EC had extended to neighboring Mediterranean citrus suppliers would have less of an effect on U.S. citrus exports.

A. MTN Results

Results Affecting U.S. Exports

The U.S. requested duty reductions and elimination or modification of NTB's from 14 countries or regions which imported $196 million worth of U.S. citrus in 1976. Total U.S. citrus export value that year was $357 million.

Eleven of these countries or regions responded, although the offers of Australia, the EC, Indonesia and New Zealand were not considered of value in increasing trade. Canada, from which a concession was not requested, volunteered one in order to aid its GATT Article XVIII negotiations with the U.S. Trade gains are expected from the following concessions.

Japan. Japan agreed to increase the size of its import quotas on fresh oranges and on orange and grapefruit juices. The import quotas were specified for each Japanese Fiscal Year (JFY) beginning in 1980-81 and ending in 1983-84. We assumed that the rate of increase during the last

two years of this period would continue until JFY 1987-88 and that the quotas for fresh oranges would be filled by U.S. exports. The import quotas are very small in relation to Japanese orange consumption, and the U.S. has supplied all of the recent quotas. For the citrus juice quotas, it was assumed that the U.S. would supply about 90 percent of the total, as in recent years, but that U.S. grapefruit juice exports to Japan would not increase at a rate comparable to the increase in quotas.

Under these assumptions, U.S. orange exports to Japan will reach 102,000 mt annually by 1987, compared to 25,000 mt in 1976. U.S. orange juice and grapefruit juice exports to Japan by 1987 will be 8,000 mt and 6,000 mt, respectively, compared with 1976-77 averages of 1,500 mt and 900 mt. These concessions are valued at $36 million annually by 1987.

The Japanese bound their current duties on fresh oranges, orange juice, and grapefruit juice. This is important because it assures that duties will not be increased when the NTB's are removed.

The Japanese cut their import duty on fresh grapefruit to an average of about 10 percent (from 40 percent to 25 percent ad valorem, December through May, and from 20 percent to 12 percent ad valorem, June through November). Given a price elasticity of -1.1[1/], U.S. grapefruit exports to Japan would increase annually by 16,000 mt by 1987, at a value (at the Calendar 1977 U.S. export price) of $3.8 million.

The Japanese also reduced their import duty on fresh lemons from 10 to 5 percent ad valorem. The price elasticity for lemons is lower than

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[1/] Used for both fresh oranges and fresh grapefruit. Based on elasticities reported in Demand Relationships for California Tree Fruits, Grapes, and Nuts, a Review of Past Studies, Univ. of California, Giannini Foundation of Agricultural Economics, Special Publication 3247, August 1978.

for oranges or grapefruit, and is estimated at -.5. This would result in an increase of about 2.5 percent in U.S. lemon exports to Japan (or 2,600 mt), worth $1.0 million.

The Japanese also agreed to reduce their import duty on lemon juice from 22.5 percent to 10 percent ad valorem. This would bring an annual increase in U.S. exports to Japan of 12,000 gallons, worth $.1 million, by 1987.

Other Concessions. Australia offered to bind its import duties on grapefruit and lemon juices at the existing rate. Therefore, no increase in trade will result from this concession.

Although Canada was not asked to reduce its duties on citrus fruits or products, it offered to reduce its duty on frozen concentrated orange juice from 5 percent to 3 percent ad valorem, contingent upon the settlement of its GATT Article XXVIII negotiations with the U.S.

In 1976 the U.S. exported 7.8 million gallons of frozen concentrated orange juice to Canada. Although the duty concessions is small, the high price elasticity of frozen concentrated orange juice (-2.2[1/]) would increase U.S. exports to Canada by 400,000 gallons. This, at 1977 average prices, would be worth $1.8 million annually.

The U.S. asked the EC to reduce its import duties on fresh oranges, grapefruit, and lemons, and orange and grapefruit juices. The Community offered to reduce its import duty on fresh grapefruit from 4 percent to 3 percent ad valorem. This is not considered sufficient to encourage increased trade.

1/Ronald W. Ward, The Economics of Florida's Frozen Concentrated Orange Juice Imports and Exports; an Econometric Study. Florida Department of Citrus and University of Florida, Gainesville, Florida, ERD Report 76-1, August, 1976.

Finland offered to cut its duty on frozen concentrated orange and grapefruit juices from 30 percent ad valorem (with no added sugar) and 40 percent ad valorem (with added sugar) to 12 percent ad valorem. This was contingent upon a U.S. offer on cheese. In 1976 the U.S. exported 75,000 gallons of frozen concentrated orange juice and 1,000 gallons of single strength grapefruit juice to Finland. The duty cut will result in an increase in U.S. exports of frozen concentrated orange juice of 30,000 gallons annually by 1987, valued at $.1 million.

Iceland offered to cut its duty on frozen concentrated orange juice in large containers from 30 percent to 15 percent ad valorem. This is estimated to result in an increase in U.S. exports to Iceland of 21,000 gallons, worth $.1 million.

Indonesia offered to bind its import duties on fresh grapefruit and lemons at the existing rate. No increase in trade will result from this concession.

Korea offered to reduce its duties on citrus juices from 80 percent to 60 percent ad valorem. The U.S. exports frozen and hot pack concentrated orange juice and single strength orange juice to Korea. This duty cut will increase U.S. exports by 42,000 gallons, worth $.1 million at 1977 U.S. export prices.

New Zealand offered to cut its current duties, which are specific duties, to 10 percent ad valorem for fresh oranges and to zero duties for fresh grapefruit and fresh lemons. The current specific duty on fresh oranges is approximately the same as the 10 percent ad valorem duty offered.

The offers of duty free treatment for imports of fresh grapefruit and fresh lemons are attractive and would have an effect on trade. However, imports of all fresh citrus fruits into New Zealand are rigorously controlled by a government agency; hence, no value can be attributed to these duty cuts with respect to increased trade.

Norway offered to cut its import duty on frozen concentrated orange juice from the equivalent of 4 percent to 2 percent ad valorem. In 1976, the U.S. exported 286,000 gallons of frozen concentrated orange juice to Norway, valued at $1.0 million. The decrease in duty will increase U.S. exports to Norway by 13,000 gallons by 1987, valued at $.1 million.

The U.S. asked Austria to reduce its import duties on all concentrated citrus juices, but it offered only to reduce those on concentrated orange juice. In 1976, Austria imported 57,000 gallons of frozen concentrated orange juice from the U.S., but no frozen concentrated grapefruit juice. We assumed that by 1987 Austria would import 10,000 gallons of frozen concentrated grapefruit juice from the U.S. Such a quantity, however, would have only a negligible trade value.

Mexico granted an annual quota for 50,000 lbs. of lemon oil to be imported into the interior of Mexico. The U.S. exported 11,000 lbs. of lemon oil to Mexico in 1976 and 4,000 lbs. in 1977. The new quota is an increase of approximately 40,000 lbs. At the 1977 U.S. export price, this is worth $.1 million.

A summary of the concessions received from foreign countries in response to U.S. requests is provided in Table 6-I. Of the $43.2 million in trade gains, Japan alone accounts for $40.9 million, or 95 percent.

Table 6-I

Summary of MTN Results for Citrus

Country	Commodity	Unit	U.S. Exports, Cal. 1976 Quantity - Units-	U.S. Exports, Cal. 1976 Value $Mill.	Nature of Concession	Value of Concession Quantity - Units-	Value of Concession Value $Mill.
Japan	Fresh Orgs.	m.t.	25,070	8.1	Quota Increase	77,000	25.6
	Conc. Org. Juice	m.t.	1,500	1.1	" "	6,500	6.3
	Conc. Gpft. Juice	m.t.	900	.7	" "	5,100	4.1
	Fresh Grapefruit	m.t.	144,000	30.9	Duty Cut	16,000	3.8
	Fresh Lemons	m.t.	55,000	51.2	" "	2,600	1.0
	Conc. Lemon Juice	000 gals.	200	1.6	" "	12	.1
Australia	Conc. Org. Juice	000 gals.	12	*	Bind Present Duty	0	0
Canada	Conc. Org. Juice	000 gals.	7,789	31.6	Duty Cut	400	1.8
EEC	Fresh Gpft.	m.t.	79,000	19.1	" "	0	0
Finland	Conc. Org. Juice	000 gals.	75	.3	" "	30	.1
Iceland	Conc. Org. Juice	000 gals.	64	.3	" "	21	.1
Indonesia	Fresh Orgs. & Lemons	m.t.	3,000	.9	Bind Present Duty	0	0
Korea	Orange Juice [1]	000 gals.	173	.3	Duty Cut	42	.1
New Zealand	Fresh Gpft.	m.t.	432	.1	" "	0	0
	Fresh Lemons	m.t.	1,740	.5	" "	0	0
Mexico	Lemon Oil	000 lbs.	11	*	Quota Increase	40	.1
Norway	Conc. Org. Juice	000 gals.	286	1.0	Duty Cut	13	.1
Austria	Conc. Gpft. Juice	000 gals.	0	0	" "	10	*
Total Above				147.7			43.2
Other Concessions Requested				48.1			0
Total Citrus Concessions [2]				195.8			43.2

*Less than $50,000 [1] Includes both concentrated and single strength orange juices [2] Including Canada

Results Affecting U.S. Imports

The U.S. granted two concessions in response to requests for reductions in U.S. import duties on citrus fruits and their products. Israel, Jamaica, Tunisia, and Mexico asked for a reduction in the duty on fresh and processed grapefruit; and Jamaica requested a reduction in the duty for citrus fruit NES (i.e., other than oranges, grapefruit, lemons, and limes).

The U.S. reduced its import duty on canned grapefruit segments to 0.6 cent per pound. The current U.S. import duty, which is a strange one for a processed product, varies according to the season because it is tied to the duty on fresh grapefruit. At its lowest, the duty is 0.8 cent per pound. It is doubtful that this concession will have any effect on the U.S. citrus industry. Canned grapefruit segments, because of the high labor costs involved in producing the product, have almost disappeared from commercial production in the U.S.

It is likely that Ugli fruit, a grapefruit-like fruit produced in Jamaica, may benefit from the second U.S. concession. It is not expected, however, that this would have any significant affect upon the U.S. citrus industry.

B. Background on Citrus Fruits

The citrus products of primary concern in the MTN are fresh oranges, grapefruits, lemons, and the juices processed from these fruits. Juices from all of these fruits are sold in single strength and concentrated (usually frozen concentrated) form.

Production

Commercial production of citrus fruits in the U.S. is located in Florida, California/Arizona, and Texas. These areas contribute 73, 23, and 4 percent, respectively, of total U.S. citrus tonnage. Total U.S. production is comprised of oranges, 71 percent; grapefruit, 19 percent; lemons, 6 percent; and tangerines, tangelos and limes, 4 percent.

Florida provides roughly 74 percent of total U.S. orange production. Florida oranges are grown under near-tropical conditions. They are ideal for processing, and 94 percent of the Florida crop is processed. Of this 94 percent, 81 percent is used for frozen concentrated orange juice and 14 percent for chilled juice.

Nearly one-quarter of the U.S. orange crop is produced in California/ Arizona There the nights are cooler, and the fruit has higher sugar and acid content and is well suited for eating. In this area, the bulk of the fruit is shipped for fresh consumption, and about one-third is processed.

Texas supplies 2 percent of the U.S. orange crop. Texas oranges are produced under climatic conditions similar to those in Florida, and half of the Texas oranges are processed.

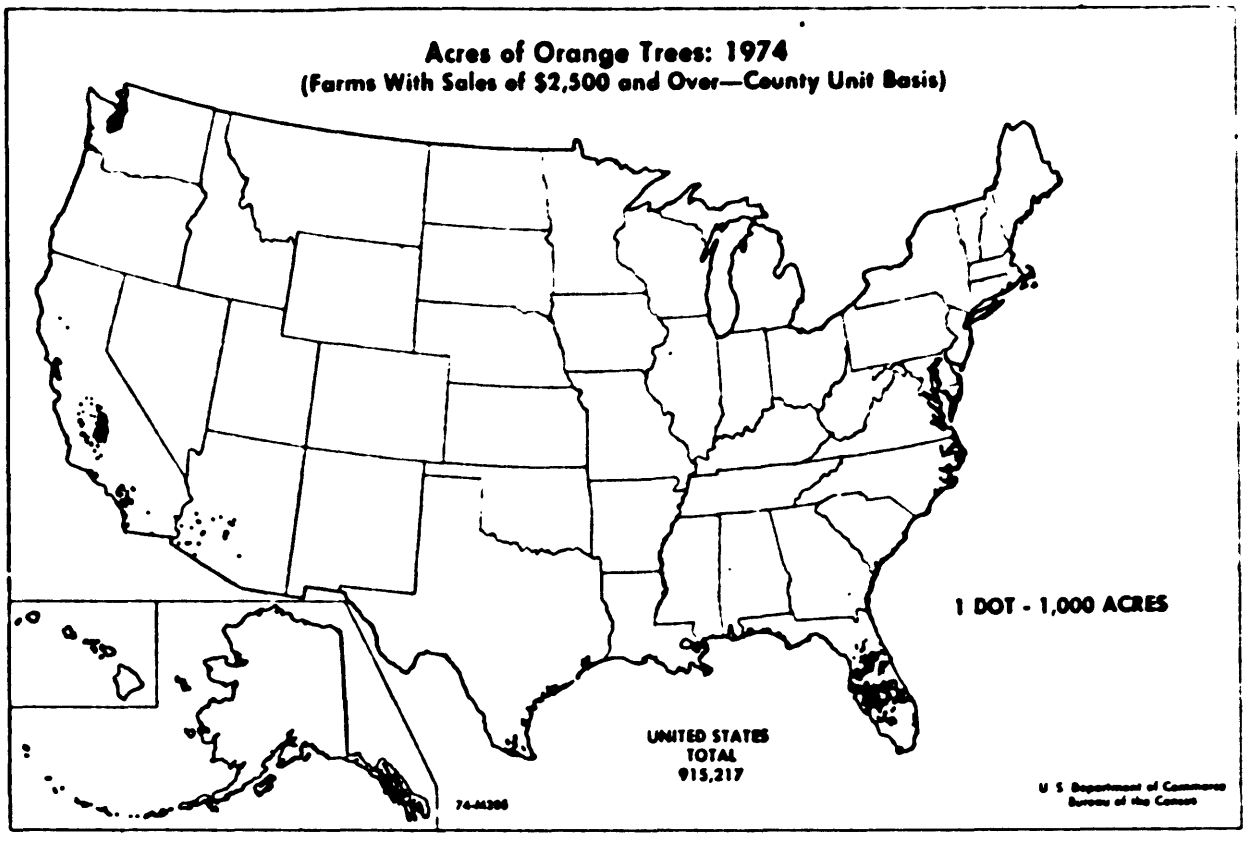
About three-quarters of the total U.S. grapefruit crop is produced in Florida. Two-thirds of the Florida grapefruit crop is processed into frozen concentrated grapefruit juice or chilled grapefruit juice.

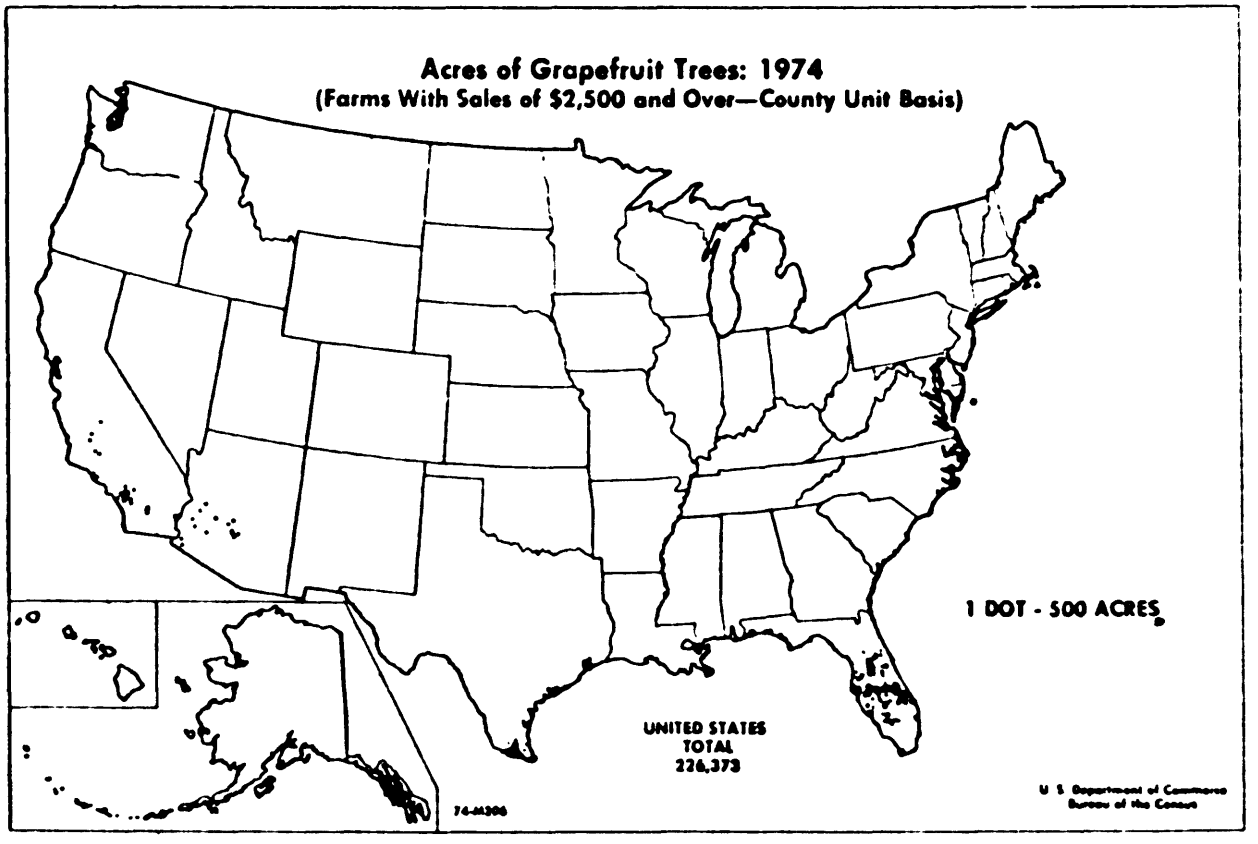
Roughly 15 percent of the U.S. grapefruit crop is produced in Texas and 10 percent is produced in California/Arizona. Texas ships heavily during the winter months, as does Florida, and processes about 40 percent

of its crop. California/Arizona ships all year, and processes half of its crop. Ninety percent of U.S. lemon production is located in California/Arizona. Half of the crop is shipped fresh to market; half is processed.

Orange production is increasing in all areas, as is grapefruit production in the Gulf States. California/Arizona grapefruit and lemon production have remained relatively stable over the past 15 years.

The U.S. is by far the world's largest citrus producer, accounting for 40 percent of the world's oranges, 70 percent of the grapefruit, and nearly 30 percent of the lemons. World production of oranges and grapefruit has been increasing, with Brazil and Israel showing significant gains in orange and grapefruit production, respectively.


Acres of Orange Trees: 1974
(Farms With Sales of $2,500 and Over—County Unit Basis)
1 DOT - 1,000 ACRES
UNITED STATES
TOTAL
915,217
74-M306
U S Department of Commerce
Bureau of the Census


Acres of Grapefruit Trees: 1974
(Farms With Sales of $2,500 and Over—County Unit Basis)
1 DOT - 500 ACRES
UNITED STATES
TOTAL
226,373
74-M306
U S Department of Commerce
Bureau of the Census

66-189 O - 78 - 6

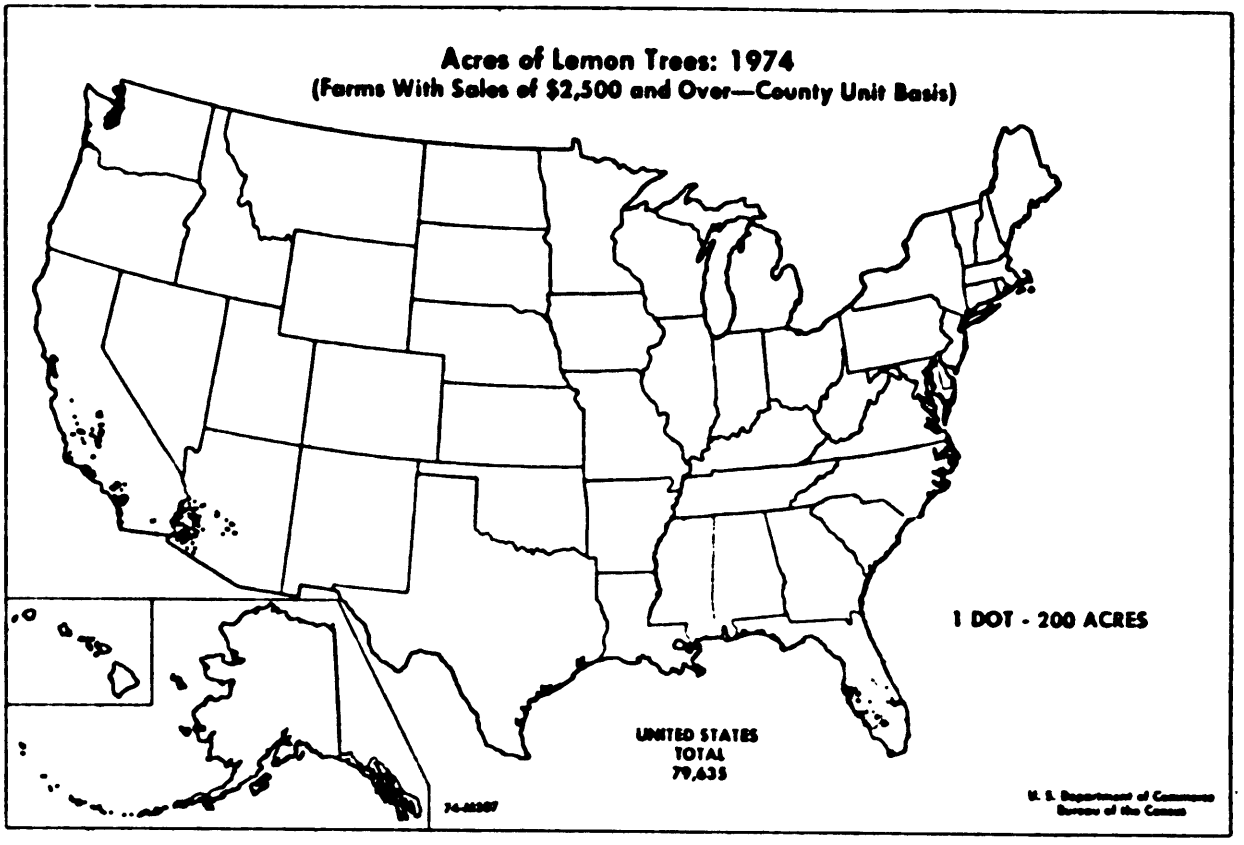

Acres of Lemon Trees: 1974
(Farms With Sales of $2,500 and Over—County Unit Basis)
1 DOT - 200 ACRES
UNITED STATES
TOTAL
79,635

Table 6-II

World Orange, Grapefruit, and Lemon Production by Principal Producing Countries 1971-72 and 1976-77

	Oranges		Grapefruit Crop Year 1/		Lemons	
	1971-72	1976-77	1971-72	1976-77	1971-72	1976-77
	million metric tons					
U.S.	7.5	9.6	2.4	2.7	.6	.9
Italy	1.5	1.9	-	-	.8	.8
Spain	1.8	1.8	-	-	.1	.2
Israel	1.1	1.0	.4	.5	-	-
Brazil	2.4	3.8	-	-	.2	.4
So. Africa	.6	.5	.1	.1	-	-
Argentina	-	-	.1	.2	.2	.3
Turkey	-	-	-	-	.1	.3
Greece	-	-	-	-	.1	.2
Others	4.8	4.9	.2	.2	.2	.2
Total	19.7	23.5	3.1	3.7	2.5	3.5

1/ Northern hemisphere harvests start in the fall of the first year shown and Southern hemisphere harvests start in the spring of the second year shown.

Source of data: USDA, FAS. World Fresh Citrus Fruit Production and Trade Statistics, FCF 1-78, August, 1978.

U.S. Exports

Fresh Citrus. Exports of fresh oranges from the U.S. (originating largely in California/Arizona) have increased steadily in recent years. Canada, the largest market, receives nearly 50 percent of U.S. fresh orange exports. Nearly 15 percent are shipped to Western Europe, mostly the EC, and 5 percent to Scandanavia and Eastern Europe. The balance goes mostly to markets in Asia and the Pacific.

Exports of U.S. fresh grapefruit have increased even more rapidly in recent years. Over half the exports go to Japan, the largest market. (Exports to Japan soared after the Japanese liberalized imports in June 1971.) About 23 percent of U.S. fresh grapefruit exports go to Canada and 22 percent to Western Europe.

Exports of lemons from the U.S. also have increased in recent years, but not as rapidly as exports of oranges and grapefruit. Japan is the largest export market, receiving over 40 percent of U.S. exports. Western Europe (largely the EC) receives almost 30 percent, Scandanavia and Eastern Europe receive 17 percent, and Canada receives 9 percent. U.S. lemon exports to Japan rose sharply after the Japanese import quota was removed in May 1964.

Juices. Exports of orange juice from the U.S. have increased rapidly in recent years, primarily in the form of frozen concentrated orange juice from Florida.

Canada is the largest single market for U.S. orange juice, receiving almost half of the total exports. The EC receives roughly 30 percent of the total.

Table 6-III

Exports of Fresh Oranges to Major Markets, 1975-76 Season

Exporter	Importer					
	EC-9	Other Europe	Canada	Far East	Other	Total
	thousand metric tons					
U.S.	101	13	177	147	2	440
Spain	888	58	*	-	16	962
Israel	398	271	3	7	19	698
Morocco	155	NA	NA	NA	257	412
So. Africa	195	19	8	10	84	316
Greece	31	129	-	-	59	219
Italy	143	18	-	-	36	197
Brazil	26	10	-	-	-	36
Cyprus	23	2	-	-	2	27
Argentina	13	2	-	-	2	17
Australia	*	*	*	6	*	6
Total	1,973	522	188	170	477	3,330

*Less than 500 m.t.

Source of data: USDA, FAS. World Fresh Citrus Fruit Production and Trade Statistics, FCF 1-78, August, 1978.

Table 6-IV

Exports of Fresh Grapefruit to Major Markets, 1975-76 Season

Exporter	Importer					
	EC-9	Other Europe	Canada	Japan	Other	Total
	thousand metric tons					
U.S.	74	2	63	144	2	285
Israel	214	38	*	7	1	260
So. Africa	50	4	1	4	*	59
Cyprus	26	1	-	-	1	28
Argentina	14	*	-	-	-	14
Total	378	45	64	155	4	646

*Less than 500 m.t.
Source of data: USDA, FAS. World Fresh Citrus Fruit Producion and Trade Statistics, FCF 1-78, August, 1978.

Table 6-V

Exports of Fresh Lemons to Major Markets, 1975-76 Season

Exporter	Importer					
	EC-9	Other Europe	Canada	Japan	Other	Total
	thousand metric tons					
U.S.	48	25	16	86	15	190
Italy	100	68	-	-	94	262
Spain	135	27	-	-	*	162
Greece	12	45	-	-	38	95
Turkey	15	43	-	-	24	82
Israel	6	13	-	-	1	20
Cyprus	12	2	-	-	*	14
So. Africa	9	3	1	-	1	14
Argentina	3	9	-	-	-	12
Total	340	235	17	86	173	851

*Less than 500 m.t.
Source of Data: USDA FAS, World Fresh Citrus Fruit Production and Trade Statistics, FCF 1-78, August, 1978.

Table 6-VI

Calendar 1976 Exports of Orange Juice to Major Consumers
In Equivalent Single Strength Gallons

Exporter	Form	Importer				
		EC9	Canada	USA	Other	Total
		million gallons (Equiv. SS)				
Brazil	FCOJ	174.0	22.0	23.2	72.8	292.0
USA	FCOJ	22.3	38.8		18.0	79.1
	HPOJ	4.7	*		4.3	9.0
	SSOJ	2.7	6.5		1.8	11.0
Israel	FCOJ	18.2			5.8	24.0
	SSOJ	12.7	*	*	.5	13.2
Spain	FCOJ	14.0			.6	14.6
	SSOJ	5.4			.2	5.6
Greece	FCOJ	1.3			10.0	11.3
	SSOJ	.3			4.5	4.8
Morocco	FCOJ	5.2				5.2
	SSOJ	1.0			2.4	3.4
Italy	FCOJ	4.4			1.1	5.5
	SSOJ	*			*	*
Mexico		N.A.	N.A.	1.5	N.A.	1.5 1/
TOTAL		266.2	67.3	24.7	122.0	480.2

*Less than 50,000 gals.
1/ Incomplete
Source of Data: USDA, FAS

Table 6-VII

Calendar 1976 Exports of Grapefruit Juice to Major Consumers
In Equivalent Single Strength Gallons

Exporter	Form	Importer: EC9	Canada	USA	Other	Total
		million gallon (equiv. SS)				
Israel	FCGJ	7.7			1.0	8.7
	SSGJ	6.0	*	.1	1.1	7.2
USA	FCGJ	2.3	3.1		1.1	6.5
	HPGJ	.7	.2		1.0	1.9
	SSGJ	.9	3.4		1.1	5.4
Greece	FCGJ				.1	.1
	SSGJ	*			.8	.8
Italy	FCGJ				.2	.2
	SSGJ				*	*
TOTAL		17.6	6.7	.1	6.4	30.8

* Less than 50,000 gals.
Source of Data: USDA, FAS

Brazil's exports are nearly seven times larger than they were in 1970, while U.S. exports of orange juice are only twice the 1970 level. Brazil now dominates world trade in orange juices, supplying 60 percent of the world's orange juice exports. The U.S. supplies about 20 percent.

U.S. grapefruit juice exports have remained about the same over the past several years. Exports of grapefruit juice from Israel have been increasing, and Israel is now the largest exporter.

Major Trade Problems

EC (Fresh Fruit). The EC is the largest import market in the world for fresh citrus fruit. It imports roughly 75 percent of the world's fresh orange and tangerine trade, 60 percent of the world's fresh grapefruit trade, and 45 percent of the world fresh lemon trade.

Italy is the only producing country in the EC, although Greece is an associate member and produces oranges, tangerines and lemons with duty-free access to EC markets. To aid the Italian citrus producers, the EC pays a "penetration premium" (which is a subsidy) to Italian citrus shippers for all fresh oranges, mandarins, clementines and fresh lemons shipped from Italy to the other countries in the EC.

In addition, the EC pays a premium to Italian citrus processors for quantities processed above "normal" levels. And finally, the EC provides export refunds, or subsidies, for exports of fresh oranges, fresh lemons, orange juice, and lemon juice to countries outside the EC.

The EC also supports market prices of imported oranges. "Reference prices" are established for imported fresh oranges during the period December 1 through April 30 of each season. (This is the period when most

Italian supplies are marketed.) These reference prices serve as minimum import prices. When fresh oranges from a particular country sell below the pre-determined reference price, the EC imposes an offsetting "compensatory tax" against oranges imported from that country. This tax has never been imposed on U.S. oranges, and hence it would appear to be favorable to U.S. oranges.

Since the fall of 1969, the EC has granted preferential tariff reductions for citrus fruit imported from certain Mediterranean countries. These reductions have been applied on a discriminatory basis, to the detriment of other third country suppliers, including the U.S. These preferential rates and countries are shown in Table 6-VIII. In addition, the EC allows duty-free imports of all fresh and processed citrus products to over forty signatories to the Lomé Convention in Africa, the Caribbean and the Pacific. These countries are relatively small citrus producers, but this preference may stimualte their production.

The countries receiving preferential tariff treatment from the EC account for about 30 percent of the world production of oranges and nearly 80 percent of the world exports of fresh oranges.

For fresh grapefruit, the level of the EC's common external tariff (CXT) (4 percent ad valorem) is so low that the duty preferences have no significant affect on trade.

The EC's common external tariff for fresh lemons is 8 percent ad valorem. This is sufficiently high that increased production in the Mediterranean countries in response to duty preferences (especially in Spain, Turkey, and Greece) would be likely to adversely affect U.S. lemon

Table 6-VIII

MEDITERRANEAN PREFERENCE GROUPINGS

Groupings	ORIGIN	Percent Reduction from Common External Tariff							
		Fresh Oranges	Fresh Tangerines	Fresh Lemons	Fresh Grapefruit	Orange Juice	Lemon Juice	Grapefruit Juice	Pectin
I	Cyprus	40	40	40	40	0	0	0	0
	Lebanon	40	40	40	40	0	0	0	0
	Spain	40	40	40	0	0	0	0	0
	Turkey	40	50	50	40	0	0	40	0
II	Israel	60	60	40	80	70	60	70	25
	Egypt	60	60	40	80	0	0	0	0
III	Algeria	80	80	80	80	70	60	0	25
	Morocco	80	80	80	80	70	60	0	25
	Tunisia	80	80	80	80	70	60	0	25

sales in EC markets. In the case of fresh oranges, U.S. exporters (largely in California/Arizona) already have been affected by the preferential import arrangements of the EC. In the mid 1960's, around 25 percent of U.S. orange exports went to the countries that now constitute the EC-9. This percentage began to drop in 1970 and 1971, recovered in 1975, and now is again dropping. In 1977 it dropped to 16 percent, and for the first 8 months in 1978 it fell to 12 percent. Actual amounts shipped to the EC during this year and last were less than normal shipments in the mid-60's, at the same time shipments to Canada have held their own and shipments to other markets have more than doubled.

EC (Juices). Imports of orange juice into Western Europe and the EC have increased sharply in recent years, quadrupling from 1970 to 1976. The rapid rise in production and exports of Brazilian orange juice has been mentioned earlier. Grapefruit juice imports into the EC also increased during this period, but at a more modest rate.

EC regulations have established a system of import licenses, limited imports, and established minimum prices for imports of processed fruits and vegetables.[1/] These regulations have not been applied to citrus juices, however, and it is unlikely that they will be.

Exports of citrus juices from Spain and Israel to the EC have increased rapidly in recent years, and these have been encouraged by the preferential duties of the EC. Thus far there is no evidence of significant increases in citrus juice production and trade in the other Mediterranean countries. The EC common external tariffs of 19 percent and 15 percent ad valorem for orange and grapefruit juice, respectively,

1/ EC Regulation Nos. 1927-75 and 1928-75, July 22, 1975.

are sufficiently high to make the preferences attractive.

Japan. Barriers to imports of fresh lemons and grapefruit into Japan had been reduced prior to the Tokyo Round of negotiations. Following WWII, quotas were imposed on imports of all citrus. Quotas on imports of fresh lemons were liberalized in 1964 and on fresh grapefruit in 1971. Imports of each of these fruits from the U.S. rose sharply, and Japan is now the largest single country importing these fresh citrus fruits from the U.S.

Going into the Tokyo Round, quotas still remained on imports of fresh oranges from the U.S., which rose from 2,800 mt in JFY 1967-68 to 22,900 mt in JFY 1977-78. The U.S. had pressed Japan very hard to liberalize, or at least increase, the quotas limiting imports of fresh oranges, and was successful in this, as described above. The Japanese contended that they were unable to increase the quotas because unrestricted imports of U.S. oranges would harm Japanese orange producers. These producers are politically important, and they are developing a program to convert 20 percent of their Mikan orange groves into other crops, thereby improving the depressed prices that have hurt Japanese groves in recent years. The U.S. view was that the Japanese grove problems are not unique (every citrus area in the world has experienced marketing problems from having overplanted), that the Japanese Mikan groves are not commercial producers (groves average 1 acre in size -- 80 percent are planted on hilly, mostly steep land), and that Japanese quotas are illegal under GATT and ultimately must be liberalized.

Lemon juice imports into Japan had previously been liberalized, and have doubled since 1971. Japan now imports about 300,000 gallons annually, of which two-thirds come from the U.S., the balance largely from Italy.

Until the current Tokyo Round concessions, orange and grapefruit juice imports were limited by quotas. The 1977-78 orange juice quota was 1,000 mt -- equivalent to 645,000 gallons of 5-1 concentrate. The grapefruit juice quota was not disclosed.

Actual exports of U.S. orange and grapefruit juices to Japan during calendar 1977 were 342,000 gallons and 220,000 gallons, respectively, on a 5-1 concentrate basis. Shipments consisted of single strength and concentrated juices.

The Japanese had previously agreed to quotas of 3,000 mt for orange juice and 1,000 mt for grapefruit juice for the 1978-79 Japanese fiscal year. These quantities are 645,000 and 215,000 gallons, respectively, on a 5-1 concentrate basis. The orange juice quota is 4 percent of the estimated Japanese orange juice pack for 1977-78. No grapefruit juice is packed in Japan.

Mexico. Mexico is an important supplier of citrus fruits to the U.S. It provided 90 percent of the fresh oranges, 60 percent of the fresh grapefruit, and 20 percent of the concentrated orange juice imported into the U.S. during the past two years. It also shipped single strength orange juice and fresh lemons to the U.S., but these imports were negligible.

U.S. exports of citrus fruits to the interior of Mexico are subject to import licenses, although shipments to free zones (near border cities) have been made without licenses.

There had been no reciprocity in U.S.-Mexican trade in citrus fruits and their products until the agreement that was reached on lemon oil. This has been an issue of long standing with the U.S. citrus industry.

Competitive Advantages

Just as Mediterranean suppliers have an advantage in the European market by virtue of their location, so does the U.S. have an advantage in Canada, which takes roughly half the U.S. exports of fresh citrus fruit and citrus juices.

The quality of U.S. fresh oranges, especially those from California/ Arizona, enables them to compete successfully on the European market when Mediterranean supplies are past their peak and before South African supplies become heavy. In other world markets, and especially in Asia, U.S. fresh oranges appear to possess an advantage where they are permitted access to the market.

Similarly, the quality of U.S. fresh grapefruit enables it to compete satisfactorily on world markets in all seasons of the year. This is also true for fresh lemons, where the size, uniformity, and packaging of the U.S. product are superior to Italy's, the only real competitor.

With respect to citrus juices, especially frozen concentrated juices, Brazil clearly has competitive superiority over the U.S. in the European markets. Brazilian juice has acquired the major share of markets in the EC and Scandanavia, and Brazil now is exporting larger quantities to the U.S. and Canada.

The Brazilian government establishes "reference" or minimum prices to producers at favorable levels (about U.S. $2.00 per box on tree). Processors can be denied export permits if they refuse to pay the "reference price" to producers. These prices are extremely favorable (U.S. operating costs for mature groves in Florida average 80-90 cents per box with normal crops and, with interest on grove valuation added, amount to a total of

$1.15 to $1.25 per box on tree). This explains the heavy plantings and expansion of both groves and processing plants in Brazil, and presages a period of lower prices and marketing problems in the future.

During the last two seasons, 93 percent of the Brazilian orange concentrate production was exported. Processors receive some export incentives in the form of exemptions from value added and income taxes, and also from subsidized credits.

In the case of grapefruit juice, exports from Israel have increased over three times since 1970, with about 90 percent of its exports destined to the EC. The EC's preferential import duties have contributed to Israel's position. U.S. exports of grapefruit juice remained fairly level over this period, with about one-quarter of them destined for EC markets.

7. DAIRY PRODUCTS

The U.S. is a net importer of dairy products, and other countries sought concessions that would increase U.S. imports. Although most of the requests for larger U.S. import quotas and for reduced U.S. import duties on dairy products were from Australia and New Zealand, many other countries also wanted to obtain a larger share of the U.S. market. In particular, the EC and Scandanavian countries sought increased access to the U.S. market, especially for cheeses.

The problem of import quotas for cheese is a major one for the U.S. Cheese imports have increased steadily since the mid-1950's, particularly since the pricebreak import system was established in 1969.[1/] Data showing U.S. production and imports of cheeses since 1953, together with projections for the period 1978 through 1984 are provided in Tables 7-I and 7-II. The projections for production and imports are provided by USDA, assuming that the present pricebreak import system will be maintained.

A. MTN Results

On Janaury 31, 1979, the U.S. offered a quota of 124.7 thousand metric tons (tmt), to include all cheese imports (including pricebreak cheeses) except sheep and goat cheeses, Bryndza, Gammelost, Nokkelost and Goya, and

1/ The current "pricebreak" import system authorizes the importation of Swiss-Emmenthaler and Gruyere-Process, and certain other Swiss-type cheeses which are not subject to quota, if their f.o.b. price is above the pricebreak level. That level now is 7 cents per pound above the CCC purchase price for grade A Cheddar, f.o.b. plants, rounded to the nearest whole cent. Since Nov. 2, 1978, the pricebreak level has been $1.13 per pound.

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Table 7-I

United States: Imports of Cheese by Quota Status
1966-1977 and Unofficial Forecasts 1/ for 1978-1984

Year	Under Quota 2/	Above "Pricebreak" 3/	Miscellaneous Non-quota 4/	Total
	(1000 MT)			
1966 5/	45.4	7.4	8.6	61.4
1967 6/	53.2	7.4	8.2	68.8
1968 7/	58.4	9.8	9.1	77.3
1969 8/	38.0	17.4	9.9	65.3
1970	36.5	25.5	11.0	73.0
1971 9/	29.9	22.5	9.2	61.6
1972 10/	36.4	32.7	12.3	81.4
1973 11/	71.4	23.4	9.4	104.2
1974 12/	90.5	43.6	9.0	143.1
1975 13/	41.6	30.7	9.1	81.3
1976	44.1	40.7	9.2	94.0
1977	48.2	37.8	8.9	94.9
	(Unofficial Forecasts)			
1978	50.0	42.8	9.2	102.0
1979	46.0	46.8	9.2	102.0
1980	50.0	49.8	9.2	109.0
1981	46.0	53.8	9.2	109.0
1982	50.0	56.8	9.2	116.0
1983	46.0	60.8	9.2	116.0
1984	50.0	62.8	9.2	122.0

1/ Assuming current quota system is maintained as is.

2/ Some quotas currently in force were established during the period covered. figures show what would have been subject to quota if all current quotas had been in place.

3/ "Pricebreak" did not come into actual use until 1968. Figuries show amounts that would have been priced at or above pricebreak if pricebreak had existed.

4/ Pecorino, Roquefort, Gjetast, Bryndza, Gammelast, Noekkelost, Goya.

5/ Cheddar quota increased 33 percent.

6/ Cheddar quota increased 261 percent; quota for American-type other than cheddar established.

7/ Quota established for Processed Edam and Gouda; "Pricebreak" quotas established on Swiss or Emmenthaler, Gruyere-Process and "Other" cheese, NSPF.

8/ Quota established for Italian-type cow's milk cheese not in original loaves; "Pricebreak"quota for "Other" cheese, NSPF increased 43 percent.

9/ "Pricebreak" quota established on "Low Fat" (0.5 percent or less).

10/ Swiss "pricebreak" quota increased by 378 percent in connection with establishment of a changing "pricebreak." Prior to this the pricebreak was fixed at 47¢ per pound. This change tied the pricebreak to the CCC price for cheddar cheese. Similar quota increases were made for Gruyere-Process (up 242 percent) and "Other", NSPF, (up 62 Percent).

11/ All Quotas increased temporarily by 50 percent.

12/ Cheddar quota increased by 100,000,000 lbs. (45,360 MT)

13/ Uncertainty due to negotiations on countervailing duty waivers and generally weak consumer demand dampened import activity.

Source: Basic data for 1966-1977 from U.S. Census Bureau; division by quota status done by ESCS, USDA. Unofficial forecasts done by FAS with technical assistance from ESCS.

Table 7-11

United States: Cheese 1/ Production, Imports and PerCapita Consumption 1953-1977 and Unofficial Forecasts 2/ for 1978-1984

Year	Domestic Prod. (1000 MT)	Imports (1000 MT)	PerCapita Consumption (Kilograms)	Imports as % of Prod. (Percent)
1953	609.6	25.4	3.1	4.2
1958	634.7	25.3	3.2	4.0
1963	740.2	37.7	3.8	5.1
1968	879.2	77.3	4.8	8.8
1970	998.6	73.0	5.2	7.3
1971	1,077.0	61.7	5.4	5.7
1972	1,181.4	81.3	6.0	6.9
1973	1,218.1	104.2	6.2	8.6
1974	1,332.8	143.1	6.6	10.7
1975	1,275.2	81.4	6.6	6.4
1976	1,513.5	94.0	7.2	6.2
1977	1,523.1	94.9	7.3	6.2
	(Unofficial Forecasts)			
1978	1,586.0	102.0	7.8	6.4
1979	1,644.0	102.0	8.0	6.2
1980	1,718.0	109.0	8.3	6.3
1981	1,780.0	109.0	8.5	6.1
1982	1,835.0	116.0	8.7	6.3
1983	1,900.0	116.0	8.9	6.1
1984	1,982.0	122.0	9.2	6.2

1/ Excluding full-skin American and cottage, pot and baker's cheese.

2/ Assuming current "price break" import system is maintained.

Source: Basic data for 1953-1977 from ESCS of USDA and the U.S. Census Bureau. Unofficial forecasts made by FAS with technical assistance from ESCS.

soft cured cheeses (like Camembert, Coulommie or Brie) packaged for retail sale.

The offer included the provision that the EC and other supplying countries would be permitted to resume subsidies subject to a commitment not to undercut U.S. domestic cheese prices. No countervailing duty action would be taken up by the U.S. authorities under these conditions.

Cost of the U.S. Quota Offer

An appraisal of the cost of the quota offer to the U.S. dairy industry is based upon a comparison of the quantity of cheese that would be imported under the current pricebreak system during the next several years with the quantity that would be imported under the new quota offer. Estimates of the former were provided in Tables 7-I and 7-II. (Actual imports in 1978 were 109.9 tmt.) The comparison of quantities imported under the pricebreak system and under the MTN quota offer is shown in Table 7-III.

Table 7-III

Estimates of U.S. Cheese Imports

Calendar Year	Pricebreak System	MTN Quota Offer*
	- - - - - thousand metric tons - - - -	
1980	109	124
1981	109	124
1982	116	124
1983	116	124
1984	122	124
1985	122	124
1986	127	124

*The USDA also prepared a comparison of imports forecast under the pricebreak system and the MTN quota offer in which the quota was imposed more gradually - i.e. 114,000 metric tons for 1980 and 1981; 124,000 annually thereafter. This is not likely to be accepted by foreign suppliers, and would result in lower costs to the U.S. dairymen. This alternative is not considered in this report.

It may be argued that imports well above 110 tmt should be estimated under the pricebreak system during 1980 and 1981. It is understood, however, that a substantial quantity of cheese entered the U.S. late in 1978 in order to be imported ahead of a threatened countervailing duty action by the U.S. In view of this, it appears reasonable to accept the schedule of projected imports under the pricebreak system submitted by USDA.

The analysis adopted as a basis for measuring the impact of the proposed MTN import qutoa on returns to U.S. dairymen is based on one used by Boyd M. Buxton and Richard Fallert in "Impact of Dairy Product Imports on U.S. Milk Price".[1/] The effect of increased imports on milk prices and farm income is calculated by using elasticities of demand for manufacturing and fluid milk, and the elasticity of aggregate supply of milk.

The elasticities used for 1980 were selected under the assumption that dairymen would know, by mid-1979 at the latest, the magnitude of cheese imports in 1980. Hence, there is likely to be some supply response in 1980. An elasticity of supply response of .15 was selected, rather than zero which would be appropriate for the very short-run period when producers would not have enough time to adjust production. The elasticities of demand used are appropriate for a short-run period.[2/]

For 1981 and subsequent years, the elasticities utilized were appropriate for a long-run period.[3/]

[1/] University of Minnesota, Department of Agricultural and Applied Economics, Staff Paper P74-21, October 1974.

[2/] Elasticity of demand for manufacturing milk, -.184; elasticity of demand for fluid milk, -.10.

[3/] Elasticity of demand for manufacturing milk, -.5; elasticity of demand for fluid milk, -.35; elasticity of aggregate supply, .15.

These elasticities were applied to the increases in imports shown in Table 7-III. The price reductions in turn were applied to 1978 sales of milk for manufacturing use and to fluid milk in order to arrive at an appropriate cost to U.S. dairymen of the MTN cheese quota offer. These estimates are shown in Table 7-IV

Table 7-IV

Effect of MTN Quota Offer on U.S. Producers

Calendar Year	Increased Cheese Imports 1,000 mt	Reduction in Farm Prices of Milk ¢ per 100 lbs.	Reduction in Farm Income $ million
1980	15	- 6.38	76.3
1981	15	- 2.90	34.7
1982	8	- 1.55	18.5
1983	8	- 1.55	18.5
1984	2	- .39	4.7
1985	2	- .39	4.7
1986	-	-	-

The estimates of increased cheese imports under the MTN quota offer may be high because it was assumed that the quota will be completely filled, although in practice the quotas have not always been. Furthermore, the estimates of imports under the pricebreak system could be low, as discussed earlier. But it is appropriate to consider the full potential cost of the new quota system, since it is always possible that the new quota will be filled.

By 1986 and in later years, U.S. dairy producers will receive greater protection under the MTN quota offer than they would have under the price-break import system.

The U.S. Commitment on Subsidies

The MTN cheese quota offer was accompanied by a U.S. pledge that the EC and other supplying countries could resume export subsidies subject to a commitment not to undercut U.S. domestic cheese prices. Countries who do not subsidize exports could sell at below U.S. market prices, but would still be subject to quotas.

This is an extremely interesting commitment. It sanctions export subsidies under the new codes and indicates that the U.S. intends to adopt the EC practice of authorizing imports from those countries that undertake to meet various minimum import prices for some commodities.

The commitment assures that no countervailing duty action will be taken under certain circumstances; however, it does not indicate the circumstances under which countervailing action would be taken. Thus, U.S. milk producers have no guarantee that countervailing duties would automatically be applied if exporters sold cheese to the U.S. below domestic prices.

There are a number of potential problems with this commitment.

First, it may be difficult to determine the existence of a subsidy. When a subsidy is announced, as in the publication of a restitution by the EC, the problem is easy; but when industries are offered rebates after the marketing season is over (as sometimes happens), the problem becomes difficult. Furthermore, when export prices are determined by marketing boards

or by state trading agencies, it is extremely difficult to isolate and determine an export subsidy.

Second, the MTN quota offer sidesteps the issue of "grinder" cheese (cheese for further processing) which is a substantial proportion of the domestic cheese output and of great concern to the U.S. industry. As before, grinder cheese is still subject to the total cheese quota, and cheese prices are left to a vague promise of "price discipline." In 1977 New Zealand, Australia, Israel, and Finland exported "grinder" cheeses to the U.S. priced at 60 cents per pound or less. Further attention may need to be given to this potential problem.

Third, U.S. domestic prices of cheese are not defined. Presumably the U.S. industry will assist in the determination of U.S. prices, but there is no evidence of progress in this area.

And finally, the allocation of quotas by types of cheeses and by countries becomes difficult when one or several countries offer a particular cheese for sale at a lower price. The current U.S. import regulations allow importers to buy from the cheapest source. Unless present regulations are changed, importers could shift purchases from the EC and other countries selling at U.S. domestic prices to cheaper sources, thus lowering average import prices below domestic prices.

B. Background on Dairy Products

Cheese, butter, and nonfat dry milk (NFDM) dominate international trade in dairy products. Other dairy items traded include casein, butteroil, evaporated milk, butterfat mixtures, animal feed with milk solids, and frozen cream.

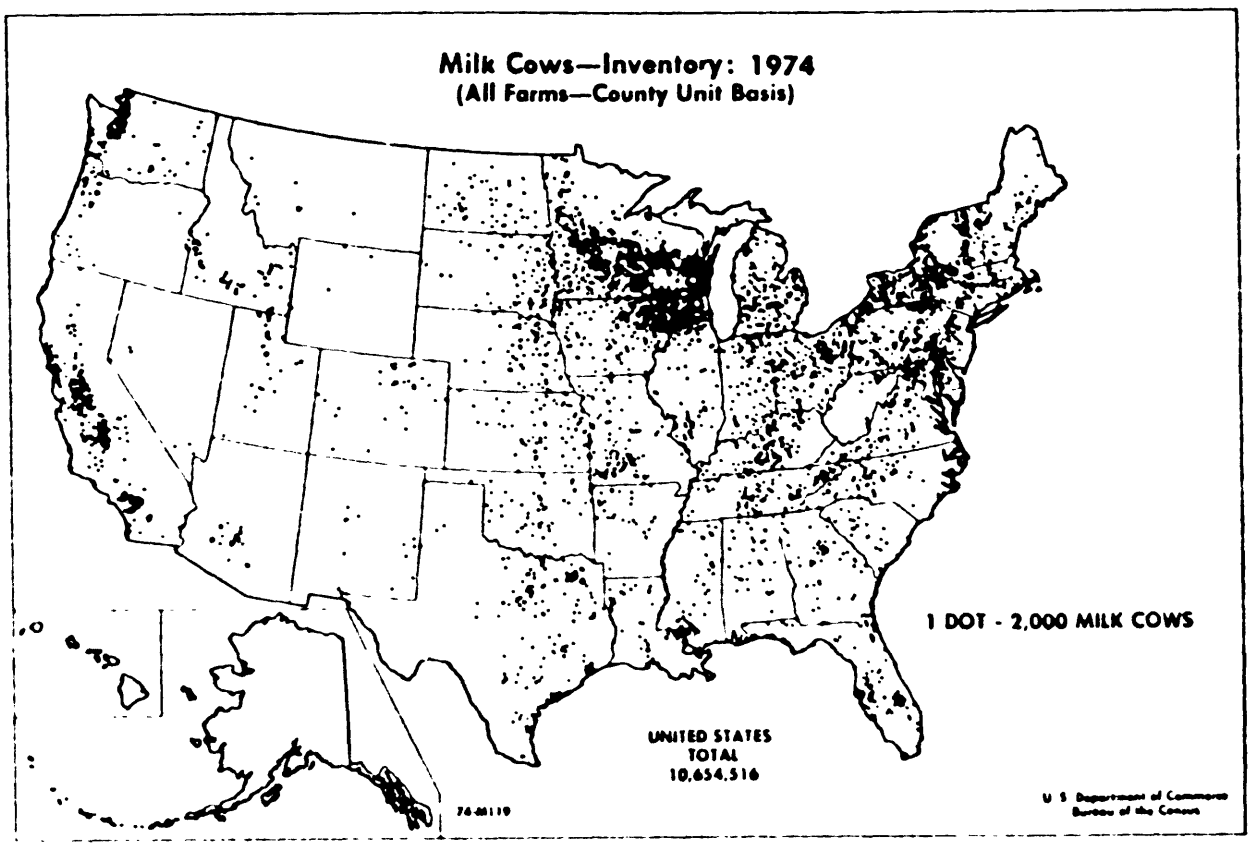
Production and Trade

The United States is the world's second largest producer of cheese and nonfat dry milk and ranks third in butter production. Cheese is the major imported product, accounting for 6.2 percent of U.S. production, while imported butter and nonfat dry milk only accounts for 0.2 percent.

Five states supply over 45 percent of U.S. fluid milk production. Wisconsin ranks first, followed by California, New York, Minnesota, and Pennsylvania.

Butter and nonfat dry milk production is concentrated in Wisconsin, Minnesota and California.

Cheese production is greatest in Wisconsin, Minnesota and New York. American-type cheese (including Cheddar) is the predominant type of cheese produced on a volume basis, followed by the Italian-type cheeses.



Cheese

World cheese production totaled 8.0 mmt in 1977. The EC is the major producer, accounting for 40 percent of world production. The United States is second, with 19 percent of the total. Other large suppliers in the world market are New Zealand, Australia, Switzerland, Austria and Finland. Virtually every country has been increasing its cheese production. EC cheese production rose 32 percent from 1969-73 to 1977, while the U.S. increased production by 42 percent during the same period. Only New Zealand experienced a decline in output of 22 percent.

World cheese exports were 559 tmt in 1977. The EC dominates the world market with a 37 percent share of world cheese exports (excluding intra-EC trade). New Zealand's and Australia's market shares are 14 and 9 percent, respectively, of world exports. The EC is also the leading cheese importer, accounting for 37 percent of world imports. The U.S. ranks second with a 20 percent share, followed by Japan at 13 percent.

Butter

Butter production in the world was 5.9 tmt in 1977. The EC and the USSR alone produce over 50 percent of the world butter supply. The U.S. is the third largest producer, with 8 percent of the world total. World butter production has been rising in recent years. The EC and the USSR increased production 11 and 33 percent, respectively, between 1969-73 and 1977. Australian production declined 41 percent during the same period. Although U.S. butter production in 1977 matched the average output during 1969-73, it is expected to decline in 1978.

World butter trade reached 572 tmt in 1977. The trade situation is similar to the one for cheese. The EC and New Zealand are the major

exporters, supplying 43 and 37 percent, respectively, of the world export market (excluding intra-EC trade). The EC has been increasing its share in recent years in an effort to reduce its burdensome surplus stocks, at times through export sales on a concessional basis. Australian exports have declined as output has fallen, but it is still the third largest exporter, with a world market share of 6 percent. The EC imported 65 percent of the world trade in butter. Japan ranks second, purchasing 13 percent of world imports in 1977; the U.S. accounts for less than 1 percent of world butter imports.

Nonfat Dry Milk (NFDM)

World NFDM production has been increasing steadily and totaled 4.0 mmt in 1977. Production has risen 27 percent since the average of 1969-73. The EC is the major producer, accounting for nearly 50 percent of world output. The U.S. produces 10 percent of world NFDM supplies. Compared to 1969-73, the U.S., Canada and Australia reduced their NFDM production 14, 12 and 5 percent, respectively, in 1977; but New Zealand and the EC have shown production increases.

World NFDM trade increased by over 55 percent from 1976 to 1977 (to 1,046 tmt), due mainly to a rise of 140 percent in the EC's exports. The EC has been trying to reduce its intervention (surplus) stocks by subsidizing exports to make them price-competitive with NFDM from low-cost producing ocuntries such as New Zealand. The EC share of world exports of NFDM was 40 percent in 1977. New Zealand and Australia supplied 19 and 11 percent, respectively, of world exports. Canada has been increasing its share of exports, reaching 16 percent in 1977, compared to 8 percent

Table 7-V

World Cheese Production and Exports, by Major Supplier

	1976		1977	
	Production	Exports	Production	Exports
	thousand metric tons			
EC-9	2,987	199	3,153	207
New Zealand	105	81	81	78
Australia	113	32	104	52
Other W. Europe	667	144	696	158
Other	3,829	64	3,934	64
Total	7,701	520	7,968	559

Source: USDA, Foreign Agricultural Service

Table 7-VI

World Butter Production and Exports, By Major Supplier

	1976		1977	
	Production	Exports	Production	Exports
	thousand metric tons			
EC-9	1,779	115	1,769	247
New Zealand	249	202	269	213
Australia	148	76	277	34
Other W. Europe	272	33	269	35
Other	3,413	52	3,337	43
Total	5,861	478	5,921	572

Source: USDA, Foreign Agricultural Service

Table 7-VII

World NFDM Production and Exports, by Major Supplier

	1976		1977	
	Production	Exports	Production	Exports
	thousand metric tons			
EC-9	1,932	175	1,849	423
New Zealand	231	132	229	199
Australia	147	95	97	110
Other W. Europe	228	55	210	22
Other	1,467	213	1,622	292
Total	4,005	670	4,007	1,046

Source: USDA, Foreign Agricultural Service

in 1975. The U.S. share declined from 10 to 7 percent between 1975 and 1977. However, an increase in U.S. NFDM exports is anticipated in 1978. The EC and Japan account for over half of the world NFDM imports. The U.S. imported only 1 tmt of NFDM from 1975 to 1977.

Sources of U.S. Imports

The EC is the major supplier of cheese imports in the U.S., with a 30 percent market share in 1977. However, the EC's share has fallen consistently since 1972 when it accounted for 50 percent of all U.S. cheese imports. The EC supplies the majority of U.S. imports of Blue Mold, Edam and Gouda, and Gruyere-Process cheese.

New Zealand has made the strongest gains in the U.S. market since 1972, and it is now responsible for 17 percent of U.S. cheese imports. In 1976, New Zealand became the largest U.S. supplier of "Other Cheese, NSPF," and leads in supplying Cheddar and American-type cheeses.

The Nordic countries of Finland and Norway also have made larger inroads into the U.S. market in recent years and now maintain a market share of 20 percent. These countries and Austria tend to ship mainly Swiss-Emmanthaler cheese. Argentina specializes in exports of Italian-type cheeses.

Major Producing Country Support Systems

U.S. The U.S. maintains domestic dairy product prices through a price support program and import quotas.

The price of manufacturing grade milk is supported through government purchases of cheese, butter and NFDM when prices fall below support levels. These levels must be between 80 and 90 percent of parity and are

announced on October 1 each year. Support levels are adjusted on April 1 for any changes in the parity index.

Table 7-VIII

Support-Purchase Prices for Dairy Products

	Beginning April 1, 1978	Beginning October 1, 1978	Estimate Beginning April 1, 1979
	dollars per pound		
Butter	1.09	1.13	1.24
Nonfat dry milk	.72	.74	.79
Cheese	1.03	1.06	1.16

Unless action is taken by Congress, prices may be supported at a level between 75 and 90 percent of parity beginning October 1, 1979. Stocks attained from government purchases may be used in domestic and international food assistance programs, or they may be resold in the open market when prices reach 105 percent of the support price in order to avoid a rapid increase in prices.

Until the MTN agreement takes effect, an import quota system exists for certain cheeses, butter, NFDM, and other dairy products. Most cheeses are covered by absolute quotas. The exceptions include cheese made from sheep or goat's milk and pricebreak cheeses.

EC. The EC sets a target price for whole milk; to achieve this objective it supports dairy product prices through several means. First, intervention prices are established for butter, NFDM and certain cheeses, and intervention agencies purchase these products when market prices are at intervention levels.

Second, minimum import prices ("threshold prices") for the major dairy products protect the EC market from imports. Import levies are derived from the difference between the lowest corresponding c.i.f. offer price and the threshold price. For products with no announced threshold prices, levies are determined by using the nearest threshold price for similar products.

Third, subsidies are paid by the EC on exports of various dairy products. The EC has been plagued by chronic surpluses in dairy products, especially butter and NFDM. In addition to export subsidies, the EC may offer these products for export from their intervention stocks. It has also forced livestock producers to purchase NFDM from intervention stocks for use in animal feed by demanding a deposit on protein feed imports which was refunded after the producer had purchased and denatured his share of NFDM. This program had the effect of displacing U.S. exports of protein feeds. The GATT found this program illegal, and it was suspended in October 1977.

The EC has also attempted to reduce milk production through premiums offered to entice producers to shift dairy herds to meat production, and with premiums paid for not delivering milk to the dairy. A special levy (tax) is charged on milk delivered to dairies. This fund is used to increase dairy product consumption within the EC.

The costs to the EC of supporting dairy product prices and managing surpluses has risen sharply in recent years (Table 7-IX). The EC is keenly interested in expanding exports to reduce its dairy surpluses and price support costs.

The EC policy of subsidized exports and protection against imports effectively bars the U.S. and other suppliers from the EC market. When the U.K., Ireland, and Denmark joined the EC, former suppliers to these markets had to find new outlets for their products, and most have turned to the U.S.

Table 7-IX

FEOGA Guarantee Section Appropriations and Expenditure for Milk and Dairy Products, 1973-1977

	Expenditure				Appropri-ations
	1973	1974	1975	1976	1977
	million dollars				
Exports refunds	406.9	426.0	433.0	868.1	1,336.8
Intervention activities	1,402.0	1,092.7	1,015.0	1.710.0	2,112.6
of which:					
Aid to skim milk and skim milk powder for animal feed	433.2	599.1	574.3	761.8	928.1
Aid to skim milk for caesin	71.1	102.1	81.6	113.4	149.7
Storage of dairy products and surplus disposal costs	828.12	284.6	258.6	834.9	1,034.9
Total milk and milk products	1,808.9	1,518.7	1,515.9	2,590.8	3,450.0
Total FEOGA, "Guarantee" section	4,538.9	3,859.0	6,221.8	7,034.3	9,800.2

Source: EEC, Budget Papers, various issues.

New Zealand. The New Zealand Dairy Board effectively supports the price of dairy products through its control of exports. Since over 50 percent of New Zealand's dairy product output is exported, the price of these exports is a major determinant of dairy producers' incomes.

The Board is empowered to set the price of cheese, and this price is related to the butter price established by the Dairy Products Price

Authority. Producers are paid a monthly advance on the milk supplied to the cooperative. The Board also pays producers up to 50 percent of the annual trading surplus. If these returns do not equal the basic purchase prices, the deficit is made up from the Dairy Industry Reserve Account. Since domestic and export prices are determined by market conditions, no direct government export subsidy is involved.

For years, New Zealand's major export outlet was the U.K. However, with the U.K.'s accession into the EC, special, but temporary, arrangements were made for New Zealand to continue exporting to the EC. This agreement expired at the end of 1977, and New Zealand has had to find new markets for its products. This led to a sharp increase in New Zealand's exports of cheese to the U.S.

8. LUMBER AND PLYWOOD

The U.S. has had a long-standing dispute with Japan over acceptance of our lumber and plywood grading standards. U.S. lumber does not meet Japanese grading standards, nor is it suitable without further milling for the traditional Japanese method of construction. Japan also presently insists on inspecting lumber used in 2x4 construction instead of accepting U.S. inspection labels.

The Japanese have discouraged U.S. plywood exports because they feel that the performance standards for structural plywood are not suitable to their needs. The Japanese use plywood with less surface defects than U.S. standards allow. In addition, U.S. plywood does not pass the Japanese glue bond test. (The U.S. uses less glue than the Japanese in plywood because U.S. wood is stronger.)

There is also a problem with white speck (a fungus) in both lumber and plywood. The Japanese are hesitant to agree to using lumber or plywood with white speck.

A. MTN Results

The U.S. asked the Japanese to accept U.S. grading standards for lumber and to recognize U.S. inspection labels. Japan agreed; but in translating the text of the standards, it made changes in the standards themselves which would have limited U.S. lumber sales to Japan. The major changes were in the standards on wane (lumber with bark), knots, and white speck. After a series of negotiations in June 1978, Japan agreed to changes in the translation; this satisfied U.S. objections, with the exception of the

white speck standard. Japan has agreed to maintain the standards, as revised, without any changes; thus, there is still a problem with white speck. Japan has promised to study the question, but it has made no positive commitments.

No final agreement has been reached on acceptance of U.S. inspection laoels nor on changes in the Japanese system of lumber used in 2x4 construciton. However, negotiations are expected to continue until a resolution of the differences is reached.

No concessions were made on plywood standards other than an agreement between the U.S. and Japan to actively pursue the development of mutually acceptable performance standards by 1980. Japan is willing to amend the Japanese Agricultural Standards, except for those dealing with white speck, after a technical examination of the plywood standard problems. The Japanese noted that if regulations under their Building Standard Law must be amended, the entire process may take a longer time.

B. Background on Lumber and Plywood

Lumber

Approximately three-fifths of total U.S. lumber production originates in the Pacific Northwest.

Softwood lumber is the predominant lumber type produced, accounting for about four-fifths of the total. Softwood lumber production totalled 30.8 bil. board ft. in 1976. Demand for softwood lumber depends primarily on housing starts which, in turn, are influenced by the rate of economic growth.

Imports of softwood lumber in 1976 increased 39 percent over the previous year. Softwood lumber imports have been rising steadily for the past 10 years, with the exception of 1974-75 when the housing market was in a major slump. Virtually all U.S. softwood lumber imports are from Canada, principally the province of British Columbia.

Table 8-I

U.S. Softwood Lumber Production, Exports, Imports and Consumption

	Production	Exports	Imports	Consumption
	billion board feet			
1970	27.5	1.2	5.8	32.1
1974	27.7	1.6	6.8	32.9
1975	26.7	1.4	5.7	31.1
1976	30.8	1.6	9.0	37.2

Source: U.S. Department of Agriculture, Forest Service.

Softwood lumber exports have been expanding in recent years. Exports were 1.6 billion board ft. in 1976, a 33 percent increase over 1970 exports. Japan is the major export market for the U.S., receiving 30 percent of U.S. softwood lumber exports. Canada and Europe are the other major markets, accounting for 27 and 20 percent, respectively.

Table 8-II

U.S. Softwood Lumber Exports by Destination

	1970	1974	1975	1976
	- - - - million board feet - - - - -			
Japan	405	571	515	476
Canada	203	382	398	438
Europe	284	311	219	316
Other	269	303	273	376
Total	1,161	1,567	1,405	1,606

Source: USDA, Forest Service.

The Pacific Northwest region dominates U.S. lumber trade. Over 64 percent of U.S. softwood lumber exports are shipped through the ports of Alaska, Washington, Oregon and Northern California. Alaska is the major supplier of softwood lumber to Japan, followed by Washington and Oregon.

Plywood

Plywood production is also centered in the Northwest, which supplies approximately 60 percent of total U.S. production. Softwood plywood accounts for over 90 percent of total U.S. plywood output. Softwood plywood production was 17.5 bil. sq. ft. (3/8 in. basis) in 1976, compared to 14.1 billion in 1970. The major market for plywood is the construction industry, and softwood plywood consumption is recovering from the decline in housing starts during 1974 and 1975.

Table 8-III

U.S. Softwood Plywood Production
Exports and Consumption

	Production	Exports	Consumption
	- - - mil. sq. ft. (3/8 in. basis) - -		
1970	14,149	114	14,038
1974	15,306	542	14,769
1975	15,265	791	14,481
1976	17,500	718	16,794

Source: USDA, Forest Service.

U.S. softwood exports have increased dramatically since 1970, rising by over 500 percent in 1976. Most of the increase was due to a higher rate of exports to Canada and Europe, the major markets. Europe receives almost 50 percent of U.S. softwood plywood exports, and Canada is consistently either the largest or second largest export market. Exports to Japan have stagnated at 2 mil. sq. ft. during 1974-76. (Table 8-IV).

Table 8-IV

U.S. Softwood Plywood Exports by Destination

	1970	1974	1975	1976
	- - - - mil. sq. ft. - - -			
Japan	1	2	2	2
Canada	8	278	394	163
Europe	77	222	363	513
Other	28	40	31	40
Total	114	542	791	718

Source: U.S. Bureau of Census.

Washington and Oregon supply over 50 percent of total U.S. softwood plywood exports and virtually all softwood plywood exported to Japan.

Trade Problems with Japan

The traditional Japanese method of construction differs from U.S. methods. Japanese homes are made using a post and beam construction. The typical U.S. home is made using 2x4 construction from a platform base.

Lumber exported from the U.S. is not suitable for use in Japanese construction, unless it is further milled, because of the differences in standards and grades between the two countries. American lumber manufacturers have been reluctant to change their milling practices to conform with Japanese standards, and would prefer that the Japanese accept U.S. grades and standards.

The U.S. also exports logs to Japan. In 1976, the U.S. exported 2.7 mil. bd. ft. (log scale) to Japan. This was over 80 percent of total U.S. log exports. However, much of the lumber exported to Japan is in the form of cants (logs that are sawed on two sides) or waney cants (logs sawed on four sides). Both of these lumber types are milled to Japanese specifications in Japan. The U.S. lumber industry felt that log exports could be reduced and lumber exports increased if the Japanese would accept American grades and standards.

There are also trade problems because all imported lumber used in 2x4 construction must be inspected in Japan. The U.S. has its own voluntary lumber inspection programs. There are six major grading agencies in the U.S.; these agencies inspect lumber upon request by a company. If the

lumber complies with accepted U.S. standards, it is fixed with the grading agency's label. American inspection labels are not recognized by the Japanese.

Furthermore, the inspection in Japan does not take place at the point of entry, but rather, at the point of construction. This costly procedure is an added deterrant to U.S. lumber exports.

9. POULTRY

The U.S. sought concessions, either in the form of duty reductions or modification of non-tariff barriers, from 37 countries or groups of countries to which the U.S. had exported poultry meat worth $84 million out of total poultry exports of $181 million in 1976.

Twenty-two of the countries from whom concessions were sought maintain quantitative restrictions on imports. Of these, only three modified their barriers to trade.

A. MTN Results

Although eighteen countries responded with concessions to U.S. requests, nineteen countries made no concessions. The countries granting concessions, the nature of their concessions, and the estimated effects of these upon U.S. exports of poultry meat are described below.

European Community

The EC offered three concessions to the U.S. on poultry meat. The first was an assurance that uncooked seasoned turkey meat will continue to be classified as "prepared" poultry in the EC tariff schedule. This means that seasoned turkey meat may be imported with a duty of 17 percent *ad valorem* rather than under the variable levies and gate prices of the CAP for poultry in the EC.

The second was an effort to reduce the coefficients by which the variable levies and gate prices on whole turkey were translated into variable levies and gate prices on turkey parts. Finally, the EC offered to reduce its common external tariff on poultry liver from 14 percent to 10 percent, *ad valorem*.

The first concession allows U.S. turkey exporters to escape the high import charges of the EC poultry import system by merely seasoning the uncooked turkeys or turkey parts. This concession is of considerable value, because if imports of turkey meat were subjected to the CAP poultry import system they would, in time, be sharply reduced in much the same fashion as were imports of chicken meat. The nature of the EC's import system on poultry is discussed later in this report, but in essence it insulates the EC producers from world market competition, drastically reducing imports.

Under the EC's poultry import system, U.S. exports of turkey meat would be reduced to an estimated 2,500 mt (metric tons) by 1987. However, the trade concession will prevent this decline, which would be 12,500 mt less than the U.S. exports of turkey meat to the EC during Calendar 1976. At average 1977 export prices, 12,500 mt of turkey meat is worth $20 million, the amount U.S. trade would decrease in the absence of the concession.

It is possible that this concession (it is not a binding) would be withdrawn as EC turkey production continues to expand in the future at its present rate of growth. However, the current rate of imports is relatively small (about 3 percent of EC production), and the Community will probably tolerate imports of roughly this quantity rather than initiate another "chicken war."

The second concession, the reduction of the coefficients for determining levies and gate prices on turkey parts, will have no effect on U.S. exports of these items to the EC. The new coefficients will reduce gate prices and levy elements in the EC import system calculations by 16.7 percent for

turkey drumsticks, 12.9 percent for turkey thighs, and 3 percent for turkey breasts. However, even after adjusting the import charges and gate prices for the coefficient changes offered by the EC, the relationship between the landed duty paid prices of the various turkey parts and the EC gate prices remains as it was in November 1978 because the landed prices have risen since that date. Hence no impact upon the level of trade should result.

The third concession from the EC is a reduction in its common external tariff on poultry liver from 14 percent to 10 percent ad valorem. Although the EC calculates variable levies for imports of poultry liver, the import charges may not exceed the present 14 percent or, ultimately, the 10 percent ad valorem rate.

In 1976 the U.S. exported 2,300 mt of poultry liver to the EC, valued at $2.6 million. U.S. exports of this commodity to the EC, while fluctuating from year to year, have averaged about 1,900 mt annually in recent years. Using a price elasticity of -.8 [1/] for poultry, a 4 percent reduction in duty will result in a 3 percent increase in trade by the end of the transition period. This will bring an increase in U.S. exports of poultry liver to the EC of 70 mt, valued at $.1 million annually by 1987.

Japan

Japan offered to reduce tariffs from 20 percent to 10 percent ad

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1/ Donald W. Regier, Livestock and Derived Food Demand in the World GOL Model, USDA, Foreign Agricultural Economic Report No. 152, September 1978, p. 39.

valorem on chicken legs, from 10 percent to 5 percent ad valorem on whole turkeys and turkey parts, and from 25 percent to 10 percent ad valorem on processed poultry.

Chicken legs are the most important poultry item exported by the U.S. to Japan. Chicken parts (mostly chicken legs) accounted for 80 percent of the value of all U.S. poultry exported to Japan in 1976. Exports of U.S. chicken parts to Japan have been increasing in recent years, from 13,000 mt in 1975 to 33,000 mt in 1978. Calendar 1978 was used as a base for calculating the increase in trade resulting from the duty cut of 10 percent ad valorem because 1978 provides the most accurate measure of trade volume from which to calculate trade gains. Although total demand should continue to increase, exports will receive increased competition from expanding production in Japan and from expansion of production of poultry for export in Southeast Asia.

With a price elasticity of -2.2 for poultry in Japan [1/] (poultry prices are much higher and the demand more elastic in Japan than in Europe), a 10 percent reduction in duty should lead to an ultimate increase in U.S. exports of 22 percent by 1987. This is an increase of 7,300 mt of chicken parts, worth (at 1977 average prices) $7.6 million annually by 1987.

The duty reduction on whole turkeys will result in a U.S. trade gain of $.1 million, while the lower duty on turkey parts (including an estimate for an increase in trade of processed turkey) will result in a trade increase valued at $.2 million.

1/ Regier, Livestock and Derived Food Demand in the World GOL Model, p. 39.

U.S. exports of processed poultry to Japan are quite small at the present time. Undoubtedly these will increase. The tariff reductions will help, but they cannot be credited with all the increase in trade expected in the future.

New Zealand

New Zealand did not offer a decrease in its import duties, although it offered to remove its license requirement for imports of prepared or preserved turkey meat. New Zealand requires that all such products be cooked. U.S. exports of these products to New Zealand were 8 mt in 1977 and 11 mt in 1978, and the export price ($1.70 per lb. in 1977) suggests that exports were in the form of turkey rolls. It is estimated that 50 mt annually will be exported to New Zealand by 1987, worth $.2 million.

Norway

Norway, which imported 24 mt of turkey parts from the U.S. in 1976, established a global quota of 20 mt annually for imports of turkey rolls. The turkey parts exported by the U.S. to Norway in 1976 were undoubtedly frozen thighs or drumsticks because of the relatively low unit value of the exports. Twenty mt of turkey rolls represent $.1 million in additional exports.

Other Concessions

There were nine countries offering concessions to the U.S. on poultry that were considered to have negligible value as far as increasing trade is concerned.

Sweden offered to reduce the coefficient by which it calculates costs

for prepared poultry by the equivalent of 8 percent. Trade with Sweden is small, and the value of any increase resulting from this concession is negligible.

Austria, Egypt, Finland, Indonesia, and the Philippines offered to reduce their import duties on turkeys, turkey parts, or prepared turkey meat. The reductions offered by Austria, Egypt and Finland were small, and (except for Austria) all of these markets are quite minor. No significant trade increase can be expected from the concessions offered. Haiti offered duty cuts equivalent to about 4 percent ad valorem on chicken parts and about 11 percent ad valorem on liver. Again, the trade is too small to be significant. And although Korea offered sizable duty cuts on dead poultry and liver and Taiwan offered a sizable duty cut on poultry meat other than chickens and turkey, the amount of trade covered is too small to result in significant trade gains.

There were five countries that offered concessions having no value because they would have no effect on trade. Argentina, the Dominican Republic and Mexico offered to bind their import duties at the existing (or, in the case of Argentina, higher) rates. Canada offered to reduce its import duties on live and eviscerated turkeys (subject to agreement by the U.S. to reduce its duties on these items to levels comparable with the proposed Canadian levels), but it will maintain its quantitative restrictions to allow the limitation or prohibition of imports of these items. Finally, Australia offered to cut its import duty on turkey rolls from the equivalent of about 10 percent to 4 percent ad valorem for U.S. turkey rolls, but it will keep its requirement that imported poultry products must be cooked

at a temperature of 212°F. This precludes the importation of turkey rolls for commercial sale.

A summary of the concession received from foreign countries and their estimated value in terms of increased trade to U.S. exporters by 1987 is provided in Table 9-I. The annual increase in poultry exports is estimated to be $28.3 million.

The only request for a U.S. concession was made by Canada. Canada tied its offer to reduce its duties on imports to live turkeys and eviscerated turkeys to comparable action on the part of the U.S. The Canadian proposal was refused.

TABLE 9-1

Summary of MTN Results for Poultry Meat

Country or Group	Product	1976 U.S. Exports to Country or Group		Nature of Concession	Value of Concessions Increased Exports	
		Quantity mt	Value $Mill.		Quantity mt	Value $Mill.
EC	Turkey Parts	11,993	18.2	Coefficient Reduction	0	0
	Whole Turkeys	2,973	4.3	"	0	0
	Total Turkeys	14,966	22.5	Classification Committment	12,500 1/	20.0 1/
	Poultry Liver	2,341	2.6	Duty Reduction	70	.1
Japan	Chicken Parts	20,562 4/	20.4	" "	7,300	7.6
	Whole Turkeys	487 4/	.7	" "	54	.1
	Turkey Parts	233 4/	.4	" "	113	.2
New Zealand	Prep. Turkey	8 2/	*	License Removal	50	.2
Norway	Turkey Rolls	0	0	Quota Incr.	20	.1
Sweden	Prep. Poultry	39 2/	.1	Coefficient Reduction	*	*
Austria	Turkey Parts	164	.2	Duty Reduction	*	*
Egypt	Turkeys and Parts	36	.1	" "	*	*
Finland	Turkey Rolls	0	0	" "	*	*
Haiti	Chicken Parts and Liver	55 2/	.1	" "	*	*
Indonesia	Canned Turkey	0	0	" "	*	*
Korea	Real Poultry and Liver	35	*	" "	*	*
Philippines	Turkey Meat	7	*	" "	*	*
Taiwan	Poultry Meat 3/	67	*	" "	*	*
Total Above		39,000	47.1		20,107	28.3
1976 U.S. Exports		182,500	181.0			

*Negligible
1/ Represents estimate of decline in trade prevented, not an increase in trade.
2/ 1977 trade. 3/ Other than chicken or turkey. 4/ 1978 trade.

B. Background on Poultry

The items of major significance in the trade negotiations are fresh, chilled or frozen broilers; fowl (stewing hens); and turkeys. These account for about 90 percent of the value of all U.S. poultry exports in 1976 and 1977.

Production

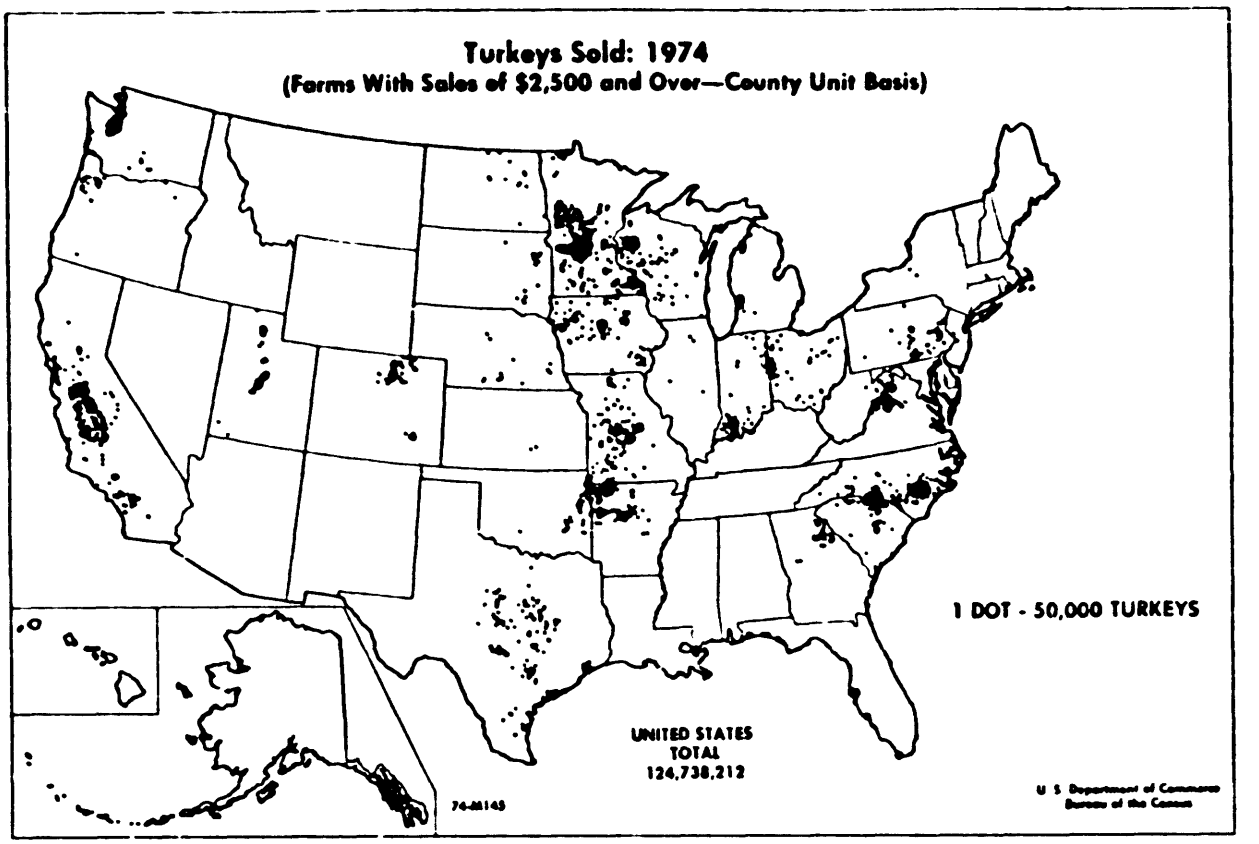
Commercial broiler production occurs in 33 states of the U.S. The largest producing areas are in Arkansas, Georgia, Alabama, North Carolina, Mississippi, Texas, and the Delmarva Peninsula.

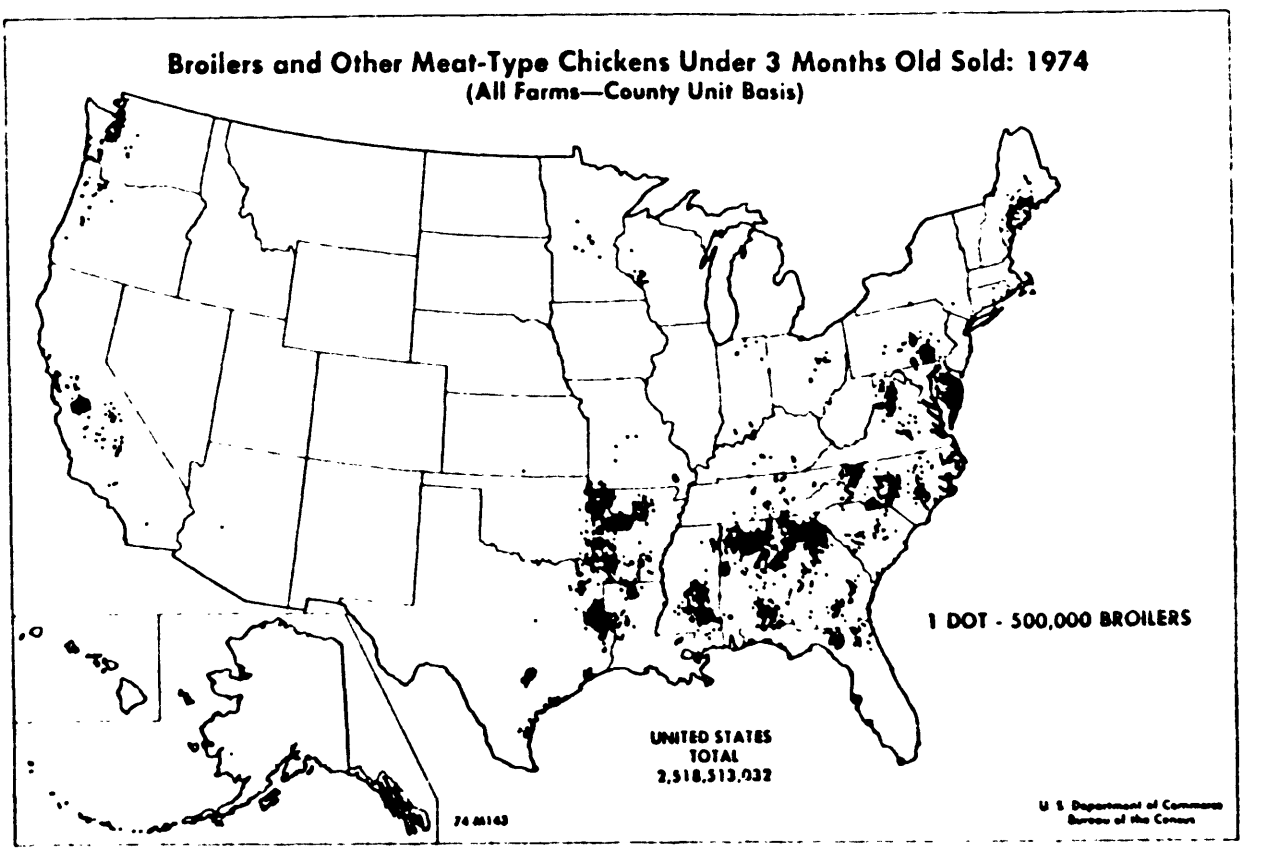
Total turkey production is even more widely scattered, but commercial production is greatest in Minnesota, North Carolina, California, Arkansas, Missouri, and Texas.

For the world as a whole, broiler production contributes two-thirds of total poultry production; stewing hens, 14 percent; and turkeys and other poultry, 10 percent.

The U.S. is the world's largest producer of broilers and turkeys, with 38 and 57 percent, respectively, of total world production during the last two years; the EC is second, with 21 and 30 percent, respectively. The USSR is the world's largest producer of stewing hens, with 44 percent of the world total production. The EC is second, with 16 percent of the total; and the U.S. is third, with 14 percent.

World production of both broilers and turkeys has been increasing at a rapid rate in recent years. Average world broiler production in 1977 and 1978 is expected to be 50 percent higher than it was during 1969-73.


Turkeys Sold: 1974
(Farms With Sales of $2,500 and Over—County Unit Basis)
1 DOT - 50,000 TURKEYS
UNITED STATES
TOTAL
124,738,212
74-M145
U S Department of Commerce
Bureau of the Census


Broilers and Other Meat-Type Chickens Under 3 Months Old Sold: 1974
(All Farms—County Unit Basis)
1 DOT - 500,000 BROILERS
UNITED STATES
TOTAL
2,518,513,032
74-M143
U S Department of Commerce
Bureau of the Census

U.S. production increased 44 percent during this period, while Canadian production increased 13 percent. Production declined in Argentina, but doubled for South America as a whole. For all of Western Europe, broiler production increased one-third, while it doubled in Eastern Europe as new industries were starting. Asian production increased by nearly 75 percent.

Production is expected to continue to expand. In 1978, the increase in world production of broilers and turkeys, compared to 1977 was 9.0 and 6.3 percent, respectively. (Tables 9-II and 9-III).

World turkey production increased by about 25 percent between 1969-73 and 1977-78. Production increased about 19 percent in the United States, and nearly doubled in the EC.

TABLE 9-II

World Broiler Production, by Principal Regions
Annually, 1974-1978

	1974	1975	1976	1977	1978
	million metric tons				
United States	3.7	3.7	4.1	4.2	4.6
Other North America	.6	.5	.5	.6	.6
South America	.8	.9	1.0	1.0	1.1
EC-9	2.1	2.1	2.3	2.4	2.4
Other Europe	.9	1.1	1.3	1.4	1.5
Soviet Union	.2	.2	.2	.2	.5
South Africa	.2	.2	.2	.2	.2
Asia and Oceania	.9	.9	1.0	1.1	1.2
World Total	9.5	9.6	10.6	11.1	12.1

Source of data: USDA, FAS.

TABLE 9-III

World Turkey Meat Production, by Principal Regions
Annually, 1974-1978

	1974	1975	1976	1977	1978
	- - - million metric tons - - - -				
United States	.9	.8	.9	.9	1.0
Other North America	.1	.1	.1	.1	.1
South America	*	*	*	*	*
EC-9	.4	.4	.5	.5	.5
Other Countries	.1	.1	.1	.1	.1
World Total	1.5	1.4	1.6	1.6	1.7

*Negligible.
Source of data: USDA, FAS.

World Trade

World trade in poultry meat is relatively small compared to production. In 1977 about 5 percent of world broiler production and 2 percent of world turkey production was traded in world markets. (Only EC exports to third countries were considered to be EC exports.) This compares with an estimated 2 percent of both world broiler and turkey production traded on world markets during 1964-66.

The EC is the major world exporter of broilers, due in large measure to the "restitutions" or subsidies paid for exports of broilers (and other poultry meat) to third countries under the CAP for Poultry. During 1964-66, only 1 percent of EC poultry production was exported to third countries; exports are now 10 percent of production. The EC accounts for 40 percent of the world trade in broilers, and its major markets are in the Mideast and Mediterranean areas. Most of the exports are as whole broilers.

In 1977 the U.S. was the second largest exporter of broilers on world markets. About 3 percent of the U.S. broiler production was exported (the same percentage as in 1964-66, although less than immediately prior to the implementation of the CAP on Poultry, when large exports of U.S. broilers were made to the EC). The largest U.S. markets were Iraq, Canada, Venezuela, and Mexico.

The U.S. exported almost twice the tonnage of parts as it did whole broilers in 1977. Japan was the largest market for U.S. exports of chicken parts, followed by Hong Kong and Singapore.

Another important exporter is Hungary, exporting broilers for the first time in 1977. The quantity exported was over 100,000 mt, one-third of Hungary's reported production and one-fifth of the estimated total world broiler exports. The Hungarian exports were sold under the state trading agency.

Brazil, which began exporting broilers in 1975, exported over 30,000 mt of broilers in 1977. The quantity exported was 5 percent of Brazil's production and 6 percent of the estimated total world broiler exports in 1977.

The U.S. is the largest exporter of turkeys, accounting for three-quarters of the world total. As in the case of broilers, exports of turkey parts from the U.S. were larger (over four times larger) than exports of whole turkeys in 1977. Although the markets were widely scattered, one-third of the whole turkeys and two-thirds of the parts were shipped to the EC and Canada combined.

Israel is the second largest turkey exporter, exporting one-seventh

of its 1977 production and accounting for one-fifth of the estimated total world trade in 1977.

The EC's turkey production, although increasing, hasn't yet caught up with demand for turkeys in the EC. Last year, the EC exported only 1,000 mt of turkeys and turkey parts to third countries.

Import Systems in Major Importing Countries

EC. The European Community is no longer a major importer of poultry; rather, it is now the world's largest exporter of broilers. The Common Agricultural Policy (CAP) for Poultry, started in 1962, was a significant factor in the EC's change from a deficit to a surplus producer of poultry. The policy is designed to support producer prices by restricting imports and subsidizing exports. It follows from, and was made necessary by, the CAP on Grains which raised feed costs of Community poultry producers to levels much higher than world levels.

Basic import charges for poultry imported into the Community consist of two elements: the "gate price," or minimum import price; and the variable levy, sometimes called the basic levy.

The gate price, fixed quarterly, is calculated by the EC as a "fair average cost" of poultry produced in third countries and delivered to EC markets. The cost includes feeds, overhead, and marketing. The calculation is not made public.

The variable levy, also fixed quarterly, consists of two components: 7 percent of the average gate price in a representative period; and the difference in feed grain costs to produce a given quantity of poultry in

the EC compared to the feed grain costs required to produce the same quantity on the world market.

Examples of levies and gate prices, fixed November 1, 1978 for the Nov., Dec., and Jan., period, for imports into West Germany, are shown in Table 9-IV.

TABLE 9-IV

	Basic Levy*	Supplemental Levy	Gate Price
	- - equiv. U.S. cents per lb -		
Whole broilers	19.4		68.2
Whole turkeys	21.7		86.8
Turkey breasts	35.8	7.4	143.2
Turkey thighs	29.7		134.5
Turkey drumsticks	19.5	7.4	78.1

*Includes Monetary Compensation Amount
Source of data: USDA, FAS.

These prices and charges can be compared with the following estimated prices (per pound) of U.S. poultry delivered c.i.f. West Germany: whole broilers, $.53; whole turkeys, $.79; turkey breasts, $1.155; turkey thighs, $.695; and turkey drumsticks, $.325.

A supplementary levy may be imposed at any time poultry is offered for sale in EC markets at prices below the gate price. The supplementary levy may be imposed on imports from individual countries, and it may vary between countries. It will not be imposed on imports from countries that assure the EC that their prices will equal or exceed gate price levels.

It is interesting to note that the average prices of U.S. whole broilers and whole turkeys, delivered to Germany, plus the basic levy exceeded their gate prices. The price of turkey thighs delivered to Germany plus the basic levy was below the gate price, and the same was true for turkey drumsticks, even including the supplemental levy. However, the turkey breast price plus the basic and supplemental levy exceeded the gate price. This illustrates the ability of the EC to modify its import system if it desires to import or not to import specific products.

The EC also sets export subsidies at whatever level is necessary to compete on world markets or penetrate a particular market. As an example, Danish broiler exports to markets in the Mediterranean, the Persian Gulf, the Arabian Peninsula, and Cuba received a subsidy equivalent to 16.6 U.S. cents per lb. in September 1978. Export subsidies for West German whole broilers ranged between 6¼ and 9¼ cents per pound during 1977. In November 1978, this subsidy was 18.2 cents per pound.

The CAP on Poultry effectively insulates Community producers from world market competition and at the same time subsidizes EC exports so that they may increase their share of the world market. The following comparison of prices of broilers in the U.S. and EC provides a rough measure of the protection (about 15¢/lb. in 1977) afforded EC producers by the CAP on Poultry. (Approximately 10¢/lb. must be added to U.S. wholesale price to determine the delivered price in West Germany.)

TABLE 9-V

Calendar Year	Average Wholesale Price	
	U.S. *	West Germany **
	- equiv. U.S. cents per pound -	
1974	38	52
1975	45	60
1976	40	61
1977	41	65

* 9-Market Average Wholesale price
** Average price 70% broilers f.o.b. packing house.
Source of data: U.S. Department of Agriculture, F.A.S.

Japan. Japan is the largest export market for U.S. poultry. Its import duties are 20 percent ad valorem on chicken and 15 percent ad valorem on turkeys.

Japan exerts further control on imports of these items by exercising "administrative guidance" over the quantities imported. No quotas are issued, and the government denies that it influences the quantities imported. Yet the trade reports that the levels of imports are effectively influenced by the Japanese government.

Canada. Canada's import duties are approximately 12.5 to 15 percent ad valorem for imports of chilled or frozen chickens and turkeys, and canned poultry.

Canada operates a supply-management program for turkeys, with quotas on imports of turkeys and turkey products. Canada is endeavoring to establish a similar plan for broilers.

Other markets

Non-tariff measures (variable levies, prior deposit requirements, quotas, state trading, artificial valuation, and minimum prices) on broiler and turkey imports are maintained by Austria, Brazil, Central American Common Market, Chile, Colombia, Dominican Republic, Ecuador, Finland, Iran, Jamaica, Korea, Mexico, New Zealand, Norway, Panama, Peru, Spain, Sweden, Trinidad-Tobago, and Venezuela.

Extremely high tariffs are maintained by Indonesia (40 percent); the Philippines (70-100 percent); Uruguay (84-114 percent); and Zaire (52 percent).

Markets with relatively low duties and no reported non-tariff measures are Argentina (10 percent) and Egypt (12 percent).

10. RICE

The U.S. sought reductions in duties or liberalization of non-tariff barriers for rice from the EC and eight other countries during the MTN sessions. These countries received 254.2 thousand metric tons (tmt) out of a total of 2.1 million metric tons (mmt) of rice exported by the U.S. during Calendar 1976.

The EC, Switzerland, Finland, Norway, and New Zealand responded to the U.S. requests; however, Jamaica, the Philippines, Portugal, and the Republic of South Africa made no offers to the United States.

A. MTN Results

The offers made in response to the U.S. requests are described below.

European Community

The EC is the most important market from which the U.S. sought concessions on rice. In recent years 70 percent of the U.S. rice exports have been destined to developing countries in Africa and Asia; of the balance, about one-third has been exported to the EC. The EC import system for rice, described later in this report, has had the effect of limiting imports of rice from third countries. This is especially true for long grain rice because extra differentials are imposed to offset consumer preferences for that type of rice.

In the MTN, the European Community offered to remove two price differentials which affected long grain rice and had been incorporated into the construction of the import levy on rice. This had the effect of re-

ducing the levy by the equivalent of roughly $70 per mt, an amount equal to about one-third of the total levy.

The EC also gave assurances that it would not modify the method of calculating the levy in any way that would negate the value of the concession to the United States. Thus, the EC concession on rice should result in expanded sales of U.S. long grain rice to the EC.

In addition to the offer on the quality differentials, or "corrective amounts" as the EC terms them, the EC gave assurances that it would not reclassify parboiled rice. It had been threatening to do so, and that action would probably have raised the EC import charges on parboiled rice.

The estimate of the influence of the concession upon third country trade with the EC is based upon consumption of rice in the EC markets (other than Italy) during the 1976-77 through the 1978-79 seasons.[1/] During this period, these markets consumed an average of approximately 580,000 metric tons of rice annually. Of this amount Italy supplied about 260,000 mt, the U.S. supplied 220,000 mt, and other third countries supplied 100,000 mt annually.

The EC's concession on the calculation of the levy on long grain rice will result in a price reduction of 13 percent on imports of third country rice, practically all of which is long grain rice. Because the prices of Italian rice are assumed to remain stable, the average price of rice in the EC would be reduced by 7 percent. With a price elasticity for rice

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1/ As reported by the USDA, FAS.

in Western Europe and the EC estimated at -.3,[1] the increase in consumption due to this price reduction would be 2.1 percent, or roughly 12,300 mt annually.

All of the increase in consumption would be gained by third country suppliers, with the U.S. share approximately 8,500 mt. This quantity, valued at $365 per mt (the approximate average export price of U.S. brown rice and U.S. milled rice in early 1979), represents a gain in trade worth $3.1 million annually by 1987.

It is conceivable that the quantity and value of increased trade resulting from the EC rice concessions could be even higher. If U.S. long grain rice is different from and preferred to Italian round grain rice, as many claim, it can be argued that a higher elasticity of demand should be used in this analysis. A larger elasticity would result in a larger estimate of trade gain. However, there is no empirical evidence available to support this view. Secondly, the concession will enable more effective market development activities on the part of the U.S.

For these reasons, it can be argued that the EC concession is notable and may be somewhat undervalued.

Other Concessions

Switzerland offered to cut its import duty on rice from 4.5 francs per 100 kg to 3 francs per 100 kg on imports of broken rice. This duty cut is the equivalent of roughly 2 percent ad valorem at current U.S. export prices.

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[1] Anthony S. Rojko et al. Alternative Futures for World Food in 1985: World GOL Model, Analytical Report. USDA, ESCS, Agr. Econ. Report 146, April 1978, p. 100.

Although Switzerland still maintains quantitive restrictions on imports of rice, this concession could lead to an increase in U.S. exports to Switzerland of about 200 mt, at a value of $.1 million.

Finland offered to reduce its import duties on both milled and paddy rice from 15 percent to 5 percent ad valorem, contingent on a U.S. offer on cheese imports. The size of U.S. rice trade with Finland is so small that the effect of this concession would be negligible.

Norway offered to reduce its import duty on rice by the equivalent of about 2 percent ad valorem. As in the case of Finland, U.S. exports of rice to Norway are so small that the trade increase would be negligible.

New Zealand offered to bind its current duties, which are free. No trade increase would result from such a concession. New Zealand continues to require licenses for imports of rice.

A summary of these offers and an estimate of the quantity and value of the increase in U.S. exports resulting from them is provided in Table 10-I.

Jamaica, the Philippines, Portugal, and South Africa made no offers to the U.S. requests on rice import duties.

TABLE 10-I

Summary of MTN Results for Rice

Country or Group	1976 U.S. Exports to Country or Group		Nature of Concession	Value of Concession Increased Exports	
	Quantity 000 mt	Value $ million		Quantity 000 mt	Value $ million
EC	217.1	66.9	Levy Modification	8.5	3.1
Switzerland	34.3	11.5	"	.2	.1
New Zealand 1/	1.3	.1	"	0	0
Norway 1/	.8	*	"	*	*
Finland 1/	.7	*	"	*	*
Total	254.2	78.5		8.7	3.2
1976 U.S. Rice Exports	2,103.5	628.7			

*Negligible.
1/ Aug. - July year.

B. Background on Rice

The United States produces three types of rice -- long, medium and short grain. The long and medium grains are the United States' principal exports, accounting for 61 and 31 percent, respectively, of U.S. total rice exports. Although the U.S. produces only a little over one percent of the world rice crop, it is the largest exporter of rice, with a 32 percent share of world trade.

Production

Rice is grown predominantly in Asia where it is the principal food crop. This area (including the Middle East) accounts for over 90 percent of the world rice crop. The People's Republic of China and India together produce over 50 percent of world supplies. Following in importance are Indonesia, Japan and Thailand. (Table 10-II).

TABLE 10-II

World Rice Production

	1968-72	1973	1974	1975	1976	1977
	million metric tons					
U.S.	4.1	4.2	5.1	5.8	5.2	4.5
EC	1.0	1.1	1.0	1.0	0.9	0.7
PRC	94.5	103.0	120.0	119.0	125.5	126.5
India	61.5	65.7	60.4	74.3	64.2	78.8
Indonesia	18.2	22.6	22.7	22.6	23.3	22.8
Japan	15.0	15.1	15.4	16.5	14.7	16.4
Korea	5.3	5.9	6.2	6.5	7.2	8.3
Thailand	13.2	14.4	14.5	15.2	15.8	15.0
Others	75.2	80.1	84.9	91.4	92.2	93.3
Total	288.0	312.1	330.2	352.3	349.0	366.3

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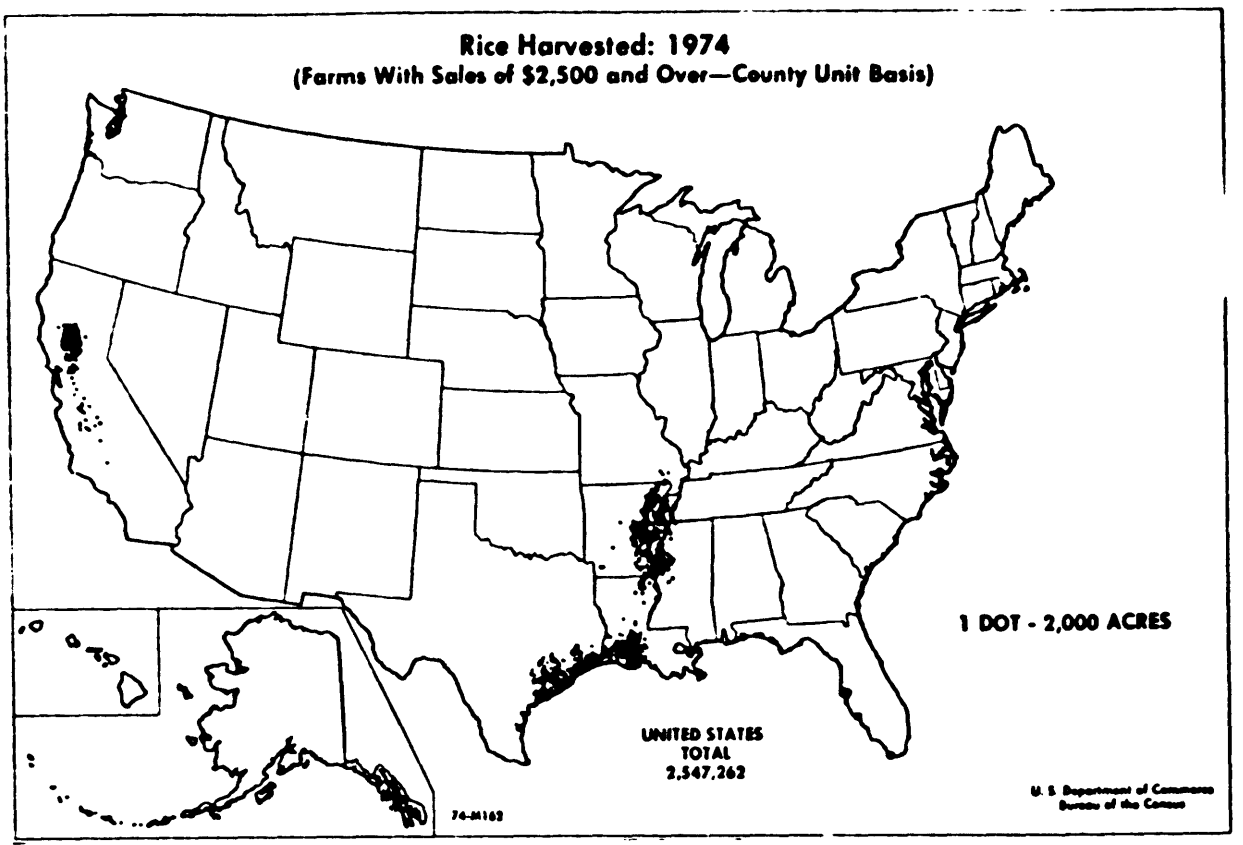
World rice production has been increasing steadily for the past several years, from an average of 288 mmt during 1968-72 to 366 in 1977. Asia is responsible for much of the increase, since production in that region rose by 72 mmt during this period.

Six states produce rice in the United States: Arkansas; California; Texas; Louisiana; Mississippi; and Missouri. Long grain rice, produced mainly in Arkansas and Texas, makes up 64 percent of the U.S. rice crop. California and Louisiana are the leading producers of medium grain rice, which accounts for 27 percent of rice production. The remainder of the crop, short grain rice, is grown predominantly in California.

After harvest, most of the rice crop is milled in the U.S. Of the milled rice, over 67 percent was exported in 1978. Domestic utilization was divided between food and brewers' use.

The United States produces a little over one percent of the world rice crop, and it has increased its rice output along with the rest of the world. Rice production averaged 4.1 mmt during 1968-72 and reached 6.3 in 1978. Since 1962, U.S. exports of rice have consistently outpaced domestic utilization.



World Trade

The United States is the world's largest rice exporter. In 1978, the United States exported 2.1 mmt, amounting to 24 percent of total world rice trade. Thailand, the PRC, and Pakistan have 18, 12, and 9 percent, respectively, of the world market.

Indonesia receives over 20 percent of world rice exports. The second largest market is the European Community, which imports approximately 1.0 mmt of rice per year, followed by Iran, Malaysia and Hong Kong.

World trade in rice has increased from an average of 7.7 mmt during 1968-72 to 9.1 mmt in 1978. Most of the increase is well distributed among the importing countries, although Iran and Indonesia experienced the largest rise in imports.

Destination of U.S. Exports

Asian countries are the purchasers of over 50 percent of U.S. rice exports. Indonesia received 22 percent of U.S. rice exports during the 1977-78 marketing year (August-July) and has consistently been a major importer. Indonesia imports long or medium grain milled rice. South Korea had been the major export market, but Korean imports from the U.S. have declined sharply since 1974-75. This decline in imports resulted from increased rice production by South Korea.

The Mid-East (included in the Asian area) has generated the largest portion of the growth in U.S. rice exports. Iran imported less than 0.5 tmt of U.S. rice in 1970-71, but increased imports to 344 tmt in 1977-78. This was 16 percent of U.S. exports in that year. Virtually all of Iran's imports have been milled long grain rice. Saudi Arabia is another Mid-East nation to which the U.S. has expanded its rice exports. Saudi Arabia produces only 3 tmt of rice per year and must import to meet its growing demand. In 1977-78, Saudi Arabia imported 170 tmt of rice from the U.S., compared to 50 tmt in 1970-71. The Saudi Arabians favor parboiled long grain rice.

The level of the European Community's rice imports from the U.S. has been fairly stable over the years, averaging 167 tmt since 1970-71. In 1977-78, the EC purchased over 7 percent of total U.S. rice exports. Most of the EC's rice imports are brown rice of all grains. This rice is then milled in the Community and often reexported. Italy and the Netherlands are the major purchasers within the Community. Long grain, parboiled rice is the only type of milled rice imported in significant quantities by

the EC from the U.S.

U.S. rice exports under the P.L. 480 program have been declining in recent years. From a high of 1.1 mmt in 1971-72, exports under the government program have fallen to a total of 0.5 mmt in 1977-78.

TABLE 10-III

U.S. Rice Exports by Destination

	1970-71	71-72	August - July 72-73	73-74	74-75	75-76	76-77	77-78
	tmt							
EC-9	161	105	169	161	129	248	206	156
Bangladesh	-	75	4	*	295	249	23	83
Indonesia	288	354	173	60	42	42	412	477
Iran	-	19	34	42	451	163	458	344
Iraq	-	-	-	9	110	81	37	90
S. Korea	374	495	471	121	499	200	84	*
S. Arabia	50	82	57	94	72	132	72	170
Other	601	677	880	1,121	608	629	820	829
Total	1,474	1,807	1,788	1,608	2,206	1,744	2,112	2,149

*Negligible

U.S. Price Support Program

The U.S. supports the price of rice through a domestic support program. Starting from a level set by law, the target price is adjusted each year on the basis of a two-year moving average of variable, machine ownership, and general farm overhead costs for rice production. A loan rate is set and adjusted so that the ratio of the target price to loan rate re-

mains constant.

For 1978-79 and 1979-80, respectively, the target prices are $8.53 and $9.05 per cwt and the loan rates are $6.40 and $6.79 per cwt.

Treasury payments to farmers are made when the average market price received by farmers for all rice for the first five months of the marketing year (August-December) drops below the target price. The amount of payment is based on the target price - market price differential. If market prices are higher than the target, no payments will be made.

Nonrecourse loans are available to producers complying with farm programs. Such producers may commit any part of their crop as collateral for a loan from the Commodity Credit Corporation (CCC). The amount which can be borrowed is equal to the quantity of rice times the loan rate. Producers may take possession of the rice any time prior to the loan's expiration by repaying the loan and accumulated interest. If producers choose not to redeem the loan, CCC takes title to the grain as payment in full for the loan.

Deficiency payments and loans are available only to producers who cooperate with any requirements of an acreage set-aside program. Producers may plant as much rice as they wish, but loans and deficiency payments are available only on rice produced under allotment.

On September 20, 1978, a farmer-owned reserve program was initiated. It will provide producers with another marketing alternative which could isolate excess rice stocks from the marketplace while prices are at low levels. Features of the program are:

- Producers holding allotments can put their eligible crop

in the 3-year farmer-owned reserve program;

- A producer will receive a prepaid annual storage payment of 85¢ per cwt;
- Loan interest is charged in the first year and waived thereafter;
- The reserve will be limited to a maximum of 8 million cwt; and
- When the national average price reaches $8.96 per cwt, the rice can be released from the reserve. When the national price reaches $10.24 per cwt, the producer must repay the reserve loan or forfeit the rice to CCC.

As of January 1, 1978, no rice from the 1978-79 crop had been put into this reserve program.

EC Support System

Only Italy and France produce rice in the EC. Production, especially in France, has declined in recent years. Italian rice is generally a short grain type, although Italy does produce a longer grain rice known as "Ribe" which is comparable to the U.S.'s medium grain. European consumers have a pronounced preference for long grain varieties such as those grown in the U.S.

The EC sets a target price for brown rice in Duisburg, Germany, which amounts to the wholesale price which German millers pay for Italian rice. Intervention prices (similar to our loan rate) are established for rough rice for Arles, France and Vercelli, Italy, where rice production in the EC is centered. When the market price for rice in the EC falls below the intervention price, the Commission enters the market and purchases rice

to support the price. The difference between the intervention and target prices covers the cost of husking and transporting the brown rice to Duisburg.

The target price is protected from competition from imports via a threshold price for brown rice and milled rice at Rotterdam. The threshold price is the established price at which rice can be imported, and it is used to set import levies. (The difference between threshold prices for short and long grain brown rice is higher than the normal differential in the world market since the levy is based on the Italian "Ribe" rice variety rather than standard long grain rice.) Levies must then be paid by importers to bring the price up to the target level established by the Community.

Licenses are needed for all imports and exports. Export subsidies are given by the Community and are announced either weekly or monthly.

Several aspects of the EC's support program discriminate against U.S. long grain rice exports. First, the husking and transportation allowances employed in the calculation of the target price create an artifically high support level. This affects rice imports since the target price is used to derive the threshold price for imports, and the amount of the levy is larger as a result of the higher threshold price. For example, the husking allowance reflects prior practice when rice from Italy was milled at other destination points in the EC. Rice is now milled in Italy before shipment, yet the allowance has not been reduced to reflect this change in trade practice.

The threshold price is also artificially high due to the addition of a corrective amount (an adjustment for quality differences between

imported long grain rice and EC "long grain" rice) of 20 units of account (UA) for long grain rice imports. This increases the levy, thereby making imports of long grain rice from the U.S. more expensive than EC rice. The corrective amount is also subtracted from the c.i.f. offer price. By adding the corrective amount to the threshold price and subtracting it from the offer price, the amount of the levy charged is increased by 40 UA. This additional assessment penalizes EC consumers who desire long grain rice because of its special characteristics and discriminates against U.S. long grain rice exports to the EC.

The method of calculating c.i.f. prices when setting the levy amount also discriminates against imports of higher quality because the least expensive rice activates the levy without any compensation for quality.

11. SOYBEANS, SOYBEAN MEAL, SOYBEAN OIL

U.S. exports of soybeans and soybean meal occupy a favorable position at the present time with respect to duties and access to major markets. The EC imports these items duty free, with zero duties bound to the U.S. in the Dillon Round. Japan also imports these commodities free of duty at the present time. Japan's most-favored nation (MFN) rates are low, but its temporary import duties are placed at zero. Consequently, the U.S. exports four-fifths of its total soybean exports and three-quarters of its soybean meal exports duty free. The U.S. does not want to lose this position in the current round of the MTN.

The duty-free tariff bindings for soybeans and meal pose a threat to the EC's CAP on Grains. Soybean meal can displace some grain in feed mixes, and low prices for meal relative to grain within the EC can accelerate such displacements. The EC is contemplating reducing the importation of manioc, a starchy feed imported as a substitute for grain. If this happens, the EC's need for high protein meal would be eased slightly. The U.S. is watchful for signs that the EC might take steps to nullify or modify the present tariff bindings on soybeans and meal.

There have been increases in oilseed crushing capacity in the EC and in Japan, so the U.S. should export relatively more soybeans as beans rather than meal to these markets.

Import duties for soybeans and meal in Western Europe outside the EC also tend to be relatively low. While duties in many of the developing countries are relatively low, or even free, there are NTB's affecting imports of oilseeds and products in many of these countries. Such NTB's may

have been erected so as to protect an "infant" industry (as in Spain, Portugal, Iran and Yugoslavia) or simply because many developing countries use NTB's to regulate imports and conserve foreign exchange.

As a general rule, foreign import duties on soybeans are quite low, on soybean meal somewhat higher, and on soybean oil considerably higher.

A. MTN Results

Soybeans

In calendar 1976, the U.S. exported 15.3 million metric tons of soybeans, worth $3.3 billion.

Concessions were sought from 10 countries. Seven developing countries were asked to eliminate or modify their NTB's; none responded. Japan, the Philippines, and Taiwan agreed to bind their present rates. This is particularly significant in the case of Japan. The U.S. exported $675 million worth of soybeans to Japan in 1976, and the binding is an insurance policy of significance to U.S. soybean exporters. The current Japanese import rate, and the binding, is duty free.

None of the countries agreed to reduce import duties. There were no foreign concessions on soybeans that would lead to an increase in U.S. exports as a result of decreased duties or liberalization of NTB's.

Soybean Meal

In 1976, the U.S. exported 4.9 million metric tons of soybean meal to all markets, valued at $864 million.

The U.S. asked twelve countries to reduce import duties or modify

NTB's on imports of soybean meal.

Of the ten asked to modify NTB's, only Israel, Mexico, and New Zealand agreed to do so. Israel agreed to eliminate licensing, and New Zealand raised its import duty on meal to the equivalent of 2.5 percent ad valorem and converted to automatic licensing. The quantity of U.S. exports to these countries is so small that these concessions are of negligible value.

In the case of trade with Mexico, the concession to liberalize imports through improved licensing procedure is significant. The U.S. exported 5,000 mt (valued at $.9 million) to Mexico in 1976 and 191,000 mt (valued at $57 million) in 1977. Exports in 1978 were nearly 100,000 mt (valued at $22 million). Exports to Mexico by the end of 1987 will be 250,000 mt, worth $56 million. This would be an increase of 245,000 mt above 1976, or a trade gain of $55 million.

Soybean Oil

In Calendar 1976, the U.S. exported 510,000 mt of soybean oil to all markets, valued at $240 million.

The U.S. asked fifteen countries to reduce import duties on soybean oil and eight of these to eliminate or modify their NTB's affecting imports (mostly licensing). No responses were made to the NTB requests. The Philippines agreed to bind its present duty level,and four countries offered to reduce import duties.

The Dominican Republic offered to cut its import duty from the equivalent of 85 percent ad valorem to the equivalent of 60 percent ad valorem.

The duty reduction was 25 percent; and with a price elasticity of -.5,[1/] exports to the Dominican Republic will increase 12.5 percent by 1987. The U.S. exported 10,400 mt of soybean oil to the Dominican Republic in 1976, valued at $4.4 million. The expected increase in exports as a result of the duty cut is 1,300 mt, worth $.7 million.

India offered to cut its most favored nation (MFN) rate from 60 to 45 percent ad valorem. However, India had been buying soybean oil either under a state trading agency with a zero import duty, or through the private sector under licenses used by the government. Therefore, this concession will not result in any increase in trade.

Japan offered to cut its import duty on soybean oil of the type imported from the U.S. from 20 yen per kg to 17 yen per kg. This is the equivalent of a reduction from 16 to 14 percent ad valorem, at the 1977 U.S. export price, adjusted for the costs of delivery to Japan. With a price elasticity of -.5, a 2 percent decrease in price would mean an increase in U.S. soybean oil shipments to Japan by the end of the transition period of 115 mt, a gain worth roughly $.1 million.

Taiwan agreed to reduce its import duty on soybean oil from 39 percent ad valorem to 20 percent. A reduction of this size would result in an increase in trade of 10 percent, but U.S. exports of soybean oil are so small (100 mt in 1976) that the value of the trade gain is negligible.

The total value of increased trade in U.S. soybean oil by 1987 is

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1/ Arthur Coffing, Prospects of Oilseeds - Projections to 1985, USDA, ESCS, unpublished manuscript, November, 1978, Table 6.

$.8 million.

The results of concessions obtained by the U.S. for soybeans, meal, and oil are summarized in Table 11-I.

The U.S. offered concessions on import duties for two major vegetable oils imported into the United States.

The U.S. offered to reduce its duty on coconut oil from 1 cent per pound to zero, contingent upon offers to the U.S. by the Philippines on soybeans and their products. Because of the relatively low ad valorem equivalent of the U.S. import duty (roughly 3 percent) and the relatively inelastic demand for coconut oil, the trade impact of the U.S. offer would be very slight.

The second offer was to reduce the current U.S. MFN rate of 3 cents per pound on palm oil (for uses other than for manufacturing) to 0.5 cents per pound. The current temporary U.S. rate on this item is duty free. The concession would have no effect on U.S. imports.

TABLE II-I

Summary of MTN Results for Soybeans and Products

Country	1976 U.S. Exports to Country		Nature of Concession	Value of Concession	
	Quantity	Value		Increased U.S. Exports	Value of Increase
	000 mt	$mil.		- 000 mt -	- $mil.-
			SOYBEANS		
Japan	13,069	675	Bind Curr.Duty	0	0
Philippines, Taiwan	708	151	Bind Curr.Duty	0	0
Total U.S. Exports	15,332	3,315			
			SOYBEAN MEAL		
Israel, New Zealand	1	.2	Elim.Licensing	*	*
Austria, Phil.	*	*	Bind Curr.Duty	0	0
Mexico	5	9.0	Auto.Licensing	245	55
Total U.S. Exports	4,862	864			
			SOYBEAN OIL		
Philippines	.2	.1	Bind Pref.Duty	0	0
Dom. Republic	10.0	4.0	Duty Cut	1.0	.7
Japan	11.0	4.0	Duty Cut	.1	.1
India	53.0	29.0	Duty Cut	0	0
Taiwan	.1	.1	Duty Cut	*	*
Total U.S. Exports	510	240			

* Negligible

B. Background on Oilseeds

Soybeans, soybean meal, and soybean oil are the most important oilseed products exported from the United States. From 1976 to 1978, soybeans and soybean meal represented over 90 percent of the vegetable oilseeds and meals exported from the U.S.; soybean oil accounted for over half of the vegetable oils exported. In 1977, the total value of these exports was over $5.7 billion.

Soybean Production

Soybeans are produced in 30 states in the U.S., but nearly 70 percent of the U.S. crop is produced in the Corn Belt States and one-quarter of the crop is produced in 9 Southeast and South Central States.

The U.S. is the largest soybean producer in the world, currently supplying two-thirds of the total world crop. Brazil is second, with 19 percent of the total, followed by the People's Republic of China and Argentina with 8 and 2 percent, respectively. (Table 11-II)

Soybeans are the most important source of protein meal in the world, providing 64 percent of the world's total protein meal produced during the past three years. Most of this meal is used as animal and poultry feed. Cottonseed meal is also an important protein meal source, followed by rapeseed, peanut, fish meal, and sunflower meal.

The U.S. and world soybean industries have grown steadily in response to increasing demand for protein feeds, as people have upgraded diets and demanded more animal protein foods.

U.S. soybean production during 1976-78 was 82 percent higher than

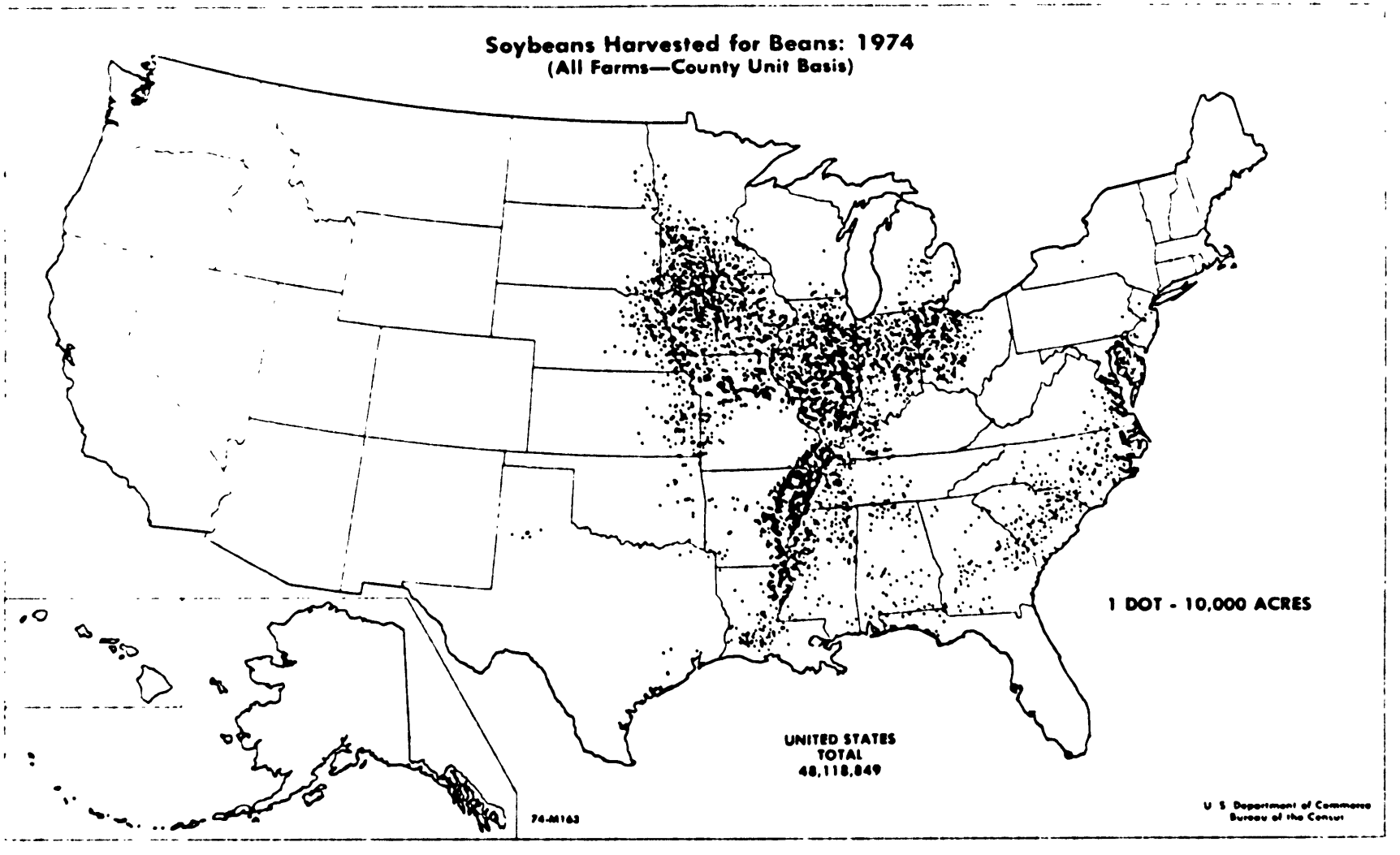
Soybeans Harvested for Beans: 1974
(All Farms—County Unit Basis)
1 DOT - 10,000 ACRES
UNITED STATES
TOTAL
48,118,849
74-M163
U S Department of Commerce
Bureau of the Census

TABLE 11-II

World Production of Soybeans, by Major Suppliers

Country	Av.1965-69	Av.1970-74	1976	1977
	million metric tons			
U.S.	24.8	34.0	42.1	34.4
Brazil	.7	4.0	10.8	12.0
China, P.R.	6.9	1.5	2.9	3.1
Other	.8	6.9	10.0	9.5
Total	33.1	46.4	65.8	59.0

Source of data: USDA, FAS.

TABLE 11-III

World Production and Exports of Major High Protein Meals 1/

	1976	1977	1976	1977
	Production		Exports	
	million metric tons			
Soybean	45.6	40.7	24.9	24.7
Cottonseed	6.4	6.9	.7	.7
Fish	6.4	5.8	2.6	2.3
Peanut	4.9	4.4	2.8	2.1
Other 2/	9.3	8.5	2.6	2.9
Total	72.6	66.3	33.6	32.7

1/ In terms of equivalent 44 percent soybean meal basis.
2/ The major other meals are sunflower, linseed, and rapeseed
Source of data: USDA, FAS

during 1965-67. World soybean production increased even more (129 percent) over the same period because of sharp increases in Brazil and Argentina. World soybean production also increased much more rapidly than production of other protein meals, which increased an average of 8 percent over this period.[1/] (Table 11-III)

World Trade in Soybeans and Meal

The export market is very important to the U.S. soybean industry, with 52 percent of total U.S. soybean production exported either as beans or as meal. In the last five seasons, 56 percent of the soybeans produced in the U.S. were crushed for meal and 38 percent were exported as beans. The balance was used for seed or fed on the farm. Twenty-six percent of meal produced was exported.

Exports of soybeans and meal have increased even more rapidly than production. Over the same period cited above (1976-78 compared with 1965-67), exports of U.S. soybeans and meal increased 2.25 times. For the world as a whole, soybeans and soybean meal exports tripled over the period, while exports of all other oilseeds and meals combined actually declined.

U.S. soybeans and soybean meal are exported primarily to the developed countries, as shown in Table 11-IV. The EC is the largest market, taking 46 percent of the bean exports and 52 percent of the meal exports during 1977. Japan is the second largest market for U.S. soybeans, although it receives only a small share of the meal

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1/ Soybean meal equivalent.

exports. Western Europe, Japan, and Canada combined received 83 percent of the U.S. soybean exports and 80 percent of the U.S. soybean meal exports during 1977. The remainder of the markets are widely scattered. Eastern Europe received one-sixth of the soybean meal exports, but only 1 percent of the bean exports.

TABLE 11-IV

Destinations of 1977 U.S. Exports of Soybeans and Soybean Meal

Region or Country	Soybeans	Soybean Meal
	- - - percent - - -	
EC-9	46	52
Other Western Europe	11	6
Eastern Europe	1	12
Japan	21	6
Other Asia	9	2
North America	5	16
South America	*	4
Other	7	2
Total	100	100

Source of data: USDA, FAS

Foreign Competitors

Within the last decade, and especially since 1970, plantings and production of soybeans have increased sharply in Brazil, Argentina, and Paraguay. Since 1976, exports of soybeans and soybean meal from these countries have supplied one-third of the total world exports.(Brazil, 29 percent; Argentina, 4 percent; and Paraguay, one percent). A decade ago these countries supplied only 3 percent of the total world exports of beans and meal.

In 1977, exports of soybean meal from Brazil exceeded U.S. soybean meal exports for the first time, as Brazil adopted a policy of crushing a high proportion of its crop domestically. Plantings of soybean acreage in all three countries are expanding, and their share of world trade will continue to increase.

Most (over 80 percent in 1974-76) of the soybeans and soybean meal produced in Brazil is exported, and the same is generally true for Paraguay.

Some indirect aids in the form of tax exemptions and investment credits are provided to exporters of soybeans and meal from Brazil. The EC is concerned over such aids and has succeeded in persuading Brazil to modify some of its export taxes.

In both the U.S. and Brazil, producers balance the relative profitability of producing grain or soybeans when making planting decisions. Soybeans are currently relatively more profitable in Brazil because of lower grain yields, as reflected in the recent increases in soybean acreage in Brazil, Argentina, and Paraguay. However, the rapid rate of increase in production which took place in these countries in recent years is not likely to continue. Much of it was based on bringing new land into production. Additional quantities of new land well suited to soybean production are now more limited.

Soybean Oil

Soybean oil and meal are joint products of soybean crushing. On the average, the crushing of 100 pounds of U.S. soybeans will yield 79 pounds of meal and 18 pounds of oil. Thus, the production of soybean oil in the

U.S. has increased at the same rate as meal production has increased. Average U.S. soybean oil production during the 1976-78 marketing seasons is expected to be 64 percent above the 1965-67 average.

In recent years, about 85 percent of U.S. soybean oil production was consumed in the domestic market and 15 percent was exported. Most of the domestic use is in shortening, margarine, and salad and cooking oils.

Total U.S. soybean oil exports averaged 3,088 tmt annually during the past 5 years; of this quantity, 18 percent consisted of soybean oil exports and 82 consisted of the oil content of exported soybeans. In this same period, U.S. soybean oil exports contributed 84 percent of total U.S. vegetable oil exports [1/] (calculated in terms of oil exported as oil plus the oil content of oilseeds exported) and 44 percent of the world total vegetable oil exports. [2/] Over the past decade, U.S. soybean oil exports have increased 88 percent, U.S. vegetable oil exports have doubled, and foreign vegetable oil exports have increased by only 38 percent.

In contrast to the destinations of exports of U.S. beans and meal, most of the exported U.S. soybean oil is shipped to developing countries. (Table 11-V) India, Pakistan, and Iran are the largest markets, together receiving over half of the total U.S. exports. Chile, Ecuador, Colombia, Peru, Mexico and the Caribbean countries are also important markets.

1/ Includes cottonseed, peanut, soybean, sunflower, safflower, and corn.

2/ Includes the oils in footnote 1 plus rapeseed and olive oils.

TABLE 11-V

Destinations of 1977 U.S. Exports of Soybean Oil

	percent
India	30
Pakistan	13
China, P.R.	9
Other Asia	9
Africa	3
South America	18
North America	12
Other	6
Total	100

Source of data: USDA, FAS

12. TOBACCO

Tobacco leaf traditionally has been one of the most important agricultural exports from the U.S. The major objective of the U.S. in the MTN was to obtain a modification of the EC import duty structure because it penalized U.S. unmanufactured tobaccos in relation to cheaper, competitive tobaccos. The U.S. also wanted the EC to phase out duty free preferences on imports from associate members and to eliminate export subsidies and auction sales at low prices.

For markets other than the EC, the U.S. sought reductions in import duties (to levels comparable to the U.S. duty of 12.75 cents per pound) and modification or elimination of non-tariff barriers to trade.

A. MTN Results

Concessions on U.S. Exports

The U.S. requested reductions in duties or removal or modification of NTB's on unmanufactured tobacco from 15 countries. Of these 15 countries, only Argentina, Canada, Finland, Hong Kong, Israel, Singapore and Switzerland do not maintain NTB's. Three of the countries (Argentina, New Zealand and Thailand) did not import manufactured tobacco from the U.S. in 1976, which was the base year for calculating trade coverage in the MTN. The other countries, most importantly the EC, imported $455 million worth of U.S. tobacco leaf that year.

In addition, reductions in duties or modifications in NTB's on imports of cigarettes, cigars or manufactured tobacco were requested from

17 countries in the industrial negotiations.

The concessions received on unmanufactured tobacco are described below.

EC. The EC offered to modify its import duty system on the principal types of unmanufactured tobaccos imported from the U.S. to an ad valorem rate of 23 percent with a maximum of 30 units of account(UA) per 100 kg and a minimum of 28 units of account per 100 kg (17 and 16 cents per pound, respectively).

This offer was close to the U.S. request for one duty at 28 U A per 100 kg. The EC made no offers on their cigarette excise tax, their preferential duty arrangements, or their Tobacco CAP measures.

The EC's offer on import duties will have the effect of reducing prices on the more expensive U.S. tobaccos. However, prices of the lower-priced competitive tobaccos will not change because their duties will remain as before.

The new EC import duty would reduce the import duty for U.S. tobaccos by 9 cents per pound, or 5 percent ad valorem at 1977 price levels. With a price elasticity of -.4,[1/] this would result in an increased level of

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[1/] A price elasticity of EC demand for U.S. tobacco of -0.4 is used to estimate the trade benefits from EC duty reductions on U.S. tobacco. No direct estimates for this price elasticity are available; it had to be derived from other available information.

Estimates of price and income elasticities of demand for all tobacco in the EC are -0.1 and .05, respectively, based on a study by Jitender S. Mann, Dynamics of the U.S. Tobacco Industry, USDA, ERS Technical Bulletin No. 1499, August, 1974. An implicit price elasticity of demand for Canadian tobacco exports can be dervied. In 1978, Canada applied an export subsidy to exports to the EC which, combined with Canada's devaluation, lowered the price by 20 percent. Canada's exports increased by 34 percent, implying a price elasticity of -1.7. Canada's share of the EC import market was 4.6 percent. Thus, Canada's price elasticity of demand, adjusted for market share, is roughly consistent with the price elasticity of demand for all tobacco in the EC. Working from the Canadian elasticity value and adjusting it for the U.S. share of the EC market, 21.5 percent, we derive a price elasticity of demand for U.S. tobacco in the EC market of -0.4.

exports of U.S. tobacco leaf to the EC of 2 percent annually by 1987. The U.S. will export roughly 230 million pounds of tobacco leaf to the EC in 1987. This is slightly less than the level of exports to the EC in the last two years, and it means that the U.S. will nearly maintain its absolute level of exports to the EC for the next decade. However, the U.S. share of the EC market will probably continue to decline as total EC tobacco consumption and imports grow. In the absence of a change in the old EC import system, U.S. exports to the EC, which were declining at an average rate of 7 million pounds per year, would probably continue to decline at that rate.

Australia. Australia offered to reduce its duty on tobacco for use in manufacturing cigarettes from the equivalent of 61 cents per pound to the equivalent of 24 cents per pound.

In addition, Australia offered to bind its mixing regulation at 50 percent, meaning that Australia will not require its tobacco manufacturers to use more than 50 percent Australian tobacco in their blends, although they may use more "voluntarily." (They now use 56 percent of their own tobacco.)

Australian tobacco is priced above the world market price. If Australian tobacco manufacturers succeed in gradually increasing the share of imported tobacco to half in the blends produced, imported tobacco will obtain most of the growth of cigarette production in Australia during the transition period. U.S. now supplies over half of Australia's unmanufactured tobacco imports. This means that U.S. tobacco exports to Australia would average about 1.8 million pounds more annually by 1987 than during the

past three years. The new binding on the mixing of domestic leaf will account for one million pounds of this.

Canada. Canada offered to reduce its duty on unmanufactured tobacco from 20 to 12.75 cents per pound on unstemmed and from 30 to 20 cents per pound on stemmed tobacco. (Most U.S. exports to Canada are stemmed.)

This offer was contingent upon a U.S. offer to reduce its duty on stemmed cigarette leaf tobacco from 45 to 20 cents per pound.

The Canadian offer on stemmed leaf is the equivalent of a duty reduction from 15 percent to 10 percent ad valorem. Such a reduction will ultimately bring about an increase in U.S. exports to Canada of about 70,000 pounds annually, which would be worth $100,000 annually at 1977 average U.S. export values.

New Zealand. New Zealand offered to bind its current duty, which is free, for unmanufactured tobacco for making cigars, and to reduce its duty on imported leaf for making cigarettes from the equivalent of 35 cents per pound to 19 cents per pound.

New Zealand's mixing regulation has been bound in GATT for years at 30 percent. The U.S. supplies 70 percent of New Zealand's total leaf imports, which in recent years have contributed 55 percent of the tobacco used in manufacturing cigarettes in New Zealand.

The duty reduction offered by New Zealand is equivalent to 7 percent ad valorem. With an elasticity of -.4, U.S. imports will increase by 2.8 percent; however, this analysis was based on a 2 percent increase in order to offset the effects of continued pressure by the New Zealand government to

have manufacturers use domestically produced tobacco. The U.S. trade gain will be .1 million pounds, worth $.2 million.

Finland. The U.S. did not request an offer from Finland, but it offered to bind its current duty on unmanufactured tobacco, which is the equivalent of 3 cents per pound, or less than 2 percent ad valorem in 1977. The offer was contingent upon a U.S. offer on cheeses.

All Finish tobacco is produced from imported leaf. The small decrease in duty will result in an increase in U.S. exports to Finland of .1 million pounds by 1987, worth $.2 million at 1977 average U.S. export values.

A summary of the concessions received from foreign countries and of their estimated value in terms of increased trade to U.S. exporters at the end of the transition period is provided in Table 12-I.

TABLE 12-I

Summary of MTN Results for Tobacco

Country or Group	1976 U.S. Exports to Country or Group: Quantity (Mill. lbs.)	1976 U.S. Exports to Country or Group: Value ($Mill.)	Nature of Concession	Value of Concession: Increased U.S. Exports (Mill lbs.)	Value of Concession: Value of Increased[1] (SMill.)
EC	235.8	346.4	Tariff cut	45.0	75.0
Australia	10.3	17.5	Tariff cut	1.8	1.8
			NTB change	1.0	1.7
New Zealand	4.9	7.8	Tariff cut	.1	.2
Finland	6.3	10.2	"	.1	.2
Canada	1.3	2.9	"	.1	.1
10 other countries	41.9	70.0	none		
Total from whom Concessions sought	300.5	454.8		48.1	78.6
Total U.S. Exports	592.0	940.4			

*Less than 50,000 lbs. or $50,000. [1] Based on 1977 av. values

Concessions on U.S. Imports

In 1976, the U.S. imported 325 million pounds of unmanufactured tobacco valued at $294 million. Nineteen countries asked for reductions in U.S. import duties on manufactured tobacco.

The U.S. offered only one concession. Canada had asked that the U.S. reduce its import duty on stemmed cigarette leaf filler tobacco from 45 to 20 cents per pound.

At present price levels, with U.S. domestic prices maintained well above price levels, the U.S. draws practically all non-committed supplies from the world market. Thus, while a reduction in the U.S. duty for stemmed cigarette leaf filler tobacco may increase imports of this category, the imports will be drawn from another category.

Since U.S. prices are likely to remain above world prices, the reduction of the U.S. tariff in one of several alternative categories will not have any measurable effect on the total quantity of unmanufactured tobacco imports into the U.S.

B. Background on Tobacco

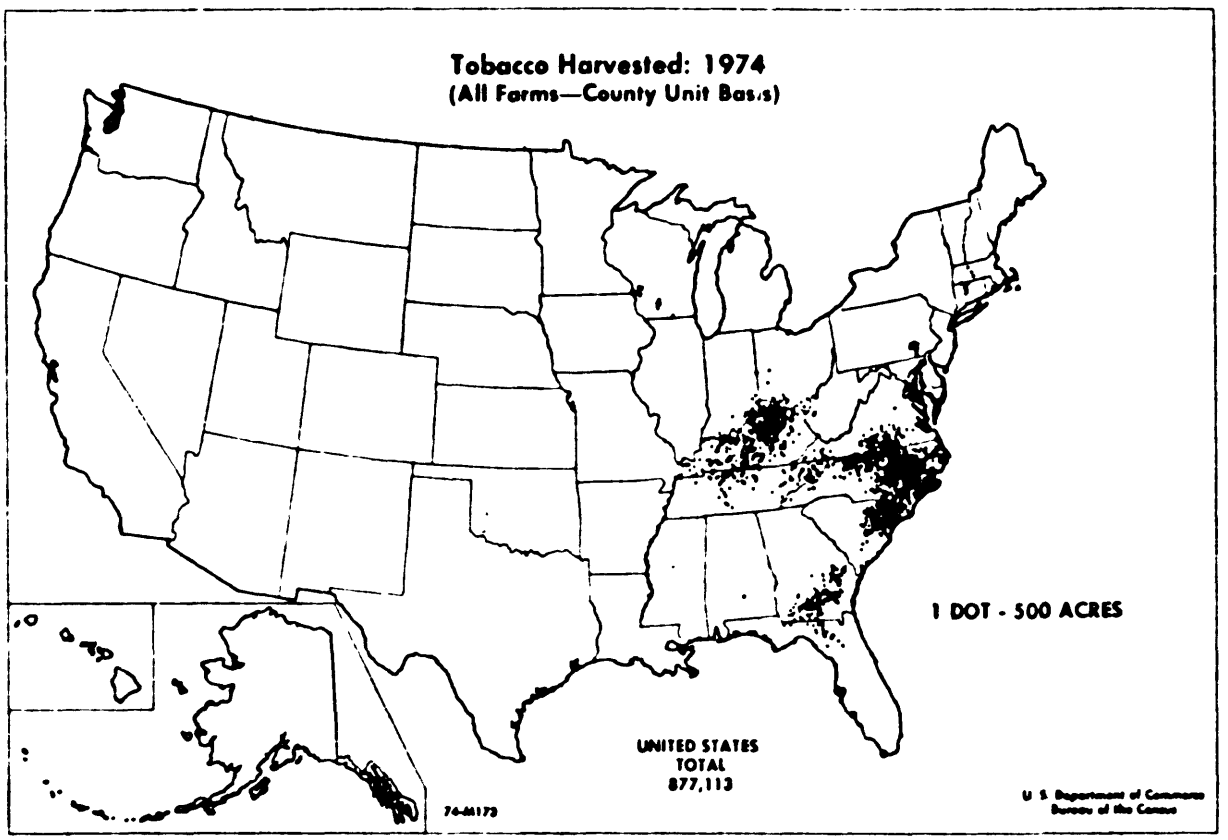
In the MTN, the concern is with unmanufactured tobacco. Cigarette leaf dominates world production and trade in unmanufactured tobacco.

Flue-cured, burley (light air-cured), and oriental are the principal cigarette leafs, accounting for 65 percent of world leaf production and 70 percent of world trade in unmanufactured tobacco. Maryland-type and other light air-cured tobaccos are minor cigarette types.

The only dark air-cured tobacco traded internationally in signifi-

cant amounts is cigar tobacco.

The United States is the largest producer and exporter of unmanufactured tobacco, supplying about 20 percent of the world crop and 25 percent of world exports in recent years. Flue-cured is the dominant U.S. tobacco, and accounts for over 80 percent of total U.S. unmanufactured exports.



Production and Trade

Flue-cured tobacco produced in North Carolina (the major state), South Carolina, Georgia, Virginia, and Florida provided about four-

fifths of total U.S. unmanufactured tobacco exports in 1976. Burley and fire-cured tobacco produced in Kentucky and Tennessee accounted for 16 percent of the total U.S. unmanufactured tobacco exports that year. Exports of the other tobaccos from Connecticut, Maryland, Massachusetts, Ohio, and 7 other minor tobacco producing states contributed 5 percent of the total U.S. unmanufactured tobacco exports.

World tobacco production in 1977 was 12.25 billion pounds, and trade in unmanufactured tobacco was 2.75 billion pounds. The U.S. tobacco crop was 16 percent of the free world production, and U.S. unmanufactured tobacco exports were 23 percent of total free world exports.

Since 1960, U.S. unmanufactured tobacco production has remained stable, while total free world production has increased. Expanded production and exports of flue-cured leaf from developing countries (especially India, Brazil, Rhodesia, South Korea, Malawi and Thailand) have reduced the U.S. share of free world flue-cured exports from more than 50 percent during 1969-73 to 40 percent during the past three years.

Similarly, free world trade of burley tobacco is increasingly supplied by exports from Italy, Mexico, South Korea, Greece, Brazil and Malawi. The U.S. share of free world trade has recently been one-fourth, compared to one-third in the 1969-73 period.

During 1976 and 1977, the U.S. was the world's largest importer of unmanufactured tobacco, followed by West Germany and the U.K. Turkey is the largest supplier of U.S. imports; Brazil and Greece are next in importance. About half of U.S. imports are oriental leaf.

During 1976-77, the U.S. exported an amount equal to 33 percent of domestic tobacco production and imported a quantity equivalent to 18 percent of production. (Table 12-II)

TABLE 12-II

Unmanufactured Tobacco, U.S. Production and Trade

Calendar Year	Production (Dry Weight)	Imports	Exports
	----- 1,000 metric tons ----		
1970	780.1	99.2	234.2
1971	699.9	85.1	217.3
1972	716.0	150.7	278.1
1973	713.9	157.3	283.7
1974	813.9	158.6	300.3
1975	892.5	172.9	259.1
1976	873.6	158.4	266.3
1977	782.2	139.0	290.1

Destinations of U.S. Exports

The largest market for U.S. unmanufactured tobacco is the EC; West Germany and the U.K. are the largest country markets within the EC, together receiving about two-thirds of the EC imports form the U.S.

Over the years, total U.S. exports to the EC have remained at about the same average level; however, only about 40 percent of U.S. exports currently go to the EC, compared to 58 percent in the 1965-69

period. Correspondingly, the U.S. share of EC imports declined from 34 percent in 1965-69 to around 23 percent currently. (Table 12-III.)

TABLE 12-III

EC Tobacco Imports - Estimated Market Shares by Tariff Areas
(Percent of Total Quantity)

	Avg. 1965-69	1970	1975	1976	1977
U.S.	34	30	24	23	NA
Other MFN	46	45	43	43	NA
Duty Free*	20	25	27	27	NA
GSP**	-	-	6	7	NA
Total	100	100	100	100	

U.S. Tobacco Exports - EC Share (Percent of Total Quantity)

	Avg. 1965-69	1970	1975	1976	1977
EC	58	52	49	41	38
Others	42	48	51	59	62
Total	100	100	100	100	100

* Includes intra-EC, Associate, Arusha, Youande, Lomé suppliers only. Former British Commonwealth suppliers not eligible for duty-free preference are included in Other MFN.
** GSP introduced in 1974.

Japan is the largest, and growing, U.S. market outside the EC. Sweden and Switzerland are significant markets, but they are not increasing. The developing countries of the Republic of China, Thailand, Malaysia, Libya and Egypt are growing markets for U.S. leaf exports. The expansion of markets of unmanufactured tobacco in the developing countries is partly due to the gradual replacement of home-made cigarettes from home-grown tobacco by commercially-produced cigarettes.

Income and Support Systems

U.S. The U.S. operates price support programs for most types of tobacco. The programs are designed to support producer prices through production controls. Participating producers restrict production in line with marketing quotas each season, in return for guaranteed minimum prices.

As a result, U.S. producer prices for flue-cured and burley tobacco have been maintained at levels higher than those received by producers of these tobaccos in the other major exporting countries in the world.

Export prices of U.S. unmanufactured tobacco are well above average prices of competing tobaccos. For example, average delivered prices of tobacco imported into the EC from the U.S. have been more than 60 percent higher than prices from all competing sources during recent years.

Foreign buyers are willing to pay premium prices for U.S. leaf because it is of higher quality than practically all competitive tobaccos, because U.S. tobaccos are processed to some extent, because U.S. packaging and grading are more dependable and reliable than that of supplies from most developing countries, because U.S. suppliers are larger and offer a

greater selection than most competitors, and because the U.S. trade has had a history of satisfactory performance.

Nevertheless, EC importers have increased imports of unmanufactured tobacco by 15 percent from their duty-free and GSP (generalized system of preferences) suppliers [1/] since 1973 (largely at the expense of U.S. suppliers). This suggests that prices have been higher than the "quality" premiums importers are willing to pay.

EC. The European Community is the world's largest importer of unmanufactured tobacco. The EC produces only 20 percent of its tobacco requirements and imports the balance. Italy and France are the two major producers, accounting for over 90 percent of total EC tobacco production.

The Tobacco CAP provides relatively high target and intervention prices. Subsidies are paid to buyers of EC tobacco to reduce its cost below the cost of comparable imports. These subsidies are designed to assure the sale of EC tobacco and to prevent accumulation of government stocks (intervention purchases) under the EC price support system.

There are no production controls to prevent surpluses, and the EC has had to resort to export subsidies and auction sales to dispose of these surplus stocks in third country markets.

The CAP provides for "safeguard measures" to be taken if imports threaten to upset the EC market. The EC's common external tariff for unmanufactured tobacco varies according to the type, origin, and value

[1/] Developing countries who receive preferential tariff treatment from developed countries.

of the tobacco offered. It is a combination of ad valorem rates with specific minimum and maximum charges. Until the Tokyo Round concession from the EC on tobacco, most U.S. tobacco paid a duty of between 33 and 45 units of account (UA) per 100 kilos (or about 19 to 26 U.S. cents per pound). Most competing MFN imports paid only 28 to 33 UA (or about 16 to 19 US cents per pound). U.S. prices have increased sharply this season, and at present price levels, practically all U.S. tobacco would pay a duty of 45 UA per 100 kilos.

Tobacco from EC associates - Greece, Turkey, and the former African, Caribbean, and Pacific colonies of the British and French - enters duty free. GSP tariffs (at half the MFN rates) apply to import quotas of 60,000 tons of flue-cured and 2,500 tons of cigar wrapper from non-associated developing countries.

Finally, EC countries are harmonizing their excise taxes on cigarettes. They will move in 4 or 5 stages towards a combination of specific and ad valorem taxes. Since U.S. tobaccos are relatively expensive, they will be disadvantaged compared to cheaper tobaccos by the amount of the ad valorem portion of the tax finally adopted.

Japan. Japan is both a major producer and importer of raw tobacco. In recent years imports have increased more rapidly than domestic production, and imports now fill over one-third of Japan's consumption needs.

Japan's production, trade, and manufacture are controlled by the Japanese Tobacco and Sale Corporation, a government monopoly. Japanese producer prices are relatively high. For example, Japanese producer

prices for both flue-cured and burley tobaccos were 70 percent above comparable U.S. producer prices.

The U.S. remains Japan's major supplier, but it is facing increasing competition from cheaper imports.

Other Countries. A schedule showing comparative levels of tariffs and non-tariff barriers in selected countries is given in Table 12-IV.

In most foreign countries, tobacco trade is regulated by the government, often through a tobacco monopoly. In such cases an import duty usually is not charged. Monopoly controls of tobacco trade do not necessarily mean restrictive measures applied to imports from the U.S. In fact, U.S. tobacco exporters have been quite successful in dealing with foreign tobacco monopolies over the past several years.

U.S. Comparative Advantage

The high quality of U.S. unmanufactured tobacco is universally accepted, and premium prices are paid not only for the flavor of U.S. tobaccos but also for the preparation, packaging, and grading accompanying the product.

U.S. tobacco prices have been maintained at high levels by the support program carried out by the U.S. Department of Agriculture. U.S. tobaccos have been overpriced, in terms of the premiums that foreign buyers would be willing to pay; this is illustrated by the fact that U.S. tobaccos have not been able to maintain their shares of world import markets over the past 10-15 years. U.S. market shares have dropped in the U.K., Japan, the EC as a whole, and even in the relatively newer

TABLE 12-1V

Unmanufactured Tobacco: Comparative Levels of Protection and Trade - Selected Countries

	Approximate AVE non-pref. Duty 1/	Non-Tariff Barriers 2/	Exports as Percent of Production 3/	Imports as percent of indicated Consumption 3/	U.S. Exports to: (percent of total: U.S. Exports) 3/	U.S. Imports (Percent Total U.S. Im
United States	22 4/	None	34	19		
Canada	18 4/	C	25	3	1	*
Mexico	50 5/	B	26	*	*	3
Dominican Republic	500 5/		94	*	1	3
Brazil	55 5/	B, C	36	*	*	5
Argentina	155 5/	B,C,E	26	*	*	2
European Community - 9	16 6/	A,C,E,F	8	80	45	*
Switzerland	Free		*	90	3	-
Sweden	Free	C	-	100	2	-
Greece	100	B,C,E	77	*	*	11
Turkey	50 7/	A,B,C,E	71	-	-	44
Japan	355 8/	A,C	18	32	17	-
Republic of Korea	150 8/	A	19	6	*	*
Philippines	100 9/	B,D,F	56	13	2	8
India	250 5/	B,C,E	20	*	*	*
Republic of China	50 7/	A	27	38	4	*
Thailand	150 8/	A	37	28	3	*
Australia	53	C,D	3	46	3	-

NOTE: This table is based to some extent on derived data and estimates.

1/ Calculated from average import values for latest year available; 1974 for U.S., 1973 for most others.

2/ NTB Code.

3/ 1970-74 average for U.S.; 1970-73 average for most others; quantity only.

4/ Based on weighted average duty; U.S. and Canada apply more than one specific rate.

5/ Based on imports assumed to be largely arrivals; duty paid imports assumed to be nominal.

6/ Calculated from total average value non-preferential imports for 1973; applicable full CXT rate assumed for all nine members.

7/ Monopoly is sole importer.

8/ Monopoly imports duty free.

9/ For cigarette leaf; cigar wrapper duty is 30%.

* Less than ½ of 1 percent.

NTB Code

A - Monopoly controls
B - Import licensing
C - Preferential/Bila
D - Mixing regulation
E - Exchange controls
F - Quotas

markets of Taiwan, Thailand, Malaysia, the Philippines, and Korea.

Changes in the mix of blends of tobaccos are made slowly because cigarette manufacturers do not want to noticeably alter the taste of their cigarettes. Hence, changes in the blend of tobaccos purchased are more gradual than they would be if purchases of raw tobacco were made strictly on a price basis. But manufacturers are able, with filters, various additives, and other techniques, to gradually utilize a larger proportion of the cheaper tobaccos in the manufacture of cigarettes. Thus, there will continue to be a gradual shift towards the use of more of the cheaper tobaccos in the world tobacco markets, and these are principally exported by the developing countries.

U.S. tobacco production costs are much higher than those in the developing countries. Studies by USDA [1/] and the government of Rhodesia [2/] indicate that labor costs in the U.S. average 45 cents per pound, compared to 24 and 13 cents per pound for Malawi and Rhodesia, respectively.

In the U.S., most resources devoted to tobacco production, particularly land and labor, could easily be used to produce other agricultural commodities. Many of these resources would undoubtedly shift out of tobacco production if prices were not supported at high levels. Because tobacco production requires a lot of labor relative to land, the labor-land endowments of most developing countries are more favorable to production than in the U.S. This gives such countries a comparative advantage, quality factors aside.

[1/] Robert H. Miller, The Economic Importance of the U.S. Tobacco Industry, ESCS, USDA, May, 1978.

[2/] Rhodesian Tobacco Today, July, 1978, p. 22.

U.S. exports of unmanufactured tobacco maintained their shares of the Japanese, U.K., and EC markets in the 1960's, when U.S. prices averaged roughly 30 cents per pound above prices of competitive tobacco. This suggests that foreign buyers were willing to pay 30 cents per pound more for U.S. leaf because of its higher quality.

In 1977, the average price of U.S. tobacco in the EC was $1.68 per pound, compared to an average of $1.12 per pound for all other tobaccos. The differential of about 30 cents per pound suggests that EC buyers would have been willing to continue to buy their "customary" shares of U.S. tobaccos in 1977, if U.S. prices averaged around $1.45 per pound rather than $1.68 per pound. U.S. producer prices, at these export levels, would have been roughly 10 percent lower than they actually were.

Even if the U.S. tobacco industry were to endeavor to regain its former share of the world tobacco trade by reducing its export prices, it is doubtful that this goal could be achieved. The quality of cigarettes worldwide has been gradually reduced by the blending of cheaper tobaccos and the greater use of filters. Cigarette manufacturers are loathe to change the composition of blends, especially if a higher cost would be incurred by the change. At best, therefore, the U.S. can only maintain its present share of world trade.

With significantly higher labor costs, and prices being maintained at high levels by means of a support program which restricts production, U.S. tobacco producers do not have a competitive advantange. The U.S. is losing out in world trade despite the recognized superior quality of tobacco.

13. VEGETABLE PROTEIN CONCENTRATES AND ISOLATES[1/]

Foreign import duties for protein concentrates and isolates vary widely. Algeria, Brazil, Ecuador, Iceland, India, Pakistan, Philippines, Sri Lanka, and Turkey have duties on concentrates of 75 percent ad valorem or higher. On the other hand, Austria, Iraq, Malaysia, Portugal, and Singapore permit protein concentrates and isolates to enter duty free; and Australia, New Zealand, Ivory Coast and Spain admit them with duties of about 5 percent ad valorem.

Requests for reduced duties on vegetable protein concentrates and isolates were made to the Central American Common Market, the EC, and to 51 other countries. (The U.S. did not ask the EC to lower its duty on protein concentrates, although an industrial request for a lower duty on isolates was made.) The U.S. asked 35 countries to cut, or bind, duties to zero for protein concentrates and isolates. Fifteen countries limit imports of these items by nontariff measures, and the U.S. asked them to provide for automatic licensing or to liberalize their import systems.

The requests for reductions of foreign import duties and removal of nontariff barriers were an attempt to encourage the development and growth of markets for these relatively new commodities. The value of trade to the countries from which concessions were requested was only $3.7 million in 1976.

Data for 1978 were used in determining the value of concessions offered to the U.S. because this is the first year in which data on vegetable protein concentrates and isolates were reported separately.

1/ The types and uses of soy protein products are presented on pages CRS-188 and CRS-189.

A. MTN Results

Of the fifteen countries asked to liberalize their import systems, only the Dominican Republic and Sri Lanka agreed to do so. Each converted to automatic licensing, and the Dominican Republic offered to reduce its import duties as well.

The EC and sixteen other countries offered to reduce, or bind, existing duties on vegetable protein concentrates or isolates. Argentina, Korea, Mexico and Singapore offered to bind existing duties or duties at rates above existing duties; thus, no increase in trade can be attributed to these offers.

The Philippines and South Africa offered to make tariff cuts that could lead to increased trade, although they maintain licensing systems that could impair the value of their offers.

The EC, in response to an industrial request, offered to reduce its import duty on vegetable protein isolates from 8 percent ad valorem to 5.3 percent ad valorem. In 1978 the U.S. exported 8,560 mt of isolates to the EC, valued at $11.8 million. With a price elasticity of -.7[1/], a duty reduction will lead to an increase of 2 percent in trade, worth over $.2 million. This probably underestimates the trade gain, since the protein isolates provide a new substitute and/or extender for beef and other meats.

Japan offered to reduce its current import duties on vegetable protein concentrates by 12.5 percent ad valorem and on isolates by 7.5 percent.

[1/] Based on the price elasticity for beef in the EC as calculated in Donald W. Regier, Livestock and Derived Feed Demand in the World GOL Model, USDA, ESCS, Foreign Agricultural Economic Report No. 152, September 1978, p. 25.

In 1978 the U.S. exported 1,300 mt of concentrates to Japan (worth $1.1 million) and 2,000 mt of isolates (valued at $3.7 million). Because beef is considered a luxury item in Japan, the price elasticity is estimated at -1.8 [1/], which in turn is imputed to protein concentrates and isolates. Because vegetable protein is a substitute for meat, this elasticity is probably low. The increase in trade resulting from reductions of duties by Japan will be worth $.2 million for protein concentrates and $.4 million for isolates by 1987.

Australia, which imported $600,000 worth of vegetable protein concentrates and isolates from the U.S. in 1978, offered to cut its duty on protein concentrates from 22.5 percent ad valorem to 9 percent. Because concentrates are probably used in bakery products rather than as meat extenders in Australia, a price elasticity of -.7 was utilized in this analysis. The results indicate a gain in U.S. exports to Australia of roughly 30 mt or $23,000 annually by 1987.

The Dominican Republic, Haiti, Iceland, Indonesia, Israel, Jamaica, New Zealand and Taiwan imported very small quantities of concentrates and isolates from the U.S. in 1978. On the average, they imported 18 mt of vegetable protein concentrates and less than 1 mt of isolates from the U.S. that year. We can roughly estimate that the reduction in duties would lead to U.S. exports of concentrates to these countries at 5 times their 1978 level and of isolates at double the 1978 level. This will lead to a trade gain worth $.6 million by 1987.

[1/] Regier, Livestock and Derived Feed Demand, p. 15.

The results of these concessions are summarized in Table 13-I.

The trade gains will be roughly $.7 million for concentrates and $.7 million for isolates. This is in addition to the growth of exports which have been increasing steadily by 8,000 mt per year during the past 4 years and are expected to continue to grow at least as fast.

Table 13-I

Summary of MTN Results for Vegetable Protein Concentrates and Isolates

Country or Group	1978 U.S. Exports to Country or Group		Nature of Concession	Value of Concession Increased U.S. Exports	
	Quantity mt	Value $Mill.		Quantity mt	Value $Mill.
Concentrates					
Japan	1,300	1.1	Duty Reduction	300	.2
Australia	300	.4	" "	30	*
Dom. Repub., Haiti, Iceland, Indonesia, Israel, Jamaica, N.Z. & Taiwan	140	.1	" "	630	.5
Other Countries	22,260	15.9			
Total Concentrates	24,000	17.5		960	.7
Isolates					
EC	8,600	11.8	Duty Reduction	200	.2
Japan	2,000	3.7	" "	300	.4
Dom. Rep., Haiti, Iceland, Indonesia, Israel, Jamaica, N. . & Taiwan	6	*	" "	60	.1
Other Countries	5,434	6.3			
Total Isolates	16,000	21.8		560	.7

*Less than $50,000

B. Background in Vegetable Protein Concentrates and Isolates

Practically all edible vegetable proteins are produced from soybeans. These products are soy flours and grits, soy protein concentrates and isolated soy protein.

Soy flours are used mostly in baked goods, cereals and infant foods. Soy grits are used mainly in snack foods. The protein content of soy flours and grits ranges between 40 and 60 percent.

Soy protein concentrate has a protein content of about 70 percent. Concentrates are used as vegetable protein supplements in meat products such as frankfurters and bologna, and they are also used in baked goods and cereals.

Isolated soy protein has a protein content of over 90 percent. Isolates are used in sausage and canned meats as binding agents and in coffee whiteners, whipped toppings, frozen desserts, and spreads and dips.

Each of the edible vegetable proteins produced from soybeans can be textured. The soy flours and concentrates usually are extruded to form pieces ranging from tiny bits to bite-size chunks. When rehydrated, they resemble cooked meats or other products. Isolated soy protein can be spun into fibers which, when combined with flavors, fats, and coloring, can be formed into meat analogs which closely resemble sausages, bacon, chunks of chicken, or ham, and so on.

Production and Trade

USDA estimated that the total U.S. production of soy proteins in the 1975-76 marketing year was 460,000 mt (equivalent 50 percent protein soy flour), of which about 285,000 mt were for food use and 175,000 mt for

industrial use. Of the amount used for food, 63 percent consisted of flours and grits, 15 percent concentrates, and 22 percent isolates. Industrial uses of soy protein concentrates and isolates include sizing, paper, adhesive, paints, and wallboard.

Estimates of U.S. production of total soy protein products and of concentrates and isolates during the past five seasons are shown in Table 13-II. Because of the concentration of proteins in concentrates and isolates, there is a great difference in the flour equivalent tonnage (50 percent protein) and the actual tonnage of concentrates and isolates produced.

Table 13-II

Estimates of Production of Soy Protein Products in the U.S., 1973-74 to 1977-78 Marketing Years[1/]

Marketing Year	Total Production Flour Equivalent[2/]	Concentrates and Isolates Flour Equivalent[2/]	Concentrates and Isolates Actual Production
	Thousand Metric Tons		
1973-74	480	150	65
1974-75	520	155	70
1975-76	458	168	78
1976-77	540	200	90
1977-78	560	205	95

1/ October - September.
2/ Based on 50 percent soy flour.

Source: For 1975-76--Farmer Cooperatives Reprint 4, May 1977, by Bert D. Miner (FCS) and Wm. W. Gallimore (ERS), U.S. Department of Agriculture.

For other years--Schnitter Associates, adjusting the 1975-76 data on the basis of estimates of total deliveries prepared by the Food Protein Council, and for the concentrates and isolates share of the total based on unpublished estimates of ERS, USDA.

Soy protein concentrates and isolates accounted for about 37 percent of the total production of soy protein products in 1975-76. The proportions of the various protein products expected to be produced in 1984-85 are about the same as in 1975-76, but there are offsetting changes. In 1984-85, relatively fewer flours and grits are expected to be used in food, but relatively more of these will be needed for industrial uses. On the other hand, the importance of soy isolates is expected to increase for food use.

There are less than a dozen primary producers of soy proteins in the U.S. Plants are located in the major producing areas of the Corn Belt and the Mississippi Valley.

U.S. exports of edible vegetable proteins have increased steadily since 1974, and the increase has been primarily in concentrates and isolates. Poland, which buys only flours and grits, is an exception. In January 1978, the Bureau of Census started reporting exports of isolates and concentrates separately. Assuming that Poland bought only flours and grits, U.S. exports of vegetable proteins in 1978 were comprised of 37 percent isolates, 31 percent concentrates, and 32 percent flours and grits. These exports are shown in Table 13-III.

Table 13-III

U.S. Exports of Vegetable Protein Concentrates and Isolates, by Principal Countries, 1978

Destination	Concentrates	Isolates	Total
	Metric Tons		
EC-9	3,177	8,560	11,737
Poland	11,505	1,135	12,640 1/
Japan	1,268	1,983	3,251
USSR	2,828	106	2,934
Canada	873	723	1,596
Rep. of South Africa	764	764	1,528
Spain	358	1,006	1,364
Sweden	383	597	980
Romania	705	0	705
Norway	185	301	486
Philippines	482	4	486
Venezuela	203	266	469
Australia	322	109	431
Mexico	318	108	426
Others	712	368	1,080
World Total	24,083	16,030	40,113

1/ Believed to be flours and grits.

Source of data: U.S. Dept. of Commerce, as compiled by USDA, FAS.

The EC is the largest single market for U.S. vegetable protein exports, with 29 percent of the total in 1978, since Poland only imports flour and grits. The EC is followed by the USSR and Japan.

A rough estimate of current EC production of soy proteins is 100,000 mt annually. All countries except Italy, Ireland, and Luxembourg produce soy proteins. The earlier plants produced only flour and grits, although newer plants are producing some isolates and concentrates. The bulk (84 percent on an equivalent protein basis) of the EC imports from the U.S. now consists of isolates.

In the first 10 months of 1978, 80 percent of Japan's imports of soy proteins from the U.S. were isolates. Production of soy proteins in Japan was reported in 1978 for the first time, and production for the year as a whole is estimated at around 20,000 mt, entirely concentrates and isolates.

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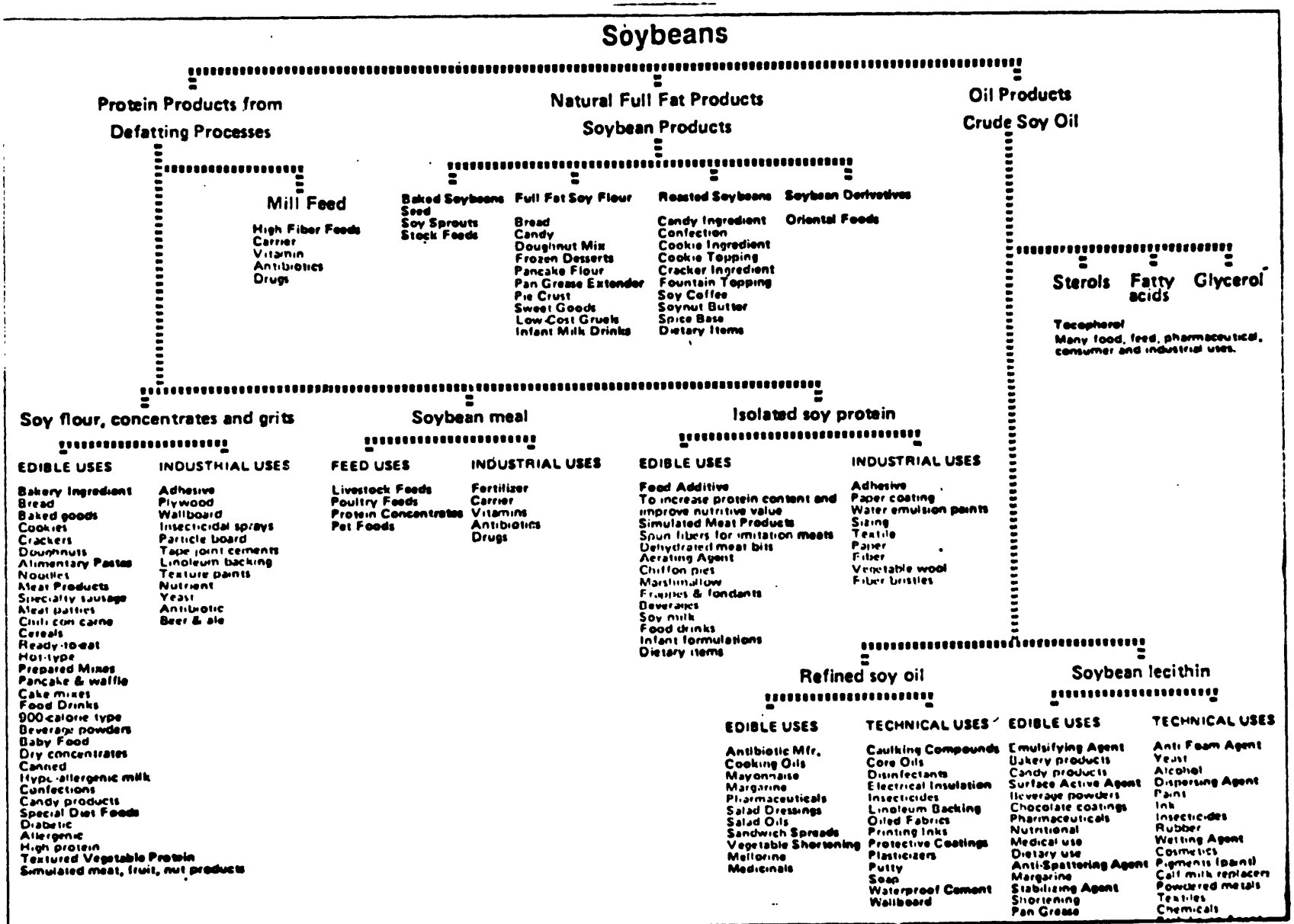
Table 13-IV

FOOD USES OF SOY PROTEINS

Protein form	Uses
Flours and grits	Bakery products: Bread, rolls, and buns Doughnuts Sweet goods Cakes and cake mixes Pancake and waffle mixes Specialty crackers and cookies Meat products: Sausages Luncheon loaves Patties Canned meats in sauces Breakfast cereals Infant and junior foods Confectionery items Dietary foods
Textured flours	Ground meat extenders Meat analogs (bacon-like bits, etc.)
Concentrates	Bakery products: Bread, biscuits, and buns Cakes and cake mixes Meat products: Sausages Luncheon loaves Poultry rolls Patties Meat loaves Canned meats in sauces Breakfast cereals Infant foods Dietary foods
Isolates	Meat products: Sausages Luncheon loaves Poultry rolls Dairy-type foods: Whipped toppings Coffee whiteners Frozen desserts Beverage powders Infant foods Dietary foods
Spun isolates	Meat analogs: Bacon-like bits Simulated sausages Simulated ham chunks Simulated chicken chunks Simulated bacon slices Meat extenders

Table 13-V


Soybeans
Protein Products from Defatting Processes
Natural Full Fat Products Soybean Products
Oil Products Crude Soy Oil
Mill Feed
High Fiber Feeds
Carrier
Vitamin
Antibiotics
Drugs
Baked Soybeans
Seed
Soy Sprouts
Stock Feeds
Full Fat Soy Flour
Bread
Candy
Doughnut Mix
Frozen Desserts
Pancake Flour
Pan Grease Extender
Pie Crust
Sweet Goods
Low-Cost Gruels
Infant Milk Drinks
Roasted Soybeans
Candy Ingredient
Confection
Cookie Ingredient
Cookie Topping
Cracker Ingredient
Fountain Topping
Soy Coffee
Soynut Butter
Spice Base
Dietary Items
Soybean Derivatives
Oriental Foods
Sterols
Fatty acids
Glycerol
Tocopherol
Many food, feed, pharmaceutical, consumer and industrial uses.
Soy flour, concentrates and grits
EDIBLE USES
Bakery Ingredient
Bread
Baked goods
Cookies
Crackers
Doughnuts
Alimentary Pastes
Noodles
Meat Products
Specialty sausage
Meat patties
Chili con carne
Cereals
Ready-to-eat
Hot-type
Prepared Mixes
Pancake & waffle
Cake mixes
Food Drinks
900-calorie type
Beverage powders
Baby Food
Dry concentrates
Canned
Hypo-allergenic milk
Confections
Candy products
Special Diet Foods
Diabetic
Allergenic
High protein
Textured Vegetable Protein
Simulated meat, fruit, nut products
INDUSTHIAL USES
Adhesive
Plywood
Wallboard
Insecticidal sprays
Particle board
Tape joint cements
Linoleum backing
Texture paints
Nutrient
Yeast
Antibiotic
Beer & ale
Soybean meal
FEED USES
Livestock Feeds
Poultry Feeds
Protein Concentrates
Pet Feeds
INDUSTRIAL USES
Fertilizer
Carrier
Vitamins
Antibiotics
Drugs
Isolated soy protein
EDIBLE USES
Food Additive
To increase protein content and improve nutritive value
Simulated Meat Products
Spun fibers for imitation meats
Dehydrated meat bits
Aerating Agent
Chiffon pies
Marshmallow
Fruites & fondants
Beverages
Soy milk
Food drinks
Infant formulations
Dietary items
INDUSTRIAL USES
Adhesive
Paper coating
Water emulsion paints
Sizing
Textile
Paper
Fiber
Vegetable wool
Fiber bristles
Refined soy oil
EDIBLE USES
Antibiotic Mfr.
Cooking Oils
Mayonnaise
Margarine
Pharmaceuticals
Salad Dressings
Salad Oils
Sandwich Spreads
Vegetable Shortening
Mellorine
Medicinals
TECHNICAL USES
Caulking Compounds
Core Oils
Disinfectants
Electrical Insulation
Insecticides
Linoleum Backing
Oiled Fabrics
Printing Inks
Protective Coatings
Plasticizers
Putty
Soap
Waterproof Cement
Wallboard
Soybean lecithin
EDIBLE USES
Emulsifying Agent
Bakery products
Candy products
Surface Active Agent
Beverage powders
Chocolate coatings
Pharmaceuticals
Nutritional
Medical use
Dietary use
Anti-Spattering Agent
Margarine
Stabilizing Agent
Shortening
Pan Grease
TECHNICAL USES
Anti Foam Agent
Yeast
Alcohol
Dispersing Agent
Paint
Ink
Insecticides
Rubber
Wetting Agent
Cosmetics
Pigments (paint)
Calf milk replacers
Powdered metals
Textiles
Chemicals

14. WINE

The U.S. wine industry urged the U.S. to seek removal or modification of foreign NTB's which limited or prohibited imports of U.S. wines and also to negotiate some of the higher foreign entry rates downward towards the levels of U.S. import duties. The MTN negotiations have resulted in no measurable effect on U.S. wine trade.

A. MTN Results

In the MTN the U.S. asked reductions of import duties in 7 foreign countries whose imports of U.S. wine in 1976 were worth $3,820,000. The total value of U.S. wine exports in 1976 was $5,666,000. Of these seven countries, Canada, Mexico, and Switzerland maintained import systems with NTB's, and each of these countries was requested to modify or remove the NTB's. None has agreed to do so.

Japan offered to bind its current import duty, but this will not lead to expanded trade because it is the same rate that had been in effect for several months. Since the Japanese capacity to produce table wine is so limited, it is not likely that Japan would have undertaken to increase the temporary rate.

Canada offered to reduce its import duty on dessert wines from 50 percent to 25 percent ad valorem. The value of this offer is questionable, however, since the Canadian provinces purchases wines through state

trading operations. The Canadian government offered to request Provincial authorities to list more U.S. wines, but this is only an informal promise. The U.S. share of the Canadian dessert wine imports was only 2 percent in Calendar 1973.

Colombia, Mexico, Switzerland, Trinidad-Tobago, and Venezuela all refused to respond to U.S. requests.

U.S. wine imports in 1976 amounted to $300 million, of which $233 million were table wines and $23 million were dessert wines. Argentina, Romania and Turkey asked the U.S. to reduce its duty on table wines. No offer was made. Spain, Portugal, Romania and Turkey asked the U.S. to reduce its import duty on dessert wines. The U.S. offered to reduce its duty from $1 per gallon to $.70 per gallon, provided reciprocal offers were received from Spain and Portugal. None were received, and the U.S. offer on wine was withdrawn.

B. Background on Wine

Production and Trade

Wine is produced commercially in 28 states in the U.S. California contributes 86 percent of the total U.S. wine production, New York contributes 9.5 percent, and Illinois supplies 2 percent. The remaining 2.5 percent is divided among 25 states, none of which supplies as much as 0.5 percent of the total.

Wine is classified into table wines (with an alcohol content not over 14 percent by volume) such as burgundy or chablis; dessert wines (with alcohol content between 14 and 24 percent by volume) such as

sherry or port; sparkling wines (made effervescent with CO_2 resulting from fermentation) such as champagne; and vermouth, a fortified aperitif wine with an alcohol content of not less than 15 percent. In addition, there are other special natural wines such as strawberry and apple wines and Sangria. In recent years U.S. domestic wines entering distribution channels consisted of 55 percent table wines, 20 percent dessert wines, 6 percent sparkling wines, 2 percent vermouth, and 17 percent other special natural wines.

In comparison, imported wines entering U.S. distribution channels during the same period consisted of 73 percent table wines, 4 percent dessert wines, 4 percent sparkling wines, 8 percent vermouth, and 11 percent other special natural wines.

Wine production in the world by principal producing countries is shown in Table 14-I. The EC is the largest wine producer in the world, contributing almost half of total world production in recent years. The USSR is the second largest wine producer in the world, contributing 10 percent of the total, followed by Spain and Argentina, each with slightly less than 8 percent of the world total. The U.S. is the fifth largest producer in the world, with 5 percent of the total production in the last two years.

World wine production has increased imperceptably over the past decade. Weather conditions cause substantial year to year fluctuations in supplies. Average production in the EC and for the world as a whole during the past two years was about the same as a decade earlier, due in part to the poor European crop in 1977. Over the decade there were

TABLE 14-I

World Wine Production, by Principal Countries
Avg. 1972-74, Annually, 1975-77

Country	1972-74 Avg.	1975	1976	1977 1/
	million gallons			
World Total	8,508	8,412	8,253	7,251
Western Europe-Total	5,610	5,355	5,230	4,411
EEC				
France	1,904	1,807	1,960	1,382
W. Germany	226	240	236	252
Italy	1,881	1,844	1,738	1,680
Others	4	4	13	4
Total	4,015	3,895	3,947	3,318
Spain	904	857	642	572
Portugal	299	248	244	138
Greece	126	115	119	106
Yugoslavia	174	143	168	168
Others	92	97	110	109
Eastern Europe and USSR-Total	1,156	1,225	1,362	1,254
USSR	676	783	832	816
Romania	192	183	237	158
Bulgaria	118	92	135	132
Hungary	137	131	119	106
Others	33	36	39	42
United States	370	384	379	396
South Africa	139	156	158	127
Australia	76	95	95	95
Developing Countries-Total	1,122	1,165	995	936
Argentina	623	711	608	554
Chile	147	140	136	132
Algeria	158	114	62	63
Morocco	30	18	18	21
Tunisia	28	25	15	17
Others	136	157	156	149

1/ Preliminary.
Source of Data: United Nations, F.A.O. Current Wine Situation, Summer 1978.

sharp increases in production in the USSR and in the U.S. and moderate increases in Argentina and Chile. These were offset by sharp declines in production in Algeria and Morocco, following the implementation of the EC's CAP on Wines which abolished their former duty-free access to the French market.

Data showing world imports and exports of wines, by principal countries, are shown in Tables 14-II and 14-III. The EC is the world's largest importer and exporter of wine; but because so much of the EC's imports are received from EC suppliers, the aggregate figures in Tables 14-II and 14-III do not show EC imports or exports to third countries. Data from the EC Commission[1/] show that average annual EC imports of wine from third countries in 1976 and 1977 were 141 million gallons and exports to third countries were 160 million gallons annually.

Excluding intra-EC trade, about 9 percent of the total world wine production was traded internationally during 1976 and 1977. At that time the USSR was the world's largest importer, followed by the EC and the United States. And the EC was the largest exporter, followed by Spain and Algeria.

Major Markets

U.S. The U.S. wine market has been increasing rapidly, and average quantities entering distribution channels during the past five years are about double what they were a decade ago.

Table wine accounts for about 60 percent of the quantity distributed,

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[1/] Obtained from USDA, FAS, Trade Relations Division.

TABLE 14-II

World Wine Exports, by Principal Countries
Avg. 1972-74, Annually 1975-77

Country	1972-74 Avg.	1975	1976	1977 1/
	million gallons			
World Total	1,118	1,133	1,195	1,143
Western Europe-Total	722	794	877	836
EEC				
France	173	167	187	219
W. Germany	17	22	29	32
Italy	312	373	373	316
Others	8	10	17	19
Total	510	572	606	586
Spain	111	137	160	153
Portugal	52	33	54	41
Greece	21	29	32	26
Yugoslavia	20	17	20	21
Others	8	6	5	9
Eastern Europe and USSR-Total	130	155	149	150
Bulgaria	57	66	61	2/
Hungary	39	43	47	2/
Others	34	45	41	2/
Developing Countries-Total	258	175	159	150
Algeria	191	126	102	84
Morocco	23	12	11	11
Tunisia	26	23	19	18
Argentina	2	3	15	18
Others	16	11	12	19

1/ Preliminary.

2/ Not available.

Source of data: United Nations, F.A.O., Current Wine Situation, Summer 1978. co 11/60 August 1978.

TABLE 14-III

World Wine Imports, by Principal Countries
Avg. 1972-74, Annually, 1975-77

Country	1972-74 Avg.	1975	1976	1977[1/]
	million gallons			
World Total	1,091	1,184	1,101	1,151
Western Europe-Total	696	749	687	702
EEC				
France	205	247	187	169
W. Germany	194	193	216	224
United Kingdom	85	85	86	96
Others	103	103	105	116
Total	587	628	594	605
Switzerland	61	58	55	55
Others	48	63	38	42
Eastern Europe and USSR-Total	261	300	269	287
USSR	195	225	206	2/
E. Germany	32	38	39	2/
Others	34	37	24	2/
United States	51	47	55	65
Canada	14	17	19	26
Developing Countries-Total	62	63	61	62
Ivory Coast	10	12	11	2/
Angola	11	5	5	2/
Others	41	46	45	2/

1/ Preliminary.

2/ Not Available.

Source of data: United Nations, F.A.O. Current Wine Situation, Summer 1978. co 11/60 August 1978.

followed by dessert wine at 16 percent, special natural wines at 15 percent, sparkling wines at 6 percent, and vermouth at 3 percent. Table wine distribution has increased sharply since the early 1960's, while dessert wine distribution has decreased steadily.

Imported wines have increased their share of the U.S. market. From 1962 to 1966, they provided 8.6 percent of all wines entering U.S. distribution channels; a decade later they accounted for 14.7 percent. Imports now supply about one-fifth of the table wines, one-tenth of the sparkling wines, one-half of the vermouth, and minor shares of the dessert wines and other special natural wines entering U.S. distribution channels.

In 1976, U.S. imports of wine amounted to 55 million gallons; seventy-five percent of this originated in the EC, 21 percent originated in Spain and Portugal combined, and 1.5 percent originated in Japan. The U.S. exported 1.4 million gallons of wine during 1976. Roughly one-third was exported to Canada and one-third to Caribbean countries. The remainder was shipped to Japan, Mexico and other Central and South American countries, and the EC.

The U.S. import duty on table wines is 37.5 cents per gallon.[1/] This is probably the lowest import duty on table wine in the world. The U.S. import duty on vermouth is 21 cents per gallon, on dessert wines it is $1.00 per gallon, and on champagne and other sparkling wines it is $1.17 per gallon.

Average wholesale and retail prices of red table and dessert wines

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1/ Per wine gallon. The wine gallon-proof gallon issue is one concerning U.S. imports of spirits, not wines.

in the U.S. have risen steadily from 1963 through 1976. Average retail prices in 1976 were 61 percent higher than in 1963 and 1964, and wholesale prices were 58 percent higher.

EC. The EC's CAP on Wine enables it to manage both production and trade in wine for the benefit of EC wine producers.

The CAP on Wine became fully effective in 1976. It established uniform regulations on prices, on enology (wine making practices), and on labeling. Imported wines are required to conform with EC practices and labeling requirements. "Guide" prices (desired or target prices) for various types of wines are determined annually in advance of each marketing season (beginning December 15). "Activating" prices also are announced, usually at levels about 7 percent below the guide prices. Activating prices are those that trigger surplus removal operations, which involve the distillation of wines for industrial use. "Reference" prices also are announced. These are tantamount to minimum import prices because the EC may tax importers for the difference between the import price and the reference price. Reference prices are about 28 percent above the guide price. (These, incidentally, pose no problem to U.S. exporters whose prices are well above reference levels.) The guide and related prices have increased each season since 1971-72; the 1977-78 guide price is 50 percent above the 1971-72 guide price.

The EC requires a laboratory certificate accompanying each lot of imported wine and a certification that the wine was prepared in conformity with EC enological practices. An import license is also required.

U.S. practices differ from European practices, and California producers have advocated a quid pro quo in the form of a certificate that Europeans would be required to meet. The EC, recognizing that it had more to lose than the U.S., agreed in 1975 to "cooperate" with the U.S. and other small suppliers. As a result, the U.S., Argentina, and Canada are exempt from the labeling and enological requirements of the CAP for a quantity of 1,000 hectoliters per year (26,400 gallons).

In August 1978, the U.S. issued regulations providing a comprehensive plan for appellation of origin labeling and for more stringent varietal labeling requirements. The U.S. had hoped that the EC would recognize these as substantially equivalent to EC requirements and remove the 1,000 hectoliter limit for imports from the U.S. The limit, however, is not rigorously observed, at least for U.S. exports to the EC. Furthermore, the EC and U.S. hold periodic technical consultations on wine trade problems. Currently, variations in container sizes pose problems.

EC import duties vary with the alcoholic strength of the wine and the container; duties are expressed in units of account. For ordinary table wines, the duty is equivalent to 75 cents per gallon. For vermouth, the duty ranges between U.S. $.88 and $1.06 per gallon, and for dessert wines between $.75 and $.91 per gallon. The sparkling wine duty is equivalent to $2.50 per gallon at the present time.

Japan. The Japanese import duties on wines are high, and the U.S. had sought tariff concession on table wines. None was forthcoming, as indicated above.

Prices to Japanese consumers are especially high because excise taxes penalize the higher-priced wines. The excise tax is 95.7 yen per liter for all wines up to a landed duty paid price of 870 yen per liter (equivalent to $16.67 per gallon). For more expensive wines, the excise tax is 50 percent of the landed duty paid price. The Japanese contend that the excise taxes are not discriminatory. The U.S. requested a 60 percent reduction in the excise taxes, but the Japanese made no offer in response to this request.

Mexico. The Mexican import duties on wines are high, and their import system is complex.

The Mexican import duty on most table wines is 35 percent ad valorem plus a 10 percent surcharge on the invoice value and a 3 percent surcharge on the duty paid.

The import duty is levied on either the invoice price or the "official valuation," whichever is higher. For table wine, this valuation was equivalent to $5.25 per gallon in July 1978, about the same as the average unit value of U.S. wines exported to Mexico in 1977.

Mexico currently maintains an overall quota for wine imports, and the U.S.'s allocation is 12,000 cases (28,800 gallons annually). U.S. exporters have not filled this because the high import charges increase the prices of imported wines to levels which inhibit trade.

15. INTERNATIONAL WHEAT AGREEMENT

As part of the current round of agricultural trade negotiations, the U.S. had taken the lead in fashioning a new International Wheat Agreement (IWA), designed to meet certain objectives. In addition to continuing the food aid provisions of previous agreements, the U.S. pushed for an international system of nationally-held wheat reserves as a means for stabilizing wheat supplies and prices and for assuring supplies to developing countries. The U.S. proposed that these government-held reserves should total 25-30 mmt, and that there would be a system of minimum and maximum indicator prices to guide national decisions on when reserves should be accumulated and released. No attempt was made to establish rigid minimum and maximum prices which importers and exporters would be obligated to defend.

Previous concern about short supplies of wheat has waned as a result of large world crops in 1976-77 and in 1978-79. Such abundant wheat supplies would provide the opportunity to establish a system of reserves. Some countries, especially the U.S., felt that building reserves at this time would help support world wheat prices. At the same time, other parties in the IWA discussions took a more sanguine view toward the possibility of renewed shortages and were less enthusiastic about assuming stocking obligations and supporting prices.

The proposed IWA also continued a provision for exporters and importers of coarse grains to consult periodically on measures to promote trade and

to achieve market stability. This provision did not require members of the IWA to assume any specific obligations with respect to coarse grains.

A. MTN Results

There were four major areas of disagreement in the negotiation.

- Size of reserves: As mentioned above, the U.S. objective was to establish a total wheat reserve of 25-30 mmt, but other countries desired a smaller reserve of about 15 mmt.
- Country shares: Both importers and exporters would be obligated to carry reserves under the proposal, and it was necessary to reach agreement on the size of each country's share.
- Trigger Prices: There was general agreement on the price levels at which countries would begin to accumulate reserves, but there was less agreement about the release price.
- Food Aid: The size of the food aid component of the proposed IWA was also the subject of negotiation, although it was separate from the reserve provision.

A final and unsuccessful effort to negotiate a new IWA was made in February 1979. Agreement could not be reached on the basic elements of the proposed agreement, namely the national grain reserve provision.

There was general, but not complete, agreement on the price levels at which stocks would be accumulated. The U.S., EC, Argentina, Australia, and Canada agreed to an acquisition price of $3.05/bu. for the first half of the stock commitment and $2.65/bu. for the remaining amount, basis U.S. farm. Japan argued for an initial price below $3.05/bu., and the

developing countries wanted an acquisition price of $2.65/bu. U.S. negotiators felt that agreement could have been reached on acquisition prices if this were the only outstanding issue.

However, there was considerably more disagreement over the reserve release price. The U.S., EC, Japan, Argentina, Australia and Canada agreed on a release price of $4.78/bu. (at the U.S. farm level) for the first year of the agreement, and $5.05/bu. thereafter. The developing countries strongly objected to such a high release price level, preferring an equivalent U.S. farm price of about $3.60/bu. Differences between the developed and developing countries on this issue could not be resolved.

Finally, some progress was made toward determining the size of reserve wheat stocks, but not at the level the U.S. had initially proposed (25-30 mmt). The U.S., EC, Japan, Argentina, Australia and Canada agreed to hold a combined wheat reserve of 15 mmt. Negotiators asked the USSR to hold 5 mmt, but it would not agree to holding more than 3 mmt; and the developing countries were asked to hold at least 5 mmt, but they offered to hold only 1.5 mmt.

Even though failing to reach agreement on a new IWA that contains reserve stock provisions, the negotiating parties have extended the 1971 IWA until June 30, 1981. This extension permits continuation of the International Wheat Council, 4.1 mmt of food aid annually to developing countries (although actual commitments are likely to be larger), and a mechanism for exporting and importing countries to consult on world wheat trade issues.[1/]

1/ The U.S. Senate must confirm this extension before it becomes effective for this country.

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B. Background on the IWA

The first IWA was negotiated in 1933, and agreements have been in effect continuously since 1949. Thus, there is a long tradition of agreement and cooperation among wheat importing and exporting nations.[1/] The various IWA's have been designed to deal with market instability, although more recent agreements have also been concerned with expanding wheat trade and providing food aid to developing countries.

The agreements negotiated between 1949 and 1967 contained maximum and minimum pricing provisions. This meant that member wheat exporters agreed to provide member importers with specified quantities when world prices reached or exceeded the maximum prices negotiated in the agreements. Similarly, importers agreed to buy wheat from exporters when world prices reached or fell below the negotiated minimum prices.

In 1967, a food aid convention was added to the IWA and has been a part of the agreement since then. Under this provision, participating importing and exporting countries agreed to provide food aid to developing countries.

Most of the concern over the need to negotiate successive IWA's was the result of conditions of oversupply and depressed prices, rather than of conditions of shortages. As the International Wheat Council points out:

[1/] For a brief history of the IWA, see International Commodity Agreements, A Report of the U.S. International Trade Commission to the Subcommittee on International Trade of the Committee on Finance, United States Senate, November 1975, pp. 106-121; and International Wheat Agreements: A Historical and Critical Background, EX(74/75) 2/2, International Wheat Council, August 14, 1974.

> One of the first features to strike the attention would probably be that surplus rather than deficit situations have normally provided the mainspring for action towards international wheat agreements, and have more often than not formed the background to their operations. This was very much the motivation for the first moves towards an agreement, and the first, unsuccessful, agreement in 1933. The first in the present series of agreements was perhaps something of an exception in that it looked towards a period of (diminishing) deficity, but even this stemmed basically from fears of a surplus in view of the stocks that had accumulated in exporting countries over the war years. And at most times since 1952/53 it has been the underlying fear of possible unmanageable surpluses, rather than of worldwide wheat shortage, which has characterized the world wheat situation. The years of 1963/64 and 1965/66, in the wake of the massive Soviet purchases, were an instance to the contrary, though the existence of large reserve stocks cushioned most of the impact on that occasion. 1/

Until 1968 the pricing provisions of the various IWA's worked reasonably well, but this was due more to the policies of a few countries than to the agreement themselves. The willingness of the United States to hold surplus stocks and restrain production was the dominant factor in maintaining minimum world wheat prices after 1953. Canada also maintained stocks and engaged in predatory pricing in export markets. "These two countries between them accounted for 60 and 70 percent of total world trade in wheat during this period, and after the sharp rise in carryover stocks in 1953 they consistently held between 80 and 90 percent of the total stocks in the five major exporting countries. 2/

The 1967 IWA did contain a pricing provision, but it could not be main-

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1/ International Wheat Agreements: A Historical and Critical Background, p. 26.

2/ Ibid, p. 14.

tained. Increased wheat production in 1968 had exerted severe pressure on world wheat prices; under these circumstances, exporters were unwilling to take sufficient actions to defend the minimum pricing provisions of the agreement. Since then, the IWA's have not contained pricing features.

The present round of IWA negotiations began during the period of world grain shortages in 1972-75. This shifted concern from wheat surpluses to scarcity and high and unstable prices, as reflected in the objectives set out for the new IWA: [1/]

- To assure supplies of wheat and wheat flour to importing members, especially developing importing members, and markets for wheat and wheat flour to exporting members, especially developing exporting members;

- To contribute to the fullest extent possible to the stability of the international wheat market in the interests of both importing and exporting members, especially of developing members;

- To contribute to world food security, especially safeguarding the interests of developing members;

- To promote the expansion of international trade in wheat; and

- To encourage greater international cooperation in all aspects of the trade in wheat.

1/ Draft Wheat Trade Convention, Sec (78/79) 1, International Wheat Council Secretariat, August 9, 1978, p. 1.

16. ARRANGEMENT REGARDING BOVINE MEAT (BEEF AND VEAL)

The Arrangement Regarding Bovine Meat will have no effect on world trade in meat. It sets up a consultative mechanism to enhance the flow of information among countries.

The following animals and animal products will be covered by the Arrangement:

- Live bovine animals;
- Meat and edible offals of bovine animals, fresh, chilled or frozen;
- Meat and edible offals of bovine animals, salted, in brine, dried or smoked; and
- Other prepared or preserved meat or offal of bovine animals.

Other products may be added by the International Meat Council, but only by agreement of a majority of the Council members.

An International Meat Council will be established under the auspices of the GATT. All participatns in the Arrangement will have representatives on the Council, which will meet twice a year. No matters will be considered by the Council if a single member objects, and decisions are made by unanimous consent.

If the Council determines there is a serious imbalance in the international meat market, it may recommend solutions to the affected national governments; however, these governments are under no obligations to act on the recommendations.

Participants in the Arrangement are expected to provide the Council with the information necessary to monitor the international meat market. This includes historical data, current situation reports, and outlook material on production, consumption, stocks, prices, and trade. Signatories will furnish information on their domestic and trade policies, including any agreements made with other countries on products covered by the Arrangement.

Developing countries' special problems with respect to providing information are recognized, and they are to furnish the information available to them. Developed countries are instructed to consider sympathetically developing countries requests for technical assistance to improve their reporting systems.

The Arrangement will take effect on January 1, 1980, and will remain in force for three years. It may be extended at three-year intervals unless the Council decides against it at least 80 days before the expiration date. Any amendments to the Arrangement must be accepted by the governments of all participating countries. Countries may withdraw from the Arrangement 60 days after written notification has been received by the Director-General of GATT.

Participation in the Arrangement will have no effect on a country's rights and obligations under GATT.

17. INTERNATIONAL DAIRY ARRANGEMENT

The International Dairy Arrangement is designed to enhance cooperation and the exchange of information among signatories. The only economic clauses specify minimum export prices for milk powder, milk fat, and certain cheeses. These prices will not affect U.S. trade in these products since they fall well below U.S. market and support prices. Rather, they serve as a protection to low-cost producing countries by limiting the use of subsidies by other exporting countries.

The Arrangement will cover the following dairy products:

- Milk and cream, fresh, not concentrated or sweetened;
- Milk and cream, preserved, concentrated or sweetened;
- Butter;
- Cheese and curd; and
- Casein.

Other products may be added if the International Dairy Council deems it necessary for the functioning of the Arrangement.

An International Dairy Council will administer the Arrangement. The Council will meet regularly to evaluate the world dairy product situation. Information on production, consumption, prices, stocks, and trade will be supplied by member countries. The data will include historical information, current situation reports, outlook information, trade commitments, and domestic policy changes.

If the Council determines that there is a serious trade problem, it may recommend possible solutions for the governments

involved to consider. However, any decision by the Council must be made by unanimous consent among member countries.

The Arrangement contains no enforcement procedures. Disputes among participants can be brought to the Council but, as noted earlier, a decision can only be made by unanimous consent. As a result, it is doubtful that the Council will be a viable forum for dispute settlement. The Arrangement does not abrogate any member country's right or obligations under GATT.

The Arrangement will be in force for three years, beginning January 1980, and it may be renewed at three-year intervals by the International Dairy Council. Any country may withdraw after giving 60 days notice.

Minimum export prices under the Arrangement are determined under three different Protocols, each operated by a special Management Committee. These Protocols are described next.

Protocol Regarding Certain Milk Powders

The Protocol establishes minimum export prices for the following products: skimmed milk powder at $425 per mt; whole milk powder at $725 per mt; and buttermilk powder at $425 per mt. Price levels will be adjusted for differences in milk fat content and packaging. These prices can be changed by the Management Committee if the situation in the international market warrants such a modification. The Committee will review the price levels at least once a year to determine if there should be changes because of factors such as cost of production increases and market instability.

Exports and imports of skimmed milk powder and buttermilk powder used for animal feed are exempt from the minimum price levels. Importing and exporting countries must develop control measures to assure that these products

are being used solely for animal feed. These control measures must be registered with, and approved by, the Committee. The Committee may also make an exemption after a country has presented a petition requesting a derogation for a specific product. Food aid transactions are also exempt.

A country may request a special meeting of the Committee if it feels that its interests are being seriously injured by a non-member country. If a meeting cannot be held within two days of the request, the injured country may take unilateral action to correct the situation, pending a meeting of the Management Committee.

Protocol Regarding Milk Fat

This Protocol is very similar to the Protocol Regarding Certain Milk Powders. It covers anhydrous milk fat and butter, with minimum export prices set at $1,100 and $925 per metric ton, respectively. Prices will be reviewed annually by the Management Committee and may be modified after investigation of the world butter situation.

Sales below the minimum prices are allowed for non-commercial shipments such as food aid transactions. However, no derogation will be made on sales for animal feed. A participant may request an exemption for a commercial transaction from the Management Committee.

Disputes with non-member countries will be examined by the Committee, but a participant may take unilateral action pending a Committee meeting if the Committee is unable to meet within two days of the request.

Protocol Regarding Certain Cheeses

The Protocol establishes a minimum price for high fat "hard" cheeses of $800 per metric ton. Prices may be altered by the Committee to reflect changes in the international market.

Small quantities of natural unprocessed cheese which are below normal export quality because of deterioration or production faults may be sold under the minimum price in exceptional circumstances. The exporting country must inform the Committee of its intention before making the sale. The Committee has the authority to grant exemptions on receipt of a country's petition.

Disputes with non-member countries are settled in the same manner as under the preceeding Protocols.

18. CODES ON SUBSIDIES, SAFEGUARDS, AND STANDARDS

The MTN dealt with a number of codes of behavior related to non-commodity-specific trade issues. Of these, the codes dealing with subsidies and anti-dumping measures, safeguards, and standards are relevant to agriculture.[1/]

The codes that have been negotiated represent explicit recognition of the importance of nontariff trade barriers (NTB's) and the need for countries to exercise restraint in their use. The codes also provide mechanisms within GATT for dealing with NTB disputes.

However, the codes do not generally provide specific criteria for judging the effect of NTB's on international trade. Such criteria and their application will have to be evolved either through experience with NTB issues within the new framework or by legislative interpretation by the governments who are signatories to the GATT.

MTN Results

Subsidies and Antidumping Measures

The key provisions of the subsidies and antidumping code with respect to agriculture are:

- Countries should not use export subsidies in a manner that

1/ The other codes cover government procurement, licensing, customs valuation, and a framework for GATT reform.

displaces the exports of others or involves significant price undercutting in a particular market;

- Countries should refrain from using domestic subsidies or other measures that may materially affect international trade; and
- Countervailing duties can be applied if injury to a domestic industry (including domestic agricultural support programs) is demonstrated.

The current code goes further than previous GATT provisions in recognizing and legitimizing the use of export subsidies, but it also prohibits the excessive or unfair use of them. At the same time, it more clearly defines the circumstance under which subsidies can cause injury, and outlines procedures for consultations or countervailing duty action when injury has been demonstrated.

Despite this progress, the code does not contain specific criteria with which to measure subsidies and determine when they are excessive. It is difficult, therefore, to judge whether or not the current code will provide a more workable framework for dealing with subsidy problems than have previous GATT provisions.

Fluctuations in agricultural production can change a particular country's export level and share of world trade in any one year, and may even influence the level of world prices. Thus, when considering world prices or trade levels it will undoubtedly be difficult in practice to distinguish between the effects of export subsidies and the effects of global and national supply-demand conditions.

The current wheat situation illustrates the difficulties involved in determining whether subsidies are excessive. World supplies of wheat are large in the 1978-79 marketing year, particularly in the U.S., Canada, Australia, Argentina, and the EC. The Canadians, Australians, and Argentineans have lowered their export price of wheat, and the EC is paying large export subsidies. However, U.S. export prices of wheat have not declined sharply, primarily because of domestic support programs (price support loans and long-term reserves). As a consequence, the pace of U.S. commercial wheat exports late in the market year has slowed. U.S. wheat producers are concerned that the large EC wheat export subsidies are displacing U.S. wheat in some markets, and they have accused the EC of using subsidies to engage in predatory export practices.

Without judging the merits of the U.S. wheat producers' position, it is felt that it may be difficult to prove that the EC is using export subsidies excessively. The Community can argue that its subsidy levels are necessary to meet competition from other exporters and that the U.S. export problem arises because its domestic support activities do not recognize the global supply-demand realities. In the absence of specific criteria for judging the appropriateness of export subsidy levels, it may be hard to resolve issues such as this under the new codes.

Differences among national agricultural trading systems also obscure the issue of subsidies. Some countries have export marketing boards (like the Canadian and Australian Wheat Boards) that are statutory monopolies with the power to set export prices. These organizations are

free to set export prices at any level deemed necessary to achieve export objectives, but no direct government export subsidy may be involved in determining export prices.

The code also applies to importers: they may apply countervailing duties against export subsidies that injure a domestic industry. According to the language of the code, a domestic industry may be "injured" when import prices significantly undercut the prices of like products in the importing country, when imports prevent price increases that would otherwise have occurred, when imports interfere with domestic support programs, or when subsidies in an exporting country indirectly depress export prices. When such injury can be demonstrated, an importing country may take countervailing duty action.

It will be easier for an importer to demonstrate injury to a domestic industry that it will be for an exporter to prove that other exporters are using subsidies excessively. And it will be easier for an importer to seek redress by applying countervailing duties when a domestic industry has been injured. In the case of injury in an export market, the affected exporter must rely on consultative mechanisms and GATT procedures for corrective measures.

Experience in dealing with subsidy problems and consultations among countries may lead to a more specific set of criteria for implementing the code in the future. Furthermore, individual countries that require legislation to implement the code (like the U.S.) may include more specific criteria in the necessary legislation. Either of these possibilities could help to solve the practical problems of applying the code.

Safeguards

In the past, only the U.S. and a few countries have followed existing GATT provisions on safeguards; most other countries have ignored them. The new code on safeguards is designed to refine and elaborate existing GATT provisions covering the rights of countries to take temporary actions against imports in order to provide emergency relief to a domestic industry. Under the new code, such emergency measures should:

- Cover only the products causing injury;
- Be applied only for a limited period;
- Not be reapplied, once they are removed, without a reasonable lapse of time; and
- Should not reduce exports below the level of a previous representative period.

These provisions are modeled after safeguard features of the U.S. Trade Act.

A country contemplating safeguard action must consult with the countries that will be affected in an effort to reach an agreement that would eliminate the need to apply a safeguard. On the other hand, the affected country may take retaliatory action by withdrawing tariff concessions or other GATT obligations from the country initiating safeguard action.

The safeguard code does not prevent a country from negotiating export restraints with supplying countries. Legislation to implement such agreements, such as the U.S. Meat Import Act of 1964, are permissible.

Standards

The standards code urges countries to use adopted international standards in order to facilitate trade. If a country is not using such standards, it will be asked to justify its position.

A major provision of the new standards code requires importing countries to conduct public hearings on the use of standards if they are requested by an affected exporting country. The hearings provide an opportunity to bring standards issues to the attention of the public in the importing countries and to mobilize support for the country's position. If differences among countries cannot be resolved through the hearing process, dispute settlement procedures are available within the GATT.

Many agricultural products are subject to national standards covering human health and safety and plant and animal disease control measures. The standards code provides a mechanism for assuring that standards are not adopted which unduly restrict trade beyond that requirement to achieve health and welfare goals.

For example, West Germany imports offal and high-quality beef from the U.S. Offal must originate in U.S. plants approved by West Germany, and German inspectors must be present in U.S. plants to check high-quality beef for export to Germany. This procedure has operated satisfactorily. But (by way of hypothetical illustration and not meant to imply any unfair trade practices to Germany) if the number of approved plants supplying offal or the number of German inspectors were limited in such a way as to unfairly reduce U.S. exports, the U.S. could take action under the new standards code through the hearing process and the dispute settlements procedure under the GATT.

19. AGRICULTURAL POLICIES OF JAPAN AND THE EC AS FACTORS IN THE MTN

The agricultural commodities and food products which any country imports, the quantities each imports, and the methods by which the domestic markets are protected are usually a direct outgrowth of that country's agricultural policies and of its natural and technological ability to produce agricultural products.

In view of this, it was recognized during earlier trade negotiations that domestic agricultural policy considerations are as much a part of the negotiations as are duties, import quotas, and other direct restrictions on agricultural trade. Domestic agricultural policies establish whether or not a country will import a particular product, while tariffs, fees, and quotas are simply the means by which restrictive importation policies are carried out.

It was often stated by U.S. and European negotiators during the Kennedy Round that "we must negotiate domestic farm policies." It seems clear, in retrospect, that domestic policies are seldom open to negotiation. Countries determine their domestic farm and food policies for their own internal reasons. They change them only slowly, principally as a result of changes in the internal situation, and occasionally as a result of external pressures. Applying external pressures to improve domestic agricultural policies of the various countries so as to expand trade was one task of the MTN that has just been concluded.

In the sections that follow, we describe the domestic agricultural policies of Japan and the European Community and the effects of those

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policies on the volume of world trade in agricultural commodities.

One major distinction between Japan and the European Community in regard to agricultural production and import policy must be made. Japan is not able to produce all or most of the agricultural products it needs to provide the food supply for a modern and increasingly high income society. Japan is, and will be, a large and permanent importer of agricultural commodities.

Europe, on the other hand, has the resource base and the technological capability to produce more than enough agricultural commodities for its own use, if the prices offered agricultural producers are high enough. The European Community is nearly self-sufficient, and it is a major agricultural exporter as well as importer. The EC could be a net exporter of agricultural commodities within a decade or two.

A. Japan

Japan is the largest single-country importer of U.S. agricultural products. In 1977, the aggregate value of Japanese agricultural imports was $10.5 billion, one of the highest in the world. One-third of U.S. exports to Japan have been agricultural products in most recent years, while most U.S. imports from Japan consist of industrial products. Japan buys about 5 percent of all the grain and about 10 percent of all the soybeans produced by American farmers each year.

It is legitimate to characterize Japan's agricultural and trade policies as restrictive. Japan has imported a much smaller tonnage of agricultural products in recent years than she would have imported if her farmers had not been carefully protected. Yet Japan's imports of wheat,

feed grains, soybeans, and some other agricultural products increased sharply in recent years, as shown in Table 19-I.

Table 19-I

Imports of Grain and Soybeans by Japan

	Wheat		Feedgrains		Soybeans	
	mmt	% from U.S.	mmt	% from U.S.	mmt	% from U.S.
1961-65	3.1	43	3.3	58	1.5	85
1971	4.9	53	10.1	42	3.2	91
1973	5.4	67	13.2	72	3.7	88
1975	5.7	53	12.9	57	3.3	91
1977	5.7	60	14.3	69	3.6	94

Source: Fred H. Sanderson, Japan's Food Prospect and Policies, The Brookings Institution, 1978; and Schnittker Associates.

Japan was only about 50 percent self-sufficient in food energy in 1978, but it was 80 percent self-sufficient in food energy in 1955. This represents the best measure of the situation Japan is in: it probably will not be able to supply an increasing share of its food needs in the years ahead and will be able to "hold the line" on its degree of self-sufficieny only at great cost.

Japan's food and agriculture policy is closely related to the situation described above. Policies adopted in 1975, partly as a result of the agricultural product shortages in 1973-75, have the objective of protecting the present degree of self-sufficiency in Japan, if possible. Specifically, the level of self-sufficiency, as measured by the Japanese Ministry of Food and Agriculture, was projected to increase from 73 percent at the time of the adoption of the policy to 75 percent within

a few years.[1/] In terms of "original food energy," which includes livestock feed, the self-sufficiency percentage would remain at 45 (with fish excluded) and at 51 percent (with fish included).

Whether or not these objectives can be attained is another matter. The important point is that Japan has undertaken policies to interrupt the rapid and fairly steady decline of self-sufficieny that has been underway for some 25 years. These policies are inherently trade restrictive, although they may seem to be justified by Japan's objectives.

Relative Importance of Various Foods in Japan[2/]

Cereals, especially rice, remain the principal food of the Japanese people, who consumed 268 lbs. per capita in 1975. Cereal consumption per capita in Japan was roughly twice as high as in the United States.

Meat consumption has risen rapidly during the last 20 years, but at 37 lbs. per capita, it was only 25 percent of the U.S. level in 1975. Dairy product consumption has also been rising rapidly. At 115 lbs. per capita in 1975, it was 35 percent of the U.S. consumption level.

Fish consumption, at 77 lbs. per capita, represents a major part of the Japanese protein supply, and is 6.5 times as large as U.S. per capita fish consumption. Fats and oils, fruits and vegetables, and sugar make up the principal other foods in the Japanese diet.

[1/] Using a measurement designed by the Japanese Ministry of Agriculture and Forestry, the country's self-sufficiency fell from 95 percent in 1955 to 73 percent in 1972. This concept was designed for domestic purposes, and ignores the fact that most of the livestock and meats produced in Japan depends on imported grain and soybeans.

[2/] Data on 1975 per capita consumption in Japan were taken from Fred H. Sanderson, Japan's Food Prospects and Policies, the Brookings Institution, 1978, p.7.

Agricultural Policies

Grains. Agricultural policies affecting grain production in Japan are important principally for their direct effect upon wheat imports and their indirect effect upon feed grain and soybean imports.

Japan protects its rice growers, historically the most important agricultural group in the country, by means of a government purchase program at a level about four times the level of world prices for rice. To put it even more graphically, Japanese farmers receive nearly four times as much for a ton of rice as American farmers receive. In fact, in 1978, the Japanese government bought rice from farmers at $1,385 per metric ton, while U.S. farmers averaged $212 per metric ton of rice sold. The Japanese Food Agency sells the rice at lower prices for domestic consumption and, occasionally, for export.

The purpose of the high support price is to protect the incomes of Japanese rice producers and to respond to the strong political power of rural people in Japan. Because of high prices, and because the Japanese people are slowly reducing their consumption of rice in favor of wheat, Japan has produced a surplus of rice in a number of recent years. This further inhibits the importation of wheat and other food products.

Table 19-II

Japanese Rice Prices, Selected Years

	1960	1965	1970	1976	1977*
	- - - 1,000 yen/metric ton - - -				
Government Purchase Price	69	108	138	276	289
Ave. Price Received by Farmer	70	104	137	270	276
Government Selling Price	70	94	124	224	246
C.i.f. Price	34	42	46	70	109
Ave. Farm Price as % of c.i.f.	205	248	298	386	276
Govt. Selling Price as % of c.i.f.	205	224	270	320	246

Source: Fred H. Sanderson, Japan's Food Prospects and Policies, The Brookings Institution, 1978; and Schnittker Associates.

* Estimated

The statistical details of the Japanese rice program in relation to world market and U.S. prices are shown in Table 19-II.

Wheat production is not large in Japan, contributing only 6 percent of Japan's total requirements for wheat. As in the case of rice, the purchase price offered by the government is very high relative to world prices, in order to support farmer income and to maintain a degree of self-sufficiency in wheat.

In 1977 the government purchase price (the Japanese support level) was 448 percent of the price of imported wheat landed in Japanese ports.

Table 19-III

Japanese Wheat Prices, Selected Years

	1960	1965	1970	1976	1977**
	- - 1,000 yen per metric ton - -				
Government Purchase Price	38	47	59	176*	188*
Government Selling Price	36	35	35	59	59
C.i.f. Price	24	25	24	45	42
Govt. Purchase Price as % of c.i.f.	158	188	246	373	448
Govt. Selling Price as % of c.i.f.	150	140	146	131	319

Source: Fred H. Sanderson, Japan's Food Prospects and Policies, The Brookings Institution, 1978; and Schnittker Associates.

*Includes payments for production promotion, contracted production, and for production as a second crop on paddy fields.

**Estimated.

It remains to be seen whether or not the new policy can stabilize Japan's degree of self-sufficiency.

Production of feed grains in Japan is negligible. The Japanese government does not have a support policy to encourage production, and it must rely on feed grain imports (mostly corn) to support its growing demand for livestock and poultry products. Barley, is supported at about

three times the level of world market prices, but barley is considered a food grain instead of a feed grain. Imports are regulated by licensing procedures, but they are not limited to any measurable extent by domestic policies. Note in Table 19-I that feed grain imports continued to rise in recent years, although wheat imports stabilized.

Soybeans. Japan has been a producer of soybeans for direct human consumption. As with food grains, the price support level for soybeans is nearly three times the level of prices at which imported soybeans are landed in Japanese ports.

The soybean price support program is operated by a direct payment system, however, rather than via government purchases. As a result, soybeans sell at prices near world levels in Japanese markets, and soybean meal is available to Japanese livestock feeders near world market prices. This encourages relatively high consumption. Soybean oil is also produced as a by-product of imported soybeans and is closely tied to world market prices.

Dairy products. Farmers receive approximately twice the level of prices received by U.S. farmers for milk. The market price level for dairy products is only moderately higher than U.S. and world prices, and direct payments from the government supplement producer incomes. As a result, consumption is encouraged by relatively moderate prices. Although it limits consumption somewhat, the domestic dairy policy is not a major factor in consumption levels.

Pork. Production has been encouraged by government policy, especially during the last 15 years. In 1977, Japanese farmers received prices

about 2.4 times those received by U.S. farmers for live hogs or pork products. The importation of pork products is strictly controlled by the government. Consumption is inhibited by prices that are substantially above the value of pork products in world trade, but consumption and imports are increasing.

Summary

It is apparent that Japan maintains a high level of support and protection of its agricultural sector. Without support levels, Japanese farmers would produce less of many products and Japanese consumers would consume larger quantities. Trade would expand as a result of both factors. Japan's agricultural policies are thus seriously "trade restrictive."

The effects of the high support prices and the relatively high retail food prices in Japan are probably greater in limiting consumption than in expanding production. Japan, unlike Europe, has very limited resources for the expansion of agricultural production. Even at higher price support levels, production increases would be negligible. Consumption, however, could be reduced materially by higher retail food prices.

B. The European Community

The European Community (nine countries) is the largest importer of U.S. agricultural products in most years. In 1976, the aggregate value of EC agricultural imports was $54 billion, compared with Japan's $11.6 billion. About 12 percent of these imports, or $6.6 billion worth, originated in the U.S.

EC exports of agricultural products, however, were $34 billion, giving the EC a net agricultural import bill of $20 billion.

U.S. agricultural exports in the EC represented about 25 percent of total U.S. exports in recent years. U.S. agricultural imports from Europe, although sizable, are a smaller factor, currently amounting to around $1.4 billion.

Like Japan, the EC buys a high percentage of the grain and soybeans produced by American farmers, and has been increasing its imports of feedstuffs.

Unlike Japan, the EC maintains a high degree of self-sufficiency in food, and it is more capable of being a net exporter of agricultural products. The EC is approximately 90-95 percent self-sufficient in agricultural products on a net basis. This high degree of self-sufficiency has been achieved by means of exceptional natural resources, an improving technology, and very high price guarantees compared with prices at which Europe could have imported comparable commodities and food products.

Relative Importance of Various Foods in the EC

In contrast to Japan, food consumption patterns in Europe are closer to those of the United States. This is the result of differences in

cultural factors and in current income levels. European diets have been geared to livestock products for many generations, whereas Japan's shift to livestock and poultry products is very recent. (Table 19-IV)

Table 19-IV

Increase in EC-9 and Japan Per Capita Food Consumption

		Cereals	Meat	Sugar	Dairy Products
		percent			
EC-9	(1968 to 1975)	96	116	101	103
Japan	(1965 to 1974)	85	195	146	139

Source: Schnittker Associates.

Agricultural Policies

Common pricing is the cornerstone of the Common Agricultural Policy (CAP). Grains, rice, sugar, olive oil, and the main animal products are part of the CAP system, which was first established in 1962 although some of the commodities were added as late as 1968.

The internal market for the most important products is supported by government purchases from producers at fixed support (or "intervention") prices. Producers usually sell to the price support agencies at intervention prices only if market prices are lower.

The intervention prices in recent years for some of the principal agricultural products produced in Europe are shown in Table 19-V and compared to U.S. support (or market) prices.

Table 19-V

EC Intervention Prices, Selected Commodities, and Comparison with U.S. Support Price or Average Market Price

	Intervention Prices		EC Intervention Prices, 1977-78, As a Percent of U.S. Prices (percent)
	1967-68	1977-78	
	- - $ U.S./mt - - -		
Wheat			
Soft	106	180	218*
Durum	125	305	369*
Corn	90	177	225*
Butter	89	3,464	153*
NFDM	27	1,411	93*
Beef	-	1,659	46**

* Based on loan levels of $2.25/bu. for wheat; $2.00/bu. for corn; $1.03/lb. for butter; and $0.69/lb. for NFDM.
** Based on U.S. ave. market price of $1.65/lb.

Source: Schnitter Associates.

Most intervention prices are substantially above the levels at which users of these commodities in the European Community could import from world markets. Therefore, the EC has a further regulation requiring that any difference between an established price at which a commodity can be imported (the threshold price) and the world price be offset by a "variable levy." As a result, third countries can supply only those quantities of a commodity subject to a variable levy that cannot be supplied by domestic production. This leaves the rest of the world as a residual supplier of whatever EC farmers will not produce at the high guaranteed prices.

The funds generated by the variable levy program are placed in a common fund (FEOGA) which, together with the contributions from member states, finances all elements of the CAP, including subsidies on exports.

Grains. The CAP on grains is essentially as described above. The EC has been about 99 percent self-sufficient in wheat in recent years, importing from 4.5 to 6 mmt per year and exporting 5 to 9.5 mmt. This exchange takes place mainly because Europe needs to import quantities of higher protein wheat for bread making.

The EC has been about 86 percent self-sufficient in feed grains in recent years. Imports (mostly corn) have ranged from 14 to 27 mmt, while exports (mostly barley) have ranged from 4 to 5.5 mmt.

Poultry, Eggs, and Pork. The EC's intervention program applies only to pork among these products. The levy is derived from the grain levy and from the EC's guaranteed price for pork. Because of the high support price levels and the exclusion of cheaper imported products, Europe has had a self-sufficiency percentage of around 99 for pork, 103 for poultry, and 100 for eggs in recent years.

Beef and Veal. The EC conducts a purchase program to support the price of beef and veal in years when market prices do not reach the established objective. In addition, imports are subject to both fixed and variable duties. The EC is approximately 99 percent self-sufficient in beef.

Dairy Products. Since dairy products are usually in surplus supply, the EC conducts almost continuous intervention purchases of butter, nonfat dry milk, and certain cheeses. Expenditures from the price support fund have been principally for dairy product price support.

EC support levels are above world trade levels for most dairy products, and domestic producers are protected (as in the case of grains)

by variable levies. Since more dairy products are produced than are consumed in the EC, surpluses are exported as unique products such as specialty cheeses or under export subsidies (on butterfat, etc.). Sale of surplus stocks from quantities owned by the EC to centrally planned countries at discounted prices also represent an important factor in the world dairy product situation.

Oilseeds and Oilseed Products. Europe has a very limited production of these products. The CAP is designed to protect the support levels that have been guaranteed to producers, but it does not require application of the variable levy to the importation of soybeans in the same fashion as for grains. U.S. exports of soybeans and soybean meal to the EC have grown very rapidly in recent years, as livestock feeding and dairy production expanded. The EC is only about 15 percent self-sufficient in protein meals and 50 percent in vegetable oils and fats.

Rationale for EC Policies

The EC has opted for high price support policies as the primary means of protecting farmers' incomes. The number of farmers is larger and the average farm size is much smaller than in the U.S., as can be seen in Table 19-VI.

The EC asserts that the size of its farms requires high price guarantees to maintain acceptable income levels. At the same time the EC has not wanted (for political reasons) to force people out of agriculture at a rapid rate. Despite the high prices, the number of farms declined

Table 19-VI

Number of Farms and Average Farm Size, U.S. and EC

	U.S.	EC
Number of Farms (over 1 hectare)		
1967 (thousand)	3,162	6,444
1976 (thousand)	2,778	5,147
Average Farm Size, 1976 (hectares)	158	17.1

Source: Facts on Agriculture in the United States and European Communities, Office of the Agricultural Attache, U.S. Mission to the EC, Brussels, September 1978.

by 20 percent between 1967 and 1976.

Impact on EC Policies on the U.S.

The high price support levels have encouraged production, restrained growth in consumption, and contributed to a high degree of agricultural self-sufficiency in the EC. For some basic commodities like dairy and sugar, these high prices have generated chronic surpluses.

Most of the agricultural trade issues between the U.S. and the EC arise out of the growing agricultural self-sufficiency of the Community and the highly subsidized exports of the EC's surplus commodities (such as soft wheat and dairy products). It is important for a major agricultural exporter like the U.S. to achieve, if possible, greater access to the EC market, the largest importer of agricultural products.

There are growing pressures within the EC to moderate the drive towards self-sufficiency and to reduce its surplus position in some agricultural products. The direct costs of the EC's price support activities have risen rapidly as support prices rose and stimulated domestic production. The EC spent $5,740 million on agricultural support activities in 1975 and about $10,500 million in 1978.[1/] The costs of agricultural support programs may be $12-14 billion in 1979.

Responding to this pressure, the EC has already moderated its price support increases, as can be seen in Table 19-VII. The EC Commission recommended no increases in support prices for 1979-80; and if there are any increases adopted by the member states, they are likely to be small.

Table 19-VII

EC Support Prices, 1974-75 to 1978-79

	1974-75	1975-76	1976-77	1977-78	1978-79
	- - - - units of account/metric ton - - - -				
Soft Wheat	115.5	125.9	131.0	135.6	137.0
Barley	101.4	111.0	116.0	120.1	121.6
Corn	94.0	103.4	112.2	118.0	121.6
Cattle	1,013.3	1,099.4	1,187.4	1,129.9	1,259.7
Pork	976.5	1,060.0	1,144.8	1,202.0	1,226.0
Milk	140.8	155.9	167.6	173.5	177.0

Source: Schnittker Associates.

1/ The Agricultural Situation in the Community: 1977 Report, Brussels, January 1978.

The current pricing objectives of the EC Commission are to hold nominal support prices constant for several years. After adjusting for inflation, this would mean a decline in real farm prices. The EC hopes that these pricing objectives will help stimulate consumption, slow the rate of growth in production, reduce surpluses, and bring down the direct budget costs of agricultural price support programs. It remains to be seen if these efforts will be successful; if they are, some of the more contentious agricultural trade issues between the U.S. and the EC could be moderated, particularly those dealing with the use of subsidies by the EC to move surplus products into export markets.

The likely expansion of the EC in the early 1980's (by the admission of Greece, Portugal, and Spain) also bears on the current MTN and future agricultural trade prospects. The reluctance of the EC to grant the U.S. trade concessions for almonds and citrus was partly due to the interest of the new members (and Italy) in these products.

The EC is under pressure to solve its agricultural price and income problems before new members join the Community. High price support levels would induce larger production of basic agricultural products in the new member states and further contribute to existing surplus problems. And furthermore, the U.S. may find it even more difficult to deal with these problems when there are 12 members.

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