POLITICAL RESTRAINTS ON THE MARKETING OF NEW ZEALAND AGRICULTURAL COMMODITIES IN THE UNITED STATES

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Because some of the material on which this study is based was obtained on the understanding that it would remain confidential, it has been necessary to incorporate a confidential appendix. This will be available only to official assessors.

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ABBREVIATIONS

A.J.H.R.	Appendices to the Journals of the House of Representatives
ANZUS	Australia, New Zealand and the United States (security alliance)
CAP	Common Agricultural Policy
c.i.f.	cost including freight and insurance
EEC	European Economic Community
FAO	Food and Agriculture Organisation
f.o.b.	free on board
GATT	General Agreement on Tariffs and Trade
ITO	International Trade Organisation
N.Z.D.A.	New Zealand Department of Agriculture
OECD	Organisation of Economic Cooperation and Development
SEATO	South-east Asia Treaty Organisation
Sen.	Senator
UNCTAD	United Nations Conference on Trade and Development
U.S.D.A.	United States Department of Agriculture
WHO	World Health Organisation

INTRODUCTION

In promoting a country's export trade there are essentially two different problems involved. First, there is the question of how the resources available to that country will be best deployed. Basically this is an economic issue.

The second type of question is that of access to external markets on reasonable terms. If universal free trade prevailed throughout the world such a problem would not arise. However, with the real and present world of restrictions on trade in the form of tariffs, quantitative controls and discriminatory internal legislation, its significance in the present marketing of temperate agricultural commodities seems to be greater than the economic question of the extent to which exports are available. Fundamentally, such an issue is a matter of inter-governmental politics, involving the countries concerned in inter-governmental negotiations.[1]

If such negotiations are to be concluded successfully, there must be a mutual willingness by the parties involved to allow greater access to imports, the basic assumption being that both sides will be better off and a higher level of trade or welfare achieved. The greatest obstacles to the diversification of New Zealand's agricultural commodity markets lie in its inability to effect agreements in such

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[1]This analysis relies heavily on L.V. Castle, 'The Pattern of Trade Relations', Background Paper 15, Export Development Conference, 1963 (Wellington, Government Printer for the Department of Industries and Commerce, 1963).

negotiations due to the great disparity of bargaining power between large industrial countries, which are the main consumers of the types of agricultural commodities New Zealand exports, and the smaller countries, such as New Zealand.

Varying stages of economic development of different countries also may hinder any nation trying to sell its exports. Wealthy balanced economies, such as the United States, can afford to support their less efficient producers. Such countries can afford not to achieve their optimum economic efficiency, and therefore, can bear the expense of subsidising large and inefficient sectors within their country in the interests of political harmony rather than on promoting any efficiency of resource use. Such countries may also prefer as part of their domestic and international goals to make themselves as economically self-sufficient as their resources will allow. This type of policy is a luxury which smaller and less wealthy countries cannot afford. In addition, small and less wealthy countries must frequently be careful not to offend the political sensitivities of large nations on whom they depend for markets.

Unfortunately nearly all these factors in bargaining power tell against New Zealand. As is the case with most small nations,[1] its exports are heavily concentrated in product and in market terms, but more important, they compete with sensitive areas of production in

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[1]David Vital, The Inequality of States : A Study of the Small Power in International Relations (London, Oxford University Press, 1967), Chapter 3.

other countries. Its position is weakened even further by the fact that its share of world trade is not significant.

With these factors in mind it is proposed in this study to demonstrate the efforts of New Zealand to develop a market for its meat, wool and dairy products in the United States. New Zealand is one of the most efficient producers of temperate agricultural products in the world and yet in the major consuming countries of these commodities, including the United States, it finds that attempts to develop an export trade are frustrated by policies which restrain demand, stimulate output and require trade barriers to support the artifically high price levels.

Nevertheless, the United States has been seen as an essential market in New Zealand's diversification drive. Greater emphasis in agricultural marketing circles in New Zealand has been placed on the United States ever since the termination of the bulk-purchase agreements with the United Kingdom in 1954, and more particularly with Britain's proposed entry into the EEC during the last decade. Although currently 17 per cent of New Zealand's exports find their way to the American market, this market has not developed to the extent that some had anticipated.

In this thesis an examination is made of why the United States has become an important market for New Zealand's agricultural commodities and what political factors have been restricting greater growth.

The study proceeds with two background chapters. Chapter I considers why New Zealand has found it necessary to diversify its markets and why it was insulated from the problems of agricultural protectionism until the 1950s. In Chapter II we look specifically at the United States, with a discussion of the strength of agricultural representation, agricultural organisations and the agricultural price support programmes of that country.

The following three chapters contain the substantive part of the study, which examines individually the restrictions and problems encountered by New Zealand in marketing dairy products, meat and wool in the United States.

Chapter VI is a brief study of New Zealand's efforts in multilateral organisations to secure greater access for its agricultural commodities. Most attention is focussed on GATT, with particular emphasis being given to the role of the United States and its attitude to agricultural protectionism.

In Chapter VII we try to draw some conclusions and look at future prospects for resolving the mounting exasperation being experienced by many countries in marketing temperate agricultural commodities. Also included in this chapter is a section on the relationship between New Zealand's trade and its political and security commitments with the United States.

CHAPTER I

A BACKGROUND OF DEPENDENCE

Product Specialisation

Throughout its short history New Zealand has been dependent on overseas trade for its development and progress. Apart from a short period during the middle of the last century, exports have been predominantly composed of agricultural commodities from its farming industry.

Although the systematic colonisation by the British in the 1840s did lay the foundations of New Zealand's agricultural industries, it was not until the introduction of refrigerated shipping in 1882 that it was possible to export perishable foodstuffs beyond Australia. This achievement not only made farmers and exporters in New Zealand realise that all surplus perishable food products could be exported, but more important, that there was an apparently insatiable market. It stimulated the growth of new industries, new developments in stock breeding and the use of new farming techniques. These developments, aided by a substantial inflow of British capital, 'set New Zealand on the path of economic growth and established the central cement around which the whole economic pattern has been built over the last 100 years'.[1]

Farm production in New Zealand thus began to be directed towards the supply of one overseas market, the United Kingdom. But it must

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[1] F.W. Holmes, et.al., New Zealand and an enlarged EEC (Wellington New Zealand Monetary and Economic Council, Report No. 19, 1970), p. 1.

be emphasised that despite the technological breakthroughs in New Zealand agriculture, all of this would have been to little avail had the United Kingdom not pursued a 'free trade' policy as regards agricultural imports. The open door policy, together with a period of relative stagnation in British farming and rise in British living standards, meant that the more New Zealand produced the more Britain was prepared to buy at what were, on the whole, very favourable prices.

The cumulative effect of this was that New Zealand by the First World War had become a specialist producer of meat, dairy produce and wool. Apart from the introduction of refrigeration, the main reason for specialisation in these products lies in the fact that land used in this way gave higher net returns per acre than was the case with other commodities, such as cereals, which could be, or were being, produced. The cost of transporting over long distances bulk goods such as wool, hides and skins, or perishable goods such as meat and dairy products, had been offset, even at this early time, by climatic advantages and the high level of efficiency attained by New Zealand farmers.

The depression of the 1930s brought extremely difficult times for New Zealand, a nation so dependent on international trade. As a number of countries attempted to resolve their own domestic problems by erecting protective barriers to trade, the export trade of other nations was adversely affected. It was during the 1920s and 1930s that the rather special problems of trade in agricultural commodities became apparent and 'agriculture had begun to claim a special place in international trade policy'.[1] With many importing countries devising internal support systems, which required heavy protection in the form of tariffs and quantitative restrictions, increased quantities of agricultural produce flowed into the unprotected and depressed British market.

The Ottawa Agreements

In 1932 the United Kingdom finally abandoned the policy of 'free trade' and the principle of Commonwealth Preference was embodied in its Import Duties Act. At the Ottawa Conference of that year, New Zealand and other Commonwealth countries banded together, through a series of agreements, to offset the effects of greater restrictions being imposed on their trade and to protect their balance of payments position in the face of falling commodity prices.

New Zealand in these agreements undertook to maintain a preferential tariff on imports from the United Kingdom, while the United Kingdom for its part granted duty-free entry for most of New Zealand's exports and agreed to maintain specified duties on some foreign products of interest to New Zealand. The United Kingdom also undertook to place quotas on foreign meats.

While the Ottawa Agreements did provide for preferences on butter and cheese, the most important aspect for New Zealand was the guarantee of unrestricted duty-free entry for virtually all of New Zealand's exports.

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[1] J.H. Richter, 'The Place of Agriculture in International Trade Policy', Canadian Journal of Agricultural Economics, Vol. XII, No. 2, July 1964, p. 1.

Bulk-Purchase Contracts

The outbreak of war in 1939 tightened New Zealand's dependence on the British market. Under bulk-purchase agreements drawn up between the New Zealand government and the United Kingdom Ministry of Food, the United Kingdom became the sole purchaser of the whole of New Zealand's export surplus of meat, dairy produce, wool and tallow, apart from a small supply made to the United States under the Lend Lease Act. Besides annual negotiations on prices, agreement was also reached on the percentage of total output which New Zealand might send to other markets. No longer were New Zealand's main agricultural commodities subject to the vagaries of the free market in the United Kingdom, even though it had been receiving preferential trading rights under the Ottawa Agreements.

Bulk-purchase agreements, which for meat and dairy products continued until 1954,[1] and the repeated British requests that New Zealand should increase production, particularly in meat, encouraged the belief in New Zealand that the United Kingdom could absorb all the foodstuffs New Zealand could produce. The British interest was to ensure a steady supply of relatively cheap food and it often proved difficult for New Zealand negotiators to secure British agreement to an increase in the 'other market' percentage.

Given this situation, there was little incentive to lessen New Zealand's dependence on that market. One could perhaps argue that it was during this period New Zealand should have started an

[1] After the sale of the 1945/46 clip bulk purchase of wool ceased.

intensive drive for additional markets and by not doing so it may have added to its later difficulties. But the problems in negotiating an increase in the 'other market' percentage and the appearance to many producers that New Zealand could never develop enough foodstuffs to meet the demand of British consumers, tended to nullify any efforts in this direction.

Termination of Bulk-Purchase Contracts

The termination of the bulk-purchase contracts for the sale of dairy products and meat to the United Kingdom brought about a significant change in New Zealand's trading policy. In future, market conditions and the quality of New Zealand's agricultural commodities would determine price rather than the government-to-government negotiations.

Without the security of export income it was essential for New Zealand's wellbeing that it should secure access to the British market. The victory of the Conservative Party in the 1951 elections on a platform which included proposals for the abolition of foodstuffs rationing, signalled to New Zealand that the bulk-purchase agreements would terminate in the near future. Following negotiations in 1952 the British government, in a joint declaration, undertook to permit New Zealand's exportable surplus of meat to be sold on the United Kingdom market without quantitative restrictions until October 1967. A similar right for dairy commodities was not obtained until 1957. Subject to certain qualifications related to possible British membership of the EEC and to the fact that a system of quantitative controls was being operated by the British government,[1] these undertakings were extended in 1966 until 30 September 1972.

In 1958 the provisions of the Ottawa Agreements were reviewed. On 25 November of that year a new agreement came into force in which the levels of preference in favour of the United Kingdom, set by the 1932 Agreement, could be modified. However, the basic principle to ensure that the close and mutually beneficial economic relationship between the United Kingdom and New Zealand would continue, was retained. The greater scope achieved by New Zealand in the 1958 Agreement for the reduction of margins of preference 'was intended to give New Zealand more bargaining coin in the GATT especially in negotiations with the EEC countries'.[2]

The formal arrangements outlined, guaranteeing unrestricted duty-free entry for New Zealand's main agricultural exports, have been regarded by New Zealand as of the utmost importance. Despite the termination of the bulk contracts with the United Kingdom and the growing diversification of New Zealand's agricultural markets, and the resultant decreasing reliance on the British market, as

[1] In 1961 New Zealand voluntarily waived the right of unrestricted access and the 15 shillings per cwt margin of preference for butter in favour of a quota system to protect the price of New Zealand butter against dumped and subsidised supplies. The British government reaffirmed its intention in the 1966 Agreement not to remove quota restrictions on butter so long as the circumstances for which they were imposed remained. Since the 1966 Agreement a scheme of 'voluntary restraint', rather than a formal quota system, has been imposed by the British government on the importing of cheese as a further measure for British suppliers of dairy products against dumped and subsidised imports. Because of shortages of supply, the quotas for both butter and cheese were suspended in September 1971.

[2] L.V. Castle, 'New Zealand Trade and Aid Policies in Relation to the Pacific and Asian Region', in Pacific Trade and Development, ed. K. Kojima (Tokyo, Japanese Economic Research Centre, 1968), pp. 85 - 86.

illustrated in Table 1 - 1, a number of New Zealand's agricultural commodities are still very dependent on the British market (Table 1 - 2). For three of them, lamb, butter and cheese, the degree of dependence is very high and it is these commodities which are most threatened by British entry to the EEC.[1] This close association with the British market and the tailoring of domestic supplies to meet the latter's requirements have not required major changes in the New Zealand agricultural pattern for more than half a century and have been a vital element in sustaining New Zealand's standard of living.

Stimulus for Diversification

In the years immediately following the termination of the bulk-purchase contracts, New Zealand confidently expected that its trading arrangements with the United Kingdom would continue to provide the principal basis for its export income. However, as British production of milk and meat rapidly increased, together with a slowing down in the growth of consumption of these commodities and the emergence of surpluses of dairy products on the world markets, New Zealand began to realise that it could no longer rely indefinitely on the British market to absorb a steady increase of New Zealand exports at increased prices. The United Kingdom had never guaranteed

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[1] In the terms negotiated by the British government for entry to the EEC in June 1971 New Zealand has been guaranteed access until 1977 for 71 per cent, on a milk equivalent basis, of its 1971 levels of butter and cheese exports to the United Kingdom. Guaranteed access for butter is to be reduced in 5 equal stages to 136,000 tons by 1977, while cheese is to be reduced to 90 per cent, then 80 per cent, 60 per cent, 40 per cent and to 20 per cent in the 5 years between 1973 and 1977 of the 1971 level of 75,000 tons. Price is to be arranged on the average levels between 1969 and 1972. As for lamb, the EEC has not yet implemented a common agricultural policy for sheepmeats.

TABLE 1 - 1 THE PROPORTION OF NEW ZEALAND'S EXPORTS TO THE UNITED KINGDOM AND THE UNITED STATES, AS A PERCENTAGE, 1946 - 1971, BY SELECTED YEARS

(Value f.o.b.)

Year	United Kingdom	United States
1946	70.4	9.6
1949	73.4	3.8
1952	65.3	11.4
1955	65.6	5.8
1958	55.8	14.6
1961	51.0	14.9
1964	48.9	13.4
1967	44.6	15.4
1970	34.3	17.2
1971	31.6	16.6

Source: Department of Statistics.

TABLE 1 - 2 THE PROPORTION OF CERTAIN NEW ZEALAND AGRICULTURAL COMMODITY EXPORTS GOING TO THE UNITED KINGDOM, AS A PERCENTAGE, YEAR ENDED JUNE 1969

(Value f.o.b.)

Commodity	Percentage
Butter	90.9
Lamb	88.3
Cheese	79.0
Casein	10.4
Mutton	19.7
Beef and Veal	7.3
Condensed, Evaporated and Dried Milk	17.9
Wool	21.6

Source: Department of Statistics, New Zealand External Trade Statistics, 1968 - 69.

to New Zealand that it would, other than by the use of tariffs, restrict the entry of competing supplies from other sources. Nor was the British government prepared to accept any serious limitations on its freedom to encourage the expansion of its own agriculture through the use of deficiency payments to farmers.

Although New Zealand's search for markets had started before the termination of the bulk-purchase contracts, it was not until the realisation that Britain could no longer go on indefinitely absorbing an approximate increase of 3 per cent yearly in New Zealand's agricultural exports, that policy makers and producers in New Zealand concerned themselves with policies of agricultural protection. As has been pointed out, such policies had been practiced in most temperate-zone industrial countries for decades but because of New Zealand's special trading arrangements with the United Kingdom, it had been insulated from the problems of marketing agricultural commodities in the rest of the world.

The question of access to markets outside the United Kingdom has become more urgent during the last decade. The fact that General de Gaulle kept Britain out of the EEC in 1963 and 1967, in circumstances in which the extent of protection attainable for vital New Zealand trading interests remained very much an unknown factor, intensified New Zealand's search for markets for its agricultural commodities. This new urgency obliged New Zealand to try and forge closer political and economic links outside Western Europe. The United States is one of those links. But as Castle points out in reference to both New Zealand and Australia's economic relations with the United States:

> What continues to worry Australia and New Zealand most is the continuing uncertainty which surrounds the conditions of access for their exports to the United States. While remaining firm adherents of the GATT they have no confidence that this organisation can do anything to protect them from American actions contrary to its avowed aims. Still less have they grounds for comfort in frequent United States affirmations of adherence to the principles of multilateral, non-discriminatory world trade, affirmations which they have long since learned do not exclude actions which rest on entirely opposite principles. This is the 'credibility gap' in their economic relations with the United States which will take a long time to dispel.[1]

[1] L.V. Castle, 'Problems and Prospects in Economic Relations among the Three ANZUS Countries', in Asia and the Pacific in the 1970s, ed. Bruce Brown (Wellington, A.H. & A.W. Reed, 1971), p. 107.

CHAPTER II

THE AMERICAN AGRICULTURAL LOBBY

Professor John Coppock, of Stanford University, has described agricultural trade as a national rather than an international problem.[1] He sees short-term policy expedients adopted by national governments to safeguard domestic farmers at the root of the present disorganised system of trade in agricultural commodities. Coppock remarks:

> Agricultural policies in the industrial countries are essentially isolationist, and international relations - trade - are little more than a patchwork of import restrictions and export subsidies, both essentially opportunistic in origin.[2]

Initially many of the agricultural protectionist policies adopted by industrial countries during the inter-war period, or since 1945, were intended to meet special short-term problems. However, since their inception numerous difficulties have complicated matters, for despite an ever increasing expansion in agricultural output, resulting from improved farming techniques (mechanisation, fertilisers, weedicides, pesticides, improved strains of plants and animals, management programming) and changes in the structure of markets, these policies have been retained. Large increases in production have tended to create surpluses and depress prices in these high-income countries, where demand for agricultural commodities is relatively inelastic. Thus while farm incomes have risen overall, they have done

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[1]John O. Coppock, Atlantic Agricultural Unity (New York, McGraw-Hill, for the Council on Foreign Relations, 1966).

[2]*Ibid.*, p. 19.

so at a much slower rate than other sectors of these economies, so that the relative living standards of the farming population have in general declined.

Although many reasons have been given by the governments concerned for the continued implementation of agricultural protectionist policies, 'the basic reason in all industrial countries, however, is that the agricultural sector has a powerful political lobby'.[1] The content of agricultural policies and attitudes toward them in such countries are greatly influenced by organised farmers. Governments normally consult with farmers' representatives on farm policy, usually in the interests of political quietude.

The main aim of agricultural policies in most of the industrialised countries is to increase farmers' incomes. There may be a number of other aims such as income stability, greater productive efficiency and the preservation of rural communities. Such agricultural policies are complex, both in themselves and their effects. Each of these countries has its own distinctive measures for raising incomes. Most of them have, however, adopted policies which include the broad features of price supports, import restrictions and export subsidies.

In the case of the United States a formidable battery of general and particular devices have been established to restrict or embargo foreign imports. In this chapter an attempt will be made to describe the strength of agricultural representation in the United States, farm organisations and the existing price support system.

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[1] David Robertson, 'Scope for New Trade Strategy', in Harry G. Johnson (ed.), New Trade Strategy for the World Economy (London, George Allen and Unwin, 1969), p. 284.

Ideology and Over-Representation

No industry in the United States has been more the subject of governmental policy than agriculture.[1] It is the only industry that has a cabinet officer and House and Senate standing committees all its own. In almost every national election farm policy is a major issue. As one authority has remarked:

> Among the major issues of public policy during the postwar era, none proved more difficult to solve than the farm problem. Its essential characteristic was this: the tendency of production, despite a steady decline in farm population, to increase faster than effective demand, creating heavy agricultural surpluses. In Congressional debate, this problem produced some of the sharpest sectional and party clashes repeatedly throughout the postwar period. But it was little closer to solution in 1964 [1972] than it had been in 1945.[2]

The relative and absolute decline of the agricultural population in the United States has not been accompanied by a proportionate decline in the representation of rural areas in Congress. As indicated in Table 2 - 1, the proportion of people living on farms in the United States had declined to less than 5 per cent by 1970. Yet the influence of agriculture remains far greater than its numerical strength would seem to indicate. In the words of V.O. Key:

> Census after census has recorded the movement of people from farms and the growth of cities, yet rural dwellers have fought a stubborn rear-guard action to delay full political recognition of the fact that America, once predominantly agrarian, has become predominantly industrial.[3]

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[1]Leonard W. Weiss, Case Studies in American Industry (New York, John Wiley & Sons, 1967), p. 19.

[2]Congress and Nation, Vol. I, 1945 - 1964 (Washington, D.C., Congressional Quarterly, 1965), p. 665.

[3]V.O. Key, Politics, Parties and Pressure Groups (New York, Thomas Y. Crowell, 1964), p. 21.

TABLE 2 - 1 THE DECLINE OF UNITED STATES AGRICULTURE

Percentage of National Income going to Farmers		Percentage of U.S. Population Living on Farms	
1869 - 1879	20.5	1910	34.9
1899 - 1908	16.7	1920	30.1
1919 - 1928	12.2	1930	24.9
1933	8.9	1940	23.1
1940	7.4	1950	15.2
1950	6.9	1960	8.7
1960	2.9	1964	6.8
1964	2.3	1968	5.2
1968	2.1	1970	4.8

Sources: U.S. Department of Commerce, Statistical Abstract of the United States (various issues), and U.S.D.A., Agricultural Statistics (various issues).

The myth of agricultural fundamentalism and political over-representation have been of paramount importance in the American farmers' efforts to gain political redress for their economic grievances. At least since the days of Thomas Jefferson, when small farmers were beginning to look on manufacturers and merchants as economic and political enemies, farmers have been able to draw on a tradition that ascribes special moral values to farm people. Jefferson saw them as the best guarantors of the republican system, 'an idea which continues to cast its spell over voters, politicians and the farmers themselves'.[1] 'Partly from the strength of such notions agriculture has enjoyed a strategic advantage in politics'[2] in the

[1]Gaylon L. Caldwell and Robert M. Lawence, American Government Today (New York, W.W. Norton & Company, Inc., 1969), p. 389.
[2]Key, op.cit., p. 21.

United States. It is this factor which largely explains the failure of many Americans to recognise that farming has become more of a business than a 'way of life'.[1]

This myth, or ideology, which surrounds agricultural policy in the United States is made even 'more politically potent by the fact that agriculture is over-represented by Congress'.[2] The constitutional prescription of equal representation of the states in the Senate means that rural states such as Montana, North Dakota and Mississippi will have the same voting strength as the heavily populated, mainly urban states, like New York and California.

Agricultural representation in the Senate has been fairly stable over a long period. This is because the rural-urban population shift has involved a great deal of movement across state boundaries. Big cities do not grow in South Dakota changing South Dakota from a rural to an urban state, but rather South Dakota remains rural, and California or New York become more urbanised. Thus the number of states with a predominantly urban population is increasing much more slowly than the growth of urban communities would indicate. At present some 55 to 60 out of the 100 Senators represent states which are basically rural-oriented.

Rural areas have also been over-represented in the House of Representatives. Seats are allotted to each state primarily on the

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[1]For an excellent discussion of 'agricultural fundamentalism' or the 'agricultural creed', see Don Paarlberg, American Farm Policy : A Case Study of Centralized Decision - Making (New York, John Wiley & Sons, 1964); especially Chapter I.

[2]Merle Fainsod, Lincoln Gordon, and Joseph C. Palamountain, Jr., Government and the American Economy (New York, W.W. Norton & Company, Inc., 1959), p.41.

basis of population, but House districts are drawn by state legislatures and state legislatures in almost every state have over-represented rural interests. A study by the Congressional Quarterly in 1963 calculated that apportionment of congressional seats in each state 'to create the greatest possible equality in district population with a minimum amount of gerrymandering' would cause a net lose of 12 seats in 'rural areas' which they defined as including small towns and cities with a population up to 50,000.[1]

However, it should be realised that rural representation in the House of Representatives has significantly declined in the last three decades. As indicated in Table 2 - 1, the farm population in the United States constituted 23.1 per cent of the total in 1940; in 1970 4.8 per cent. In numbers it fell from 30½ million to less than 10 million. In 1950 there were 5,648,000 farms; in 1971 2,876,000, a fall of almost 50 per cent.[2] The composition of Congress has to some extent reflected these developments. All farming regions have to some extent suffered reduced representation; the border and Southern tobacco and cotton areas more than most, and the North Eastern dairying area least of all.[3]

Although it is impossible to precisely specify the benefits of

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[1] 'Congressional Reform', Special Report, Congressional Quarterly, 7 June 1963, outlined in Charles M. Hardin, 'Present and Prospective Policy Problems of U.S. Agriculture: As Viewed by a Political Scientist', in Journal of Farm Economics, Vol. XLVII, No. 5, December 1965, p. 1093, and Congress and Nation, I, p. 1529.

[2] 'Rural Poverty: Struggle to Eliminate Poverty', Congressional Quarterly Weekly Report, Vol. XXIX, No. 22, 28 May 1971, p. 1176.

[3] To assist the reader there is a reference map of the United States at the end of this thesis.

over-representation to the American farmer, it has, at a minimum, enlarged his access to political decision makers. In the Senate especially, agricultural interest groups have had more points of access 'than urban groups whose members are concentrated in a few populous States'.[1]

Control of Committees

Probably more important than over-representation is the fact that the structure and customs of Congress function in such a way as to increase the political power of agricultural groups. Congress has found it necessary to delegate important functions to committees. It is at this level that the pros and cons of issues are weighed, the lobbying carried out most intensively, the decisions made and the bills redrafted. Both the Senate and the House of Representatives review major legislation but they are unable to consider in detail most committee recommendations. Thus the Congressional committees are major centres of legislative decision and their operation and output is much influenced by their chairmen.

> Just as the standing committees control legislative action, so the chairmen are masters of their committees. Selected on the basis of seniority, locally elected and locally responsible, these 'lord-proprietors' hold key positions in the power structure of Congress. They arrange the agenda of the committees, appoint the subcommittees, and refer bills to them. They decide what pending measures shall be considered and when, call committee meetings, and decide whether or not to hold hearings and when. They approve lists of scheduled witnesses, select their staffs, and authorize staff studies and preside at committee hearings. They handle reported bills on the floor and participate as principal managers in conference committees. They are in a position to expedite mesures they favor and to retard or pigeonhole those they dislike. Strong chairmen can

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[1]David B. Truman, The Governmental Process (New York, Alfred A. Knopf, 1951), p. 322.

> often induce in executive sessions the kind of committee actions that they desire. In the House of Representatives, where debate is limited, the chairman in charge of a bill alots time to whomever he pleases during debate on the floor; he also has the right to open and close the debate on bills reported by his committee; and he may move the previous question whenever he thinks best. In short, committee chairmen exercise crucial powers over the legislative process.[1]

Because of the seniority system, under which chairmanships are allocated to the member of the committee most senior in terms of service, and because also of the greater tendency of rural areas to return the same Congressmen, the rural-oriented Congressmen hold a disproportionate number of committee chairmanships. This is important because of the number of bills directly and indirectly affecting agricultural interests which are referred to Committees. Thus any loss there has been by a decline in numbers 'is made up by the intrenched farm positions in the ruling Congressional clique'.[2]

In the second session of the Ninty-first Congress, 13 House of Representatives chairmen were from rural districts, 2 from suburban districts and 6 from urban districts. Of the Republicans who filled the ranking minority positions in that Congress, 11 were from rural districts, 4 from suburban districts and 6 from the urban districts. In both the House and the Senate the majority of senior Democrats were from the South. The majority of senior Republicans in the House were from the Midwest and in the Senate from the East.[3]

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[1] George Galloway, The Legislative Process in Congress (New York, Thomas Y. Crowell, 1953), p. 289.

[2] Charles M. Hardin, 'Farm Political Power and the U.S. Governmental Crisis', Journal of Farm Economics, Vol. XL, No. 5 (December 1958), p. 1653.

[3] 'Challenges of Seniority System by Both Parties', Congressional Quarterly Weekly Report, Vol. XXIX, No.3, 15 January 1971, p. 134.

In addition to the Committees on Agriculture, Congressmen from predominantly rural States hold the chairmanships of committees as important to agriculture as the Senate and House Committees on Appropriations, and Banking and Currency; the Senate Committees on Government Operations, Public Works, and Finance; the House Committees of Ways and Means, and Interstate and Foreign Commerce; and the Joint Economic Committee.[1]

Congress and Agricultural Policy

In most areas of American public policy the initiative in proposing new legislation, or modifying existing legislation, rests mainly with the executive branch. However, in the case of agricultural policy, Congress has maintained and exercised a great deal of control and has not hestitated to modify, reject, or sometimes substitute its own policy proposals in place of those that may emanate from the President and the Secretary of Agriculture.

The major centres of decision on farm policy within Congress are the House and Senate Agriculture Committees, which are composed almost entirely of members from farm states and districts in the South, Midwest and Great Plains regions. Rarely do they contain more than a member of two representing the urban consumer.[2] They concentrate primarily on reconciling the various agricultural interests. In making assignments to the House Agriculture Committee, for example, 'Both parties take it for granted that wheat, cotton

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[1] 'Committees and Subcommittees', Congressional Quarterly Weekly Report, Vol. XXIX, No. 17, 23 April 1971.

[2] Douglas Cater, Power in Washington (London, Collins, 1965), p. 158.

and tobacco interests should have the majority of representation on the Committee'.[1]

The agriculture committees are organised along commodity lines for the handling of price support legislation. In the House Agriculture Committee members are distributed among ten commodity subcommittees, each of which is controlled by representatives producing the commodity in question.[2] The chairman of the Senate Committee, under an informal arrangement, relies for decisions on particular commodities on member Senators whose states have substantial farm interests.[3] Thus, at the subcommittee level vigorous lobbying takes place for each particular commodity. As Douglas Cater states:

> The business of constructing agricultural legislation in full committee often resolves itself into combining the various subcommittees' reports to make an 'omnibus' farm bill, thus frustrating the best efforts of an Administration, Republican or Democratic, to promote a farm program that makes sense in overall terms.[4]

Since the Agriculture Committees are dominated by rural-oriented Congressmen, it makes it almost impossible to obtain agricultural legislation unacceptable to the major interests represented on the committees, as they must approve such legislation. However, the decline in rural representation has meant that farm Congressmen are

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[1]Nicholas A. Masters, 'Committee Assignments in the House of Representatives', American Political Science Review, Vol. LV, No. 2, June 1961, p. 354.

[2]See Charles O. Jones, 'Representation in Congress : The Case of the House Agriculture Committee', American Political Science Review, Vol. LV, No. 2, June 1961, pp. 358 - 367.

[3]Dale E. Hathaway, Government and Agriculture : Public Policy in a Democratic Society (New York, Macmillan, 1963), pp. 188 - 193.

[4]Cater, op.cit., p. 159.

no longer able to secure the passage of agricultural legislation without the support of a large number of urban Congressmen. Thus temporary alliances between an agricultural and a labour, commercial or other groups, are necessary to ensure the passage of legislation through Congress. Skilled judgement on the part of the committee leadership is needed in order to determine what sort of legislation will be accepted by a majority in Congress, and later by the President, especially if he is from an opposing party.

Sectional Divisions of the 'Farm Bloc'[1]

Although agricultural interest groups are over-represented in Congress, 'American agriculture is neither a solid block of votes nor a uniform political action group which sets its goals and moves towards them with one mind'.[2] Rather, sectional interests prevail and as a result representatives of rural interests are deeply divided. These diversities of interests reflect the diversity of rural districts in the United States. Dairy farmers, sheep and cattle farmers, tobacco growers, fruit farmers, cotton and grain growers each have more or less distinct interests which 'induce commodity consciousness' rather than a broader 'farm bloc' consciousness.[3] Admittedly there may be one or two specific issues, such as some taxation legislation,

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[1] Congressional members from rural and town areas representing the agricultural sector, in common terminology, collectively make up the 'farm bloc'. The expression has its usefulness as an abbreviation, but as is indicated below it rarely operates as a bloc.

[2] Charles M. Hardin, The Politics of Agriculture (Glencoe, Ill., The Free Press, 1952), p. 14.

[3] Fainsod, Gordon and Palamountain, op.cit., p. 40.

on which a 'farm bloc' view is evident, but these are exceptional.

Thus farmers are pulled in different directions by partisan allegiance. Indeed, the interests of one agricultural groups may clash directly with those of another group. For example, cattle feeders, who buy feed for their herds, will have their costs raised by price support measures designed to benefit corn (maize) growers. Even areas specialising in the same product may at times be in opposition to each other. In the American dairy industry, for example, dairy farmers in the East, close to the city markets, selling fluid milk diverge from those dairy farmers further West, who sell for manufacturing, on the question of government control of milk production.

Congressmen from rural-oriented States or districts may therefore represent a variety of agricultural interests. They may represent a tobacco, wheat, sugar, sheep or cattle area; an area of small family farms or large mechanised units; an affluent or a poor area; a feed producing or a feed consuming region. Each areas interests often offer more scope for conflict than for co-operation.[1]

Agricultural Organisations

The variety of agricultural commodities, many in competition with others, has produced its own crop of associations representing producers. These include, for example, the American National Cattlemen's Association, the National Cotton Council of America, the National Wool Growers Association, the National Turkey Federation, the National Wheat Growers Association, and so on. Three major

[1] See 'The Political Impasse in Farm Support Legislation', The Yale Law Journal, Vol. LXXI, No. 5, April 1962, pp. 952 - 978.

organisations, however, claim to speak for agriculture as a whole in the United States. They are the American Farm Bureau Federation, the National Farmers Union and the National Grange.[1]

All these organisations representing agricultural interests tend to institutionalise sectional, and to some extent, regional and ideological differences of American farmers. However, despite these apparent divisions, one must never under-estimate the power of these organisations and their potential effect on New Zealand's export interests in the United States. They have large memberships, substantial resources and efficient administrations. They are the focus of agricultural pressures on Congress. It is these organisations that lobby Congressmen, prepare testimony for legislative hearings, issue public statements, undertake and mobilise public opinion. As has been pointed out, on many issues they have contradictory aims and exert pressures in contradictory directions, but this is not always the case on those issues which are of particular interest to New Zealand.

Unlike the general farmers' organisations, the individual producer associations are less concerned with wider social and political issues beyond the purely commercial problems of the interests they represent. Their memberships are smaller than of those of the broader organisations, their resources fewer, and their ability to mount broadly based programmes of indirect lobbying to

[1]See Congress and Nation, I, pp. 680 - 681, for details of membership of major agriculture organisations active in the United States.

influence legislation is more limited. These apparent disadvantages, however, are offset to some extent by the single-mindedness with which they are able to pursue their objectives, being less divided than the general organisations because they have a more homogeneous membership and a narrower range of interests. Particularly in regard to dairy products and beef, as far as New Zealand's interests are concerned, they have become highly effective pressure groups.

Price Supports

The existing United States agriculture assistance programmes originated in the New Deal efforts to counteract the collapse of farm prices and incomes during the depression of the 1930s. The Agricultural Adjustment Acts of 1933 and 1938 established a series of farm aid programmes designed to raise income and control supply. These programmes established a standard for farm prices, which its sponsors said was equally fair to farmers and to those who bought farm products. This standard was named parity. It was designed to establish farm prices that were on a par, in terms of purchasing power, with prices, which farmers had received in some period in the past when their general position was good. Until 1948 the base period was 1910 - 1914, 'when farmers enjoyed their greatest peacetime prosperity of this century'.[1] Thus if the price received per bushel of wheat during 1910 - 1914 was 90 cents and if prices

[1]Robert H. Salisbury, 'Agricultural and Natural Resources', in Functions and Policies of American Government, ed. J.W. Peltason and James M. Burns (Englewood Cliffs, N.J., Prentice - Hall, 1967), p. 177.

paid by farmers doubled, the parity price would be $1.80 per bushel.

Price supports, however, were never established at 100 per cent of parity. During the 1930s, support prices were established in the general range of 50 to 70 per cent of parity. It was not until the Second World War that price supports were established at 90 per cent of parity.

During the Second World War and the postwar reconstruction period (1941 - 1948) the vast increase in agricultural productivity in the United States did not prove too great a problem. 'Heavy expansion of demand due to special needs provided ready and favorable markets for farm goods'.[1] In fact, the American government, by raising the level of the parity formula during these years, did so in order to stimulate production by guaranteeing high prices to farmers for their produce.

In 1948 and 1949 the first great debates on postwar American agricultural policy occurred when demand started to drop with the end of postwar reconstruction. The Korean War provided a temporary outlet for excess production. Prior to the Korean War, an important modification to the parity formula was introduced. Parity prices were to be determined by the average prices received by farmers during the previous 10 years. However, since the revision in the formula resulted in the reduction of parity prices for 'politically important crops', primarily wheat and corn, the revised formula did not become mandatory until 1957.

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[1] Congress and Nation, I, p. 665.

It appears that the main agricultural organisations, with the exceptions of the American Farm Bureau Federation and the American National Cattlemen's Association, broadly accept Federal recognition of the farming industry and, with varying degrees of enthusiasm, the existing Federal programmes, of controlled production and controlled prices by means of Federal subsidies. They argue that if a policy of free marketing, such as that advocated by the American Farm Bureau Federation, was implemented, it would mean the collapse of farm prices and the economic ruin of hundreds of thousands of farm families. The consequences, they contend, would be an over-all depression, the destruction of traditional social values seen in American family life, and the transfer of numerous untrained people for other types of work to urban labour markets and unemployment rolls.

Within the context of the price support programme, United States agricultural policy discussions have centered mainly around the so-called 'basic' commodities. The group of major crops includes cotton, tobacco, wheat, corn, rice and peanuts. Many other commodities are supported, however, when it appears prices are too low. Of particular interest to New Zealand is livestock, dairy products and wool which are supported, or in the case of cattle and sheep, may be supported, within the broad limits prescribed by Congress. The price at which each commodity will be supported is determined separately by the Secretary of Agriculture on the basis of the anticipated and expected demand. Generally, it may be said, the greater the expected supply in relation to demand, the lower the

TABLE 2 - 2 GROSS ANNUAL SALES OF UNITED STATES FARMS, 1967

Class	Number	Percentage of all Farms	Percentage of all Sales
$40,000 and over	183,000	5.8	47.0
$20,000 to $39,999	318,000	10.1	20.8
$10,000 to $19,999	492,000	15.6	17.3
$5,000 to $9,999	446,000	14.2	8.1
$2,500 to $4,999	360,000	11.5	3.4
Under $2,500	1,347,000	42.8	3.4
Total	3,146,000	100.0	100.0

Source: Congress and Nation, Vol. II, 1965 - 1968 (Washington D.C., Congressional Quarterly, 1969), p. 558.

support price.

The principal mechanism by which prices are supported centres around the Commodity Credit Corporation. If market prices fall below those fixed by the Secretary of Agriculture, producers can obtain the support price by selling to this government purchasing agency.

Marketing orders are also used in the United States; notably for liquid milk. These orders set minimum prices to be paid to farmers in certain areas. Wool and sugar producers receive price support in the form of direct subsidies or deficiency payments.

In order to contain the cost of price supports and to avoid excessive stock accumulations, the United States administration maintains production controls for grains and cotton. Dairy products, which have often been in surplus, have no federal production controls.

As has been stated earlier in this chapter, when any nation undertakes to maintain internal prices for selected commodities at levels significantly above those elsewhere in the world, two types of action soon become necessary. To export, it must subsidise, and to protect domestic markets from unlimited foreign supplies, it must restrict imports. Since most of the agricultural organisations in the United States are committed to domestic policies which have the effect of sustaining agricultural output at a high level, thus severely limiting the scope of imports from foreign producers and creating additional difficulties for countries like New Zealand seeking to expand commercial markets in third countries.

Section 22 of the Agricultural Adjustment Act

The basic defence measure against agricultural imports into the United States was initially made in 1935 by the addition of Section 22 to the Agricultural Adjustment Act of 1933.

Section 22, with its numerous amendments, provides a broad grant of authority to the United States administration to restrict agricultural imports under specified conditions. It requires the Secretary of Agriculture to advise the President whenever he has reason to believe that any article or articles are being or are practically certain to be imported under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with any price-support or other programme, relating to agricultural commodities, undertaken by the Department of Agriculture, or to reduce substantially the amount of any product processed in the United States from any agricultural commodity or product thereof with respect to which any such programme or operation is being undertaken. If the President concurs in the Secretary's findings, he is directed to order an investigation by the Tariff Commission. 'The presence of the Department of Agriculture as a prominent party tends to shorten the Commission's investigation through the availability of the extensive data compiled in the preliminary study'.[1]

Following receipt of the report, the President, if he agrees with its findings, has a number of remedies available to him under Section 22. Such remedies may consist of either fees to a maximum 50 per cent ad valorem or absolute quotas which limit imports to not less than 50 per cent of the quantities imported during a previous representative base period, as determined by the President. The President has authority to take emergency action under Section 22 pending the advice of the Secretary of Agriculture if he determines that emergency action is required.

In a similar manner, the Secretary of Agriculture may advise the President that conditions have changed in a sector of agriculture and existing Section 22 restrictions may, in his opinion, be relaxed. The President, following an investigation by the Tariff Commission, may liberalise or terminate the existing import controls on the articles concerned.

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[1]Kenneth C. Mackenzie, Tariff-Making and Trade Policy in the United States and Canada : A Comparative Study (New York, Frederick A. Praeger, 1968), p. 189.

The preference for quotas in Section 22 actions is a reflection of the need to impose precise quantitative limitations on imports to prevent disruption of domestic support programmes. Fees or duties, even as high as 50 per cent, may not be sufficient to prevent imports of commodities in surplus in international markets. 'The insensitivity of quotas to competitive market forces, ordinarily a major disadvantage, is not an important consideration where conditions of domestic overproduction and artificially supported prices exist'.[1]

Evaluation

In their lobbying, agricultural interests in the United States have a built-in advantage enjoyed by few other pressure groups; they are able to elect substantial numbers of Congressmen who directly represent agriculture in the legislative branch. Despite the fact that American agriculture is neither a solid bloc of votes nor a uniform political action group, farm lobbyists are nevertheless guaranteed a sympathetic hearing in a way that is denied to most other pressure groups representing smaller and more dispersed groups of voters.

As Kenneth Mackenzie states:

> Within Congress itself the pressures of local, state and regional interests are magnified. A Congressman, unlike his parliamentary counterpart, cannot take refuge in party solidarity or executive policy; his vote is his own and he alone bears the political responsibility to his constituents for it. The result, particularly in the field of foreign trade, is that local and regional factors prevail in Congress while the national interest is championed by the executive. This polarisation of conflicting interests aggravates the tensions between the President and Congress.[2]

[1] Ibid., p. 191.
[2] Ibid., pp. 32 - 33.

Frequent affirmations of adherence to the principles of multilateral, non-discriminatory world trade, voiced by those representing the President have little meaning so long as protectionist policies are supported by the majority in Congress. The periodic grants of authority to the President, by Congress, to reduce tariffs to certain specified levels in reciprocal trade negotiations is the only right the President has to reduce protectionist trade policies.[1] The granting of such authority depends on the mood and orientation of the particular Congress.

The President has never had power to grant duty-free entry to a particular item of trade or to abolish quantitative restrictions imposed on foreign imports without first gaining the approval of Congress. Thus the all too frequently observed 'credibility gap' in American trade policy largely emanates from the constitutional nature of United States government. The structure and customs of Congress function to increase the ability of agricultural protectionist groups to influence trade policy. Therefore any assurances given by the President, or his representatives, in regard to a particular agricultural trade policy, ultimately depend on the attitude of Congress.

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[1]Trade Expansion Act, 1962, for example, permitted the President until 30 June 1967, to enter into trade agreements which, with certain exceptions, could negotiate decreases in any rate of duty by not more than 50 per cent of rate in effect on 1 July 1962. President Nixon, at present, has no such authority.

CHAPTER III

DAIRY PRODUCTS

Although in terms of production New Zealand produces only approximately 1.8 per cent of the world's cow milk,[1] it is nevertheless the world's largest exporter of butter and third largest exporter of cheese and milk powders. In 1969 total world production of butter amounted to over 3.7 million tons of which some 626,000 tons, or nearly 17 per cent, entered world trade. Of this quantity some 410,000 tons went to the United Kingdom; accounting for 77 per cent of the world's butter imports. Cheese exports in the same year amounted to 667,000 tons of which 153,000 tons were sent to the United Kingdom (Table 3 - 1).

Dairy products, more than any other of the major agricultural commodities exported by New Zealand, have been the most sensitive to, and the most affected by, agricultural protectionist policies. Apart from the United Kingdom, the main sizeable markets for dairy products exist in temperate-zone industrial countries. However, these countries are committed to the maintenance of high domestic price support systems, and therefore opportunities to exporters are very limited.

Despite being the world's most efficient dairy producer, as Table 3 - 2 clearly indicates, New Zealand has found it difficult to diversify away from the British market. As the 1961 Annual Report of the New Zealand Dairy Products Marketing Commission states:

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[1]See Appendix I.

TABLE 3 - 1 MAJOR PRODUCING, EXPORTING AND IMPORTING COUNTRIES OF BUTTER, CHEESE AND MILK POWDERS, 1969

Dairy Products	Producing Countries			Exporting Countries			Importing Countries		
	Country	'000 Tons	%	Country	'000 Tons	%	Country	'000 Tons	%
Butter	USSR	935.0	25.0	New Zealand	182.0	29.1	United Kingdom	410.0	77.0
	West Germany	501.8	13.4	Denmark	98.2	15.7	Italy	29.5	5.5
	United States	500.5	13.4	Australia	80.3	12.8	Morocco	25.3	4.7
	France	466.5	12.5	USSR	73.1	11.7	West Germany	16.1	3.0
	New Zealand	236.1	6.3	France	49.3	7.9	Switzerland	13.1	2.5
	Total (5)	2,639.9	70.6	Total (5)	482.9	77.2	Total (5)	494.0	92.7
	World Total	3,740.6	100.0	World Total	625.8	100.0	World Total	532.8	100.0
Cheese	United States	888.2	21.8	Netherlands	160.9	24.1	United Kingdom	153.1	26.0
	France	740.0	18.2	France	89.4	13.4	West Germany	124.8	21.2
	Italy	455.3	11.2	New Zealand	89.2	13.4	Italy	77.8	13.2
	USSR	415.0	10.2	Denmark	60.9	9.1	United States	64.3	10.9
	Netherlands	255.6	6.3	West Germany	48.1	7.2	Belgium	46.9	8.0
	Total (5)	2,754.1	67.7	Total (5)	448.5	67.2	Total (5)	466.9	79.3
	World Total	4,072.4	100.0	World Total	666.5	100.0	World Total	588.3	100.0
Milk Powders	United States	938.1	27.6	France	283.7	13.8	Italy	197.4	24.2
	France	708.6	20.8	United States	203.8	9.9	Netherlands	192.0	23.5
	West Germany	418.1	12.3	New Zealand	170.7	8.3	Japan	65.8	8.1
	Canada	202.5	6.0	Canada	106.7	5.2	United Kingdom	50.1	6.1
	Netherlands	170.0	5.0	Belgium	92.6	4.5	Philippines	45.4	5.6
	Total (5)	2,437.3	71.7	Total (5)	857.5	41.7	Total (5)	550.7	67.5
	World Total	3,403.1	100.0	World Total	2,051.0	100.0	World Total	815.7	100.0

Sources: U.S.D.A., Agricultural Statistics, 1971, and Commonwealth Secretariat, Meat and Dairy Bulletin (various issues).

TABLE 3 - 2 FLUID MILK: COMPARISON OF PRODUCER PRICES IN LEADING DAIRY PRODUCING COUNTRIES[a]

Country	1955	1960	1963	1968
		$US per Hectolitre		
Australia	5.73	6.16	6.16	-
Canada	6.55	7.22	6.49	8.07
Denmark	6.03	5.45	6.26	5.87
France	7.14	6.68	8.30	-
West Germany	7.24	8.28	10.10	10.16
Italy	6.52	7.30	8.92	9.25
Netherlands	6.53	7.98	8.26	10.05
New Zealand	4.95	4.70	4.73	(5.08)[b]
Sweden	7.13	8.49	8.87	11.06
United Kingdom	10.03	9.14	8.98	8.80
United States	8.84	9.50	9.34	12.04
		Index Base: New Zealand Price = 100		
Australia	116	131	130	-
Canada	132	154	137	159
Denmark	122	116	132	116
France	144	142	175	-
West Germany	146	176	214	200
Italy	132	155	189	182
Netherlands	132	170	175	198
New Zealand	100	100	100	100
Sweden	144	181	188	218
United Kingdom	203	194	190	173
United States	179	202	197	237

Source: F.A.O. Production Yearbook, 1969.

[a]Average producer price for milk used for all purposes.

[b]No available figure for average producer price for milk used for all purposes. This figure is the average producer price for town milk suppliers. Unlike suppliers of manufacturing milk, town milk suppliers are in the ambivalent situation of receiving a price based on overseas prices for cheese while supplying a wholly protected market. They insist on their entitlement to gains of higher prices in years of world cheese shortages, yet seek compensation for increased costs of production in years when the price of cheese falls overseas and there is no increase in the basic price of milk fat used for cheesemaking. Thus town milk suppliers get a much higher price for their milk; this figure highlighting even more the relative efficiency of the New Zealand dairy industry.

> By 1954 when the bulk selling era ended, most of the world's major markets for butter and cheese had fenced themselves in by means of tariffs and quantitative import restrictions or outright prohibitions, in order to fence out low-cost producers, among which New Zealand is pre-eminent. Since that time it has been possible to make only sporadic sales in the major dairy products consuming countries of Continental Europe and North America.[1]

One of the 'fenced in' markets is the United States. The United States policies towards dairy products have been a source of much ill-feeling in the trading relationship between that country and New Zealand. This friction has stemmed not only from the direct effects of restricting access to that market but also from the disposal of American accumulated dairy surplus stocks on world export markets. The United States in 1955 obtained a waiver under the GATT to impose quantitative restrictions on certain agricultural commodities, including dairy products. New Zealand was virtually alone in voting against the waiver and in the ensuing years has not been prepared to take the restrictions lying down. A number of dairy products have been developed and adapted by the New Zealand dairy industry in order to legally circumvent the imposed American restrictions. Thus the actual volume of dairy products disposed by New Zealand on the American market has been far greater than seemed possible at the time of the GATT waiver. Adjustments, however, have been made periodically by the United States administration in order to extend the scope of their restrictions to cover the newly developed products.

American restrictions on the imports of dairy products long

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[1] Fourteenth Annual Report of the New Zealand Dairy Products Marketing Commission, 1961, p. 10.

antedate the termination of the bulk-purchase contracts in 1954. In this chapter an examination will be made of the nature of the United States dairy industry and the development of New Zealand's trade in dairy products with that country.

United States Dairy Industry

In 1969 the American dairy herd of 14.2 million cows produced over 16 per cent of the world's fluid cow's milk and was the world's second largest producer of milk behind the U.S.S.R.[1] Although United States cow numbers have declined by about 40 per cent in the last 20 years, raw milk output has remained at a near constant 115,000 million lb.

Demand for dairy products in the United States has for some time been increasingly supplanted by nonfat substitutes, partly because of growing concern about the possible health hazards of a large consumption of animal fats, but also because the latter are a good deal cheaper. Among such articles currently available on the market are oleomargarine, nondairy creamers, whipped toppings, and imitation dairy products, including milk, made from vegetable fat.[2] The American consumer, who in 1940 bought a quart of whole milk for 11 cents, now pays 29 cents. Butter, which cost 36 cents per lb 30 years ago,

[1]See Appendix I.

[2]U.S. Tariff Commission, Certain Dairy Products. Report on Investigation No. 332 - 64 under Section 332 of the Tariff Act of 1930 Pursuant to a Resolution of the Committee on Ways and Means of the House of Representatives Adopted June 23, 1970. T.C. Publication 340 (Washington, D.C., October 1970), p. 13. Hereafter cited as U.S.T.C. Publication 340.

TABLE 3 - 3 UNITED STATES CONSUMPTION OF BUTTER AND MARGARINE, 1940 - 1970, BY SELECTED YEARS

Year	Butter Total (Thousand Tons)	Butter Per capita (lb)	Margarine Total (Thousand Tons)	Margarine Per capita (lb)
1940	1,001.8	17.0	142.0	2.4
1945	630.8	10.9	234.4	4.1
1950	720.5	10.7	409.8	6.1
1955	652.2	9.0	590.6	8.2
1960	594.6	7.5	748.2	9.4
1965	550.0	6.4	844.2	9.9
1970	472.8	5.3	992.4	11.0

Source: U.S.D.A., Agricultural Statistics (various issues).

now sells for 88 cents.[1]

Margarine, which has long competed with butter, has had the greatest impact on the decline of dairy product consumption in the United States.[2] Per capita consumption of margarine has increased by more than 4 times since 1940 while butter consumption has dropped by nearly 70 per cent (Table 3 - 3). Over the same period per capita consumption of condensed and evaporated milk has declined by more than 60 per cent while that of fluid whole milk and fluid cream has decreased by 18 per cent in the last 10 years.[3] These declines in consumption have only been partially offset by increases in cheese, ice cream and nonfat milk powder consumption (Table 3 - 4).

[1]U.S.D.A., Farm - Retail Price Spreads for Food Products, November 1957, and September 1971.

[2]The average retail price per lb of margarine in the United States in 1971 was 33 cents. U.S.D.A., Dairy Situation, March 1972, p. 22.

[3]U.S.D.A., Agricultural Statistics, 1971, p. 403.

TABLE 3 - 4 PER CAPITA CONSUMPTION OF DAIRY PRODUCTS IN THE UNITED STATES, 1940 - 1970, BY SELECTED YEARS

Year	Butter	Cheese	Condensed and Evaporated Milk	Ice Cream[a]	Nonfat dry Milk
			(lb)		
1940	17.0	6.0	19.3	11.4	2.2
1945	10.9	6.7	18.3	15.7	1.9
1950	10.7	7.7	20.1	17.2	3.7
1955	9.0	7.9	16.2	18.0	5.5
1960	7.5	8.3	13.7	18.3	6.2
1965	6.4	9.5	10.6	18.5	5.6
1970	5.3	11.5	7.4	17.8	5.7

Source: U.S.D.A., Agricultural Statistics (various issues)

[a]Product weight

Dairy producers are found in all 50 states, but most of the manufacturing milk is produced in the Lake, Corn Belt and Northern Plains states, which together account for about two-thirds of the United States manufactured dairy products.[1] Wisconsin and Minnesota are the leading manufacturing milk producers with Iowa, New York and California being other important sources. In recent years Wisconsin, Minnesota and Iowa have accounted for over half of the United States production of butter, cheddar cheese and nonfat dry milk.

About half of the milk produced in the United States is used for manufacturing dairy products; the remainder being consumed in liquid

[1]U.S.D.A., Dairy Situation, November 1969, p. 34.

form. Approximately 44 per cent of the milk used in manufacturing is used in making butter; 27 per cent in cheese; 17 per cent in frozen dairy products, principally ice cream; and the remaining 12 per cent in a variety of products, including condensed and evaporated milk.[1] Details of the levels of American production of individual dairy products are given in Table 3 - 5.

Prior to the Second World War proposals for special programmes relating to manufactured dairy products did not assume great importance. Pressure for government aid to the dairy sector was not as great as that for some other agricultural commodities, notably wheat, corn and cotton. Milk and dairy products were among the 'basic' commodities specified in the Agricultural Adjustment Act of 1933, but were later removed from this category.[2] Many doubted that production controls on dairy products could be made practical.[3]

Government programmes in the 1940s aimed at stimulating dairy production. Large procurements of dairy products were made by the United States government in order to fulfil commitments made under the Land-Lease Act and to supply the American armed forces. Heavy purchases were made in connection with foreign-aid programmes after the war. This together with a high level of domestic demand kept

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[1]U.S. Tariff Commission, Certain Dairy Products. Report to the President on Investigation No. 22 - 28 Under Section 22 of the Agricultural Adjustment Act, as Amended. T.C. Publication 338 (Washington, D.C., September 1970), p. A - 2. Hereafter cited as U.S.T.C. Publication 338.

[2]Mackenzie, op.cit., p. 178.

[3]M.R. Benedict and O.C. Stine, The Agricultural Commodity Programs (New York, the Twentieth Century Fund, 1956), p. 236.

TABLE 3 - 5 UNITED STATES PRODUCTION OF INDIVIDUAL DAIRY PRODUCTS, 1960 - 1970, INCLUSIVE

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
						(Thousand Tons)					
Butter	612.9	662.9	686.2	633.8	644.0	580.5	496.4	546.9	520.0	500.5	507.5
Cheese[a]	659.8	729.7	710.7	728.5	769.5	783.7	827.7	856.6	865.3	888.2	983.8
Milk Powder											
Whole	43.7	36.5	38.4	40.6	39.1	39.6	42.1	33.2	35.6	31.4	30.7
Skimmed[b]	811.9	901.7	995.7	940.2	971.8	887.9	705.3	749.4	711.8	648.3	644.1
Buttermilk	38.6	39.7	38.6	39.1	41.1	39.0	34.0	32.4	31.4	29.7	26.6
Whey	123.6	121.2	127.2	141.5	166.0	180.5	210.2	220.0	221.1	230.6	277.0
Condensed Milk											
Whole[c]	30.3	31.2	33.1	35.2	42.2	42.8	57.4	28.4	38.8	35.5	
Skimmed	25.0	23.3	25.3	24.9	25.9	23.9	27.0	27.9	30.9	33.3	31.5
Evaporated Milk											
Whole[c]	972.0	945.3	861.1	847.0	842.9	755.8	762.9	666.5	607.1	631.2	
Skimmed	329.9	364.0	370.2	352.9	375.8	407.8	436.3	411.6	392.5	408.3	422.1
Casein[d]	0.4	0.3	0.5	0.8	0.9	1.4	1.2	0.6	0.5	0.5	na
						(Million US Gallons)					
Ice Cream	699.6	699.4	704.4	717.6	738.7	757.0	751.2	745.4	773.2	765.5	763.0

Sources: U.S.D.A. Agricultural Statistics (various issues), and Commonwealth Secretariat, Meat and Dairy Bulletin (various issues).

[a]Excludes full-skim Cheddar cheese and cottage, pot, and bakers' cheese.

[b]For human consumption.

[c]Case goods only.

[d]Estimated.

na = not available.

dairy products from 1941 until 1949 well above support levels. However, during 1949 a recession in business and a slackening off of abnormal demand caused prices to sag and large quantities of dairy products were bought by the government in an effort to maintain prices.

Thereafter, almost all of the price support operations have been carried out by the Commodity Credit Corporation. 'Prices received by dairy farmers have been substantially higher since 1949, than they otherwise would have been, as a result of price support purchases of dairy products by the Commodity Credit Corporation ... and other related program activities'.[1] Price support operations since January 1950 have been carried out under the Agricultural Act of 1949 and subsequent amendments. This Act specifies that prices of whole milk, butterfat and their products shall be supported at such levels between 75 and 90 per cent of parity as the Secretary of Agriculture determines in order 'to assure an adequate supply'. The Act has provided that the support be carried out through loans on, or purchases of, milk and products of milk and butterfat.[2] It has further provided that the Secretary of Agriculture shall carry out the support of agricultural commodities through the Commodity Credit Corporation and other means available to him.

The price support operations have mainly been carried out by

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[1] U.S.D.A., Dairy Price Support and Related Programs, 1949 - 1968, Agricultural Economic Report No. 165, Agricultural Stabilization and Conservation Service, July 1969, p. 1. Hereafter cited as A.E.R. No. 165.

[2] The Agricultural Act of 1970 suspended from April 1971 to April 1974 the mandatory requirement to support butterfat in farm-separated cream.

Commodity Credit Corporation purchases of butter, cheddar cheese and nonfat dry milk. For this purpose the Secretary of Agriculture has announced before the beginning of each marketing year, and whenever the support level has been raised during the year,[1] the prices at which the Commodity Credit Corporation would buy these commodities. Table 3 - 6 details the level of dairy price support operations since 1949.

Stocks of dairy produce acquired under the price support system are offered for sale on the domestic market at prices above the cost to the Commodity Credit Corporation. However, in recent years domestic sales have been negligible.

Commodity Credit Corporation price support operations are supplemented by several other related programmes. These programmes allow substantial quantities of dairy produce each year to be disposed of through domestic donation programmes, while the great part of the remaining supplies pass into export channels, either in the form of donations or as 'commercial' or 'non-commercial' sales.

Among the domestic donation programmes has been the serving of milk as a part of the plate lunches in schools participating in the National School Lunch Programme. These donations were originally made under Section 32 of the 1935 amendments to the Agricultural Adjustment Acts, which set aside a sum equivalent to 30 per cent of the receipts from custom duties to encourage domestic consumption of

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[1]The Secretary cannot decrease the support price during the year but can increase it up to 90 per cent of parity, as at the beginning of the marketing year.

TABLE 3 - 6 UNITED STATES DAIRY PRODUCTS PRICE SUPPORT OPERATIONS, 1949 - 1971, INCLUSIVE

	Support Levels				CCC Purchase Prices (bulk)[a]		
	Manufacturing Milk	Butterfat	Manufacturing Milk	Butterfat	Butter	Cheddar Cheese	Skimmed Milk Powder
	Per Cent of Parity		Cents per lb		Cents per lb		
1 Jan. 1949 - 31 Dec. 1949	90	90	3.14	58.5	60.40[b]	31.75	12.40[b]
1 Jan. 1950 - 31 Mar. 1951	81	87	3.07	60.0	60.00	31.00	12.50
1 April 1951 - 31 Mar. 1952	86	89	3.60	67.6	66.00	36.00	15.00
1 April 1952 - 31 Mar. 1953	90	90	3.85	69.2	67.75	38.25	17.00
1 April 1953 - 31 Mar. 1954	89	90	3.74	67.3	65.75	37.00	16.00
1 April 1954 - 11 July 1954	75	75	3.15	56.2	57.50	32.25	15.00
12 July 1954 - 31 Mar. 1955						33.25	16.00
1 April 1955 - 31 Mar. 1956	80	76	3.15	56.2	57.50	33.25	16.00
1 April 1956 - 17 April 1956	82	78	3.15	56.2	57.50	34.00	16.00
18 April 1956 - 31 Mar. 1957	84	81	3.25	58.7	59.50	35.00	
1 April 1957 - 31 Mar. 1958	82	79	3.25	58.6	59.50	35.00	16.00
1 April 1958 - 31 Mar. 1959	75	75	3.06	56.6	57.75	32.75	14.25
1 April 1959 - 31 Mar. 1960	77	77	3.06	56.6	57.97	32.75	14.25
1 April 1960 - 16 Sept. 1960	76	76	3.06	56.6	57.97	32.75	13.40
17 Sept. 1960 - 9 Mar. 1961	80	80	3.22	59.6	60.47	34.25	13.90
10 Mar. 1961 - 31 Mar. 1961	85	82	3.40	60.4	60.47	36.10	15.90
1 April 1961 - 17 July 1961	83	81	3.40	60.4	60.47	36.10	15.90
18 July 1961 - 31 Mar. 1962						36.50	16.40
1 April 1962 - 31 Mar. 1963	75	75	3.11	57.2	57.97	34.60	14.40
1 April 1963 - 31 Mar. 1964	75	75	3.14	58.1	57.97	35.60	14.40
1 April 1964 - 31 Mar. 1965	75	75	3.15	58.0	57.97	35.60	14.40
1 April 1965 - 31 Mar. 1966	75	75	3.24	59.4	58.97	36.10	14.60
1 April 1966 - 29 June 1966	78	75	3.50	61.6	60.97	39.30	16.60
30 June 1966 - 31 Mar. 1967	89	83	4.00	68.0	66.47	43.75	19.60
1 April 1967 - 31 Mar. 1968	87	81	4.00	68.0	66.47	43.75	19.60
1 April 1968 - 31 Mar. 1969	89	77	4.28	66.0	66.44	47.00	23.10
1 April 1969 - 31 Mar. 1970	83	75	4.28	68.6	67.64	48.00	23.10
1 April 1970 - 31 Mar. 1971	85	75	4.66	71.5	69.85	52.00	27.20
1 April 1972 -	85	c	4.93	c	67.78	54.75	31.70

Source: U.S.D.A., Agricultural Statistics (various issues).

[a]Purchase prices at Chicago for butter: purchase prices at all points for cheese and nonfat dry milk.

[b]Average for year.

[c]The requirement to support butterfat has been suspended until March 1974 by the Agricultural Act of 1970.

surplus products outside normal trade channels. Section 709 of the Food and Agriculture Act of 1965 gave authority for butter and cheese to be also purchased as part of the school lunch programme. Other domestic programmes include a special milk programme to provide more milk for children in schools, child-care centres and similar institutions.

The introduction of a payment-in-kind export programme for skimmed milk powder in August 1962 provided an additional means of supporting prices by the removal of surplus dairy products from the domestic market. In November 1963 the scheme was extended to include butter and other products containing not less than 75 per cent of milk fat. Under the payment-in-kind programmes, producers were allowed to export their own product, receiving from the Commodity Credit Corporation negotiable certificates which might be used to acquire dairy produce, rice, wheat or feed grains from price support stocks. These programmes were discontinued in March 1966.

Another programme closely related to price support operations has been the Federal Milk Marketing Order Programme. It requires fluid milk distributors in most milk marketing areas to pay farmers not less than specified prices for milk. In 1968 this programme covered about 70 per cent of the milk eligible for fluid use in the United States.[1]

The net Government expenditures in the dairy price support and related programmes, other than the special milk programme, have averaged just under $300 million a year during the 21 fiscal years

[1]A.E.R. No. 165, op.cit., p. 1.

TABLE 3 - 7 DAIRY PRODUCTS REMOVED FROM THE COMMERCIAL MARKET BY PROGRAMMES OF THE U.S.D.A., MARKETING YEARS, 1949 - 71, INCLUSIVE

Year	Removals[a]				Solids Content of Removals			
	Butter[b]	Cheddar Cheese[c]	Non fat Dry Milk[d]	Milk Equivalent	Milkfat	Solids Nonfats	As a Percentage of Marketings: Milkfat	As a Percentage of Marketings: Solids Nonfat
	(Thousand Tons)							
1949[e]	51.0	11.4	145.3	1111	44.8	143.3	2.6	4.6
1950[f]	- 5.3[g]	33.7	135.0	230	7.5	140.0	0.4	3.6
1951/52	- 0.1[g]	0.4	23.1	3	0.3	22.3	h	0.7
1952/53	64.0	33.1	95.0	1623	62.8	101.9	3.7	3.1
1953/54	165.8	169.3	303.6	5042	190.1	344.8	10.6	8.9
1954/55	85.1	13.7	233.0	1855	74.5	228.6	4.1	6.3
1955/56	79.2	68.3	269.4	2284	87.6	280.1	4.7	7.5
1956/57	68.9	87.5	328.5	2272	85.9	342.9	4.5	9.9
1957/58	95.7	109.2	405.1	3052	115.0	423.2	6.0	10.7
1958/59	67.1	14.5	368.7	1578	61.3	358.8	3.2	9.0
1959/60	60.4	22.5	382.5	1513	58.5	374.6	3.1	9.3
1960/61	68.9	0.1	373.8	1475	58.1	359.3	3.0	8.6
1961/62	194.1	85.4	569.4	4990	187.7	574.2	9.5	13.3
1962/63	154.9	60.0	581.7	3921	148.0	578.0	7.5	13.2
1963/64	130.5	53.6	523.9	3353	126.0	521.8	6.4	11.9
1964/65	141.3	60.0	546.0	3643	136.9	545.1	6.9	12.2
1965/66	56.4	9.7	393.1	1307	51.3	381.7	2.6	8.7
1966/67	48.8	17.8	187.9	1215	46.3	186.8	2.5	4.4
1967/68	110.0	78.2	282.8	2828	115.8	297.2	6.2	7.0
1968/69	83.2	29.9	248.2[i]	2131[i]	80.3[i]	253.2	4.4	6.0
1969/70	81.3	13.7	207.6[i]	1979[i]	74.8[i]	167.1	4.3	3.9
1970/71	136.4	25.4	237.2[i]		122.1[i]	209.8	6.6	4.9

Source: U.S.D.A., Dairy Situation (various issues).

[a]Delivery basis after domestic unrestricted sales.

[b]Includes butter equivalent of anhydrous milkfat, PIK, and purchases under Section 709.

[c]Includes purchases under Section 709. [d]Includes PIK certificates issued. [e]Calendar year.

[f]Fifteen months January 1950 - March 1951. [g]Domestic sales exceeded purchases. [h]Less than 0.05 per cent.

[i]Includes 25,000 tons evaporated milk in 1968/69; 48,000 tons in 1969/70; 35,300 tons in 1970/71.

1949 - 50 to 1969 - 70. In addition Government expenditure on the special milk programme has increased from $22 million in 1954 - 55 to just over $100 million in recent years. In no year has New Zealand's dairy export earnings exceeded the average cost of price support operations to the United States government during the previous 21 fiscal years to 1970 (compare Table 3 - 8 with Table 3 - 14).

Only a negligible proportion of United States dairy exports are on a truly commercial basis. Most American dairy exports are made under the provisions of the Agricultural Trade Development and Assistance Act of 1954,[1] and subsequent amendments. Besides providing for the sale of agricultural commodities to 'friendly countries' for payment in the recipients' own currencies, the Act authorises the donation of Commodity Credit Corporation stocks for disaster relief and economic development purposes; the use of Commodity Credit Corporation stocks for foreign donations through American voluntary agencies and international organisations; the bartering of such commodities for strategic materials and other goods and services; and authorises the supply of commodities on credit, for repayment in dollars over an extended period.

United States dairy exports, as Table 3 - 9 shows, have been as high as 5.4 per cent of domestic production. Subsidised dairy exports and donations to foreign aid programmes have provided an important means of disposing American dairy surpluses. Table 3 - 10 details exports of individual dairy products by the United States since 1945.

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[1]Public Law 83 - 480.

TABLE 3 - 8 UNITED STATES NET GOVERNMENT EXPENDITURES ON DAIRY PRICE SUPPORT AND RELATED PROGRAMMES, FISCAL YEARS, 1950 - 1970, INCLUSIVE

Year Begining 1 July	Net Support Purchases[a]	Total Expenditure (Excluding Special Milk)[b]	Special Milk Programme[c]
		($US million)	
1949/50	170.5	188.1	-
1950/51	- 49.1[d]	- 50.0[d]	-
1951/52	1.6	9.1	-
1952/53	274.9	300.0	-
1953/54	400.4	474.4	-
1954/55	228.7	257.4	22.2
1955/56	237.9	284.2	48.2
1956/57	239.1	331.1	61.0
1957/58	205.9	360.0	66.7
1958/59	102.1	231.3	74.7
1959/60	159.5	218.2	81.2
1960/61	173.9	281.3	87.0
1961/62	539.0	612.0	91.7
1962/63	454.0	485.5	93.7
1963/64	311.7	379.1	97.1
1964/65	157.2	333.7	86.5
1965/66	26.1	68.6	97.0
1966/67	283.9	299.0	96.1
1967/68	357.1	357.1	103.1
1968/69	268.9	314.3	101.9
1969/70	169.0	283.9	102.9

Source: U.S.D.A., Dairy Situation, November 1970.

[a]CCC costs for price support acquisitions and for processing, packaging, transporting, and storing dairy products, less proceeds from sales.

[b]Total expenditure on dairy support and related programmes, including CCC reimbursements to U.S. military agencies and Veterans' hospitals; Section 32 expenditures to buy dairy products for school lunch and welfare uses; Section 709, Food and Agriculture Act of 1965 expenses; and payment-in-kind export programme expenses.

[c]Expenditure of CCC and Section 32 funds to increase milk consumption by children in schools, child-care centres, and similar institutions.

[d]Net receipt due to sales exceeding purchases.

TABLE 3 - 9 EXPORTS AS A PERCENTAGE OF TOTAL UNITED STATES PRODUCTION OF DAIRY PRODUCTS, 1958 - 1971, INCLUSIVE[a]

Year	Quantity	Percentage
	(million lb)	
1958	2,804	2.3
1959	1,154	0.9
1960	776	0.6
1961	655	0.5
1962	1,287	1.0
1963	5,036	4.0
1964	6,872	5.4
1965	1,836	1.5
1966	778	0.6
1967	363	0.3
1968	1,185	1.0
1969	921	0.8
1970	438	0.4
1971	2,480	2.1

Source: U.S.D.A., Dairy Situation (various issues).

[a]Milk equivalent, fat solids basis.
Note: Until 1958 the United States export returns listed only commercial shipments and exports by government agencies.

Despite the high level of price supports for American dairy products and the low level of dairy imports, dairy cattle numbers have declined every year since 1953. Between 1953 and 1964 total milk output, as indicated in Figure 3 - 1, remained fairly constant due to increasing yields per cow. However, since 1964, with the exception of slight rises in 1970 and 1971, the decline in cow numbers has not been offset by increases in total milk production.

The American dairy farmer, who makes up about 12 per cent of the rural population and supplies over 98 per cent of his country's dairy products, ranks as the highest farm income earner in 11 states

TABLE 3 - 10 UNITED STATES EXPORTS[a] OF DAIRY PRODUCTS, BY TYPE OF PRODUCT, 1945 - 1970, INCLUSIVE

Year	Butter	Cheese	Milk and Cream			
			Evaporated (unsweetened)	Condensed (sweetened)	Whole Dried	Nonfat dry Milk Solids
			(Thousand Tons)			
1945	8.0	90.1	254.2	50.0	29.2	80.4
1946	0.3	83.3	414.4	39.6	65.2	74.9
1947	4.9	79.2	209.7	48.3	40.8	66.1
1948	2.6	42.7	141.3	49.1	44.9	71.1
1949	1.9	43.8	111.4	35.0	36.3	95.4
1950	1.4	21.2	67.0	12.5	27.9	102.4
1951	3.2	35.6	90.8	12.9	26.6	54.7
1952	0.4	1.7	43.3	13.2	18.9	26.2
1953	0.2	2.6	59.5	8.0	20.6	43.8
1954	1.5	2.4	58.7	0.6	18.9	70.1
1955	10.0	10.2	69.1	3.6	20.5	103.9
1956	18.0	21.4	75.9	17.8	18.1	136.0
1957	2.5	12.9	73.4	16.9	18.0	113.2
1958	10.5	10.3	56.8	15.6	12.8	90.0
1959	9.6	6.3	37.0	17.0	11.5	124.6
1960	0.7	4.1	45.2	18.7	12.5	88.9
1961	0.3	3.9	40.7	21.1	7.8	112.7
1962	2.6	3.1	29.5	21.3	6.0	137.0
1963	25.6	4.1	27.7	26.8	13.3	238.8
1964	58.2	3.7	16.6	28.1	5.5	374.4
1965	20.3	3.0	11.0	29.4	8.8	195.9
1966	1.1	2.7	17.1	42.1	7.4	76.0
1967	0.1	2.8	15.1	13.0	5.7	62.9
1968	0.7	2.9	14.6	19.0	8.3	67.2
1969	0.2	2.5	16.6	23.3	7.0	49.8
1970	0.1	3.0	14.9	7.3	6.2	94.8

Source: U.S.D.A., Agricultural Statistics (various issues).

[a]Excludes exports for relief and charity.

FIGURE 3 - 1 UNITED STATES MILK PRODUCTION, 1930 - 1971

Source: U.S.D.A., Agricultural Statistics (various issues).

and is a very important income earner in a number of other states.[1] He has never passively accepted any increase in the level of dairy imports into the United States. The National Milk Producers Federation, which represents 116 dairy co-operatives and federations, and some 500,000 individual dairy farmers in all the main dairying areas,[2] has been a constant advocate of greater controls on agricultural imports. P.B. Healey, Assistant Secretary of the National Milk Producers Federation in testimony to the National Advisory Commission on Food and Fiber, claimed that 'it is absolutely necessary ... to effectively control imports of dairy products'.[3] He went on to say that with the exception of greater control on imports:

> ... [American] dairy farmers have a sound program in legislation and one which they are reluctant to leave because nothing which has ever been presented fits the particular requirements of our industry so well as that which we now have.[4]

<u>United States Dairy Product Import Restrictions</u>

United States imports, as Table 3 - 11 indicates, have never been equivalent to more than 2.4 per cent of the domestic production of dairy products. Market prices for such commodities have generally been much higher than those prevailing in normal international trade

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[1] American Farm Bureau calculation on 1970 farm income figures, <u>Press</u>, 6 January 1972.

[2] <u>Congress and Nation</u>, I, p. 680.

[3] <u>Public Hearings of the National Advisory Commission on Food and Fiber</u> (Washington, D.C., U.S. Government Printing Office, 1967), p. 416. The chairman of the special commission was Sherwood O. Berg and is cited hereafter as Berg, Public Hearings.

[4] <u>Ibid.</u>, p. 417.

TABLE 3 - 11 IMPORTS AS A PERCENTAGE OF TOTAL UNITED STATES PRODUCTION OF DAIRY PRODUCTS, 1950 - 1971, INCLUSIVE[a]

Year	Quantity	Percentage
	(million lb)	
1950	459	0.4
1951	525	0.5
1952	709	0.6
1953	525	0.4
1954	441	0.4
1955	458	0.4
1956	514	0.4
1957	661	0.4
1958	507	0.4
1959	578	0.5
1960	604	0.5
1961	760	0.6
1962	795	0.6
1963	915	0.7
1964	830	0.7
1965	923	0.7
1966	2,791	2.3
1967	2,908	2.4
1968	1,780	1.5
1969	1,621	1.4
1970	1,874	1.6
1971	1,342	1.1

Source: U.S.D.A., Dairy Situation (various issues).

[a]Milk equivalent, fat solids basis.

channels and therefore have appeared to offer attractive opportunities to dairy exporting countries. However, the development of large surpluses under the price support programmes and the accompanying growth of controls on imports of most dairy products has meant that opportunities for most dairy exporters have been very limited.

Prior to the Second World War dairy imports into the United

States had been restricted only by tariffs and health regulations. However, under the Second War Powers Act of 1942 and War Food Order 63, quotas were established on butter, dried milk, condensed and evaporated milk, and cheese. Except for butter, and later butter oil, these restrictions were removed in 1947.

The import control authority under the Second War Powers Act was due to expire at the end of July 1951, but an amendment attached to the Defence Production Act of 1950; the so-called 'cheese amendment', continued the controls on butter and butter oil. This amendment also imposed controls on cheese and other dairy products, along with fats and oils, rice and peanuts.[1] These restrictions were solemnly declared to be 'necessary for the protection of the essential security interests of the United States'.

Section 104, or the cheese amendment, of the Defence Production Act authorised the imposition of import controls on dairy products, along with the above mentioned commodities, where imports would:

1. impair or reduce the domestic production of any such commodity or product below present production levels, or below such higher levels as the Secretary of Agriculture may deem necessary in view of domestic and international conditions; or
2. interfere with the orderly domestic storing and marketing of any such commodity or product; or
3. result in any unnecessary burden or expenditure under any Government price-support programme.

Despite opposition from the Administration to the amendment, President Truman signed the bill as the importance of other

[1]In extending import controls on fats and oils under the Second War Powers Act of 1950, Congress rejected moves to add cheese. However, in 1951, in extending and revising the Defence Production Act of 1950, both the Senate and the House voted to extend imports on fats and oils, without Presidential request, and to add peanuts and dairy products to the list. Identical amendments proposed by Sen. Magnuson of Washington and Congressman Anderson of Minnesota, were passed by both Houses. Congress and Nation, I, pp. 196 - 197.

provisions of the bill prevented a veto. As a result of the amendment an embargo was placed on imports of butter, butter oil and dried milk powder, while quota restrictions were imposed on Cheddar cheese.

The New York Times in a leading article, described the amendment as 'arbitrary and cynical' and should be repealed. It further described the measure as an 'example of congressional subservience to pressure groups under the cover of the irrelevant mantle of national defence'.[1]

Despite formal protests by 9 GATT members, including New Zealand, and the use of retaliatory action by the Netherlands with GATT approval, the Defence Production Act, with the inclusion of Section 104, was extended in June 1952. The only modification was a 15 per cent increase in the cheese quota.

The controversial Section 104 was allowed to lapse at the end of June 1953, but only after the Administration had submitted to strong Congressional pressures for the continuation of restrictions. A Tariff Commission investigation had been ordered by the President to determine whether the dairy products under Section 104 controls, upon expiration, would be imported in such quantities as to interfere with the domestic price support programme. Although the House Banking and Currency Committee had voted to extend Section 104 for another year, the House, following a Presidential proclamation fixing maximum imports of dairy products under Section 22 of the

[1] Quoted in Press, 17 September 1951.

Agricultural Adjustment Act, agreed to drop the provision on 9 June 1953.[1]

Since 1 July 1953 all American dairy quantitative import controls have been fixed under the authority of Section 22 of the Agricultural Adjustment Act. Initially annual quotas were placed on butter, most of the principal varieties of cheese, including Cheddar, Italian types made from cow's milk, natural Edam and Gouda, and blue-mould, together with dried milk products.

Various amendments have been made in subsequent years, including the enlargement of quotas on Italian cheese, Edam and Gouda in 1960 and blue-mould in 1962, and the introduction of a butter-oil quota in 1957. Following the embargo on butterfat sugar mixtures containing over 25 per cent sugar in July 1966, butterfat sugar mixtures, Colby cheese and frozen cream were brought within the quota system from 1 July 1967. In June 1968 emergency action was undertaken to limit the entry of condensed and evaporated milk and cream, while in September of that year temporary restrictions were imposed on certain cheeses hitherto not subject to limitations. These temporary restrictions were made permanent in January 1969 when new quotas were announced for processed Italian-type cheese and chocolate crumb. In January 1971 quotas were extended further to include ice cream, lowfat chocolate crumb, animal feeds containing milk solids and lowfat cheese.

Casein, lactose, Swiss-type cheeses (Emmenthaler and Gruyere-process cheese) and a category of 'other cheeses' costing US 62 cents or

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[1] Congress and Nation, I, p. 198.

TABLE 3 - 12 ANNUAL UNITED STATES IMPORT QUOTAS ON DAIRY PRODUCTS[a]

Product	Quota	Product	Quota
	(Tons)		(Tons)
Butter	316	Cheese:	
Butteroil	536	American types - cheddar	4,481
Butterfat mixtures	1,152	- other	2,722
Ice cream	1,508	- total	7,203
Frozen cream	5,598	Italian - processed	5,134
Dried cream	[b]	- unprocessed	667
Wholemilk powder	3	Edam and Gouda - natural	4,107
Skim milk powder	807	- processed	1,407
Buttermilk powder	221	Blue mould	2,239
Malted milk	3	Swiss - Emmenthaler - 47c	1,907
Canned milk - evaporated	586	- Gruyere (processed) - 47c	1,468
- condensed	1,821	Other - 47c	11,160
Chocolate crumb - regular	7,589	Lowfat	3,974
- lowfat	2,089	Total cheese	39,265
Animal feed with milk solids	7,277		

Source: U.S.D.A., Dairy Situation, March 1972.

[a]As at 1 January 1972.

[b]Less than 0.5 tons.

TABLE 3 - 13 UNITED STATES DAIRY IMPORTS, BY TYPE OF PRODUCTS, 1950 - 1970, INCLUSIVE

Year	Dried Milk[a]	Cheese				Butter	Casein
		Swiss[b]	Cheddar	Other	Total		
		(Thousand Tons)					
1950	1.4	3.7	5.9	15.4	25.1	c	24.6
1951	4.5	4.2	5.4	13.7	23.4	c	19.4
1952	16.8	4.6	2.9	14.4	22.0	0.2	25.4
1953	2.8	5.3	3.5	16.3	25.1	0.1	33.1
1954	0.3	5.1	1.3	15.9	22.3	0.4	26.7
1955	0.8	5.5	1.2	16.6	23.2	0.3	33.3
1956	0.8	5.4	1.2	17.3	24.0	0.3	31.6
1957	0.8	5.7	1.0	16.0	22.7	0.3	33.3
1958	0.9	5.8	1.3	17.7	24.9	0.4	40.7
1959	0.9	7.1	1.0	20.4	28.5	0.3	42.2
1960	0.6	6.6	1.5	20.2	28.2	0.5	41.1
1961	1.0	7.1	0.7	26.0	33.8	0.4	45.5
1962	0.6	7.7	1.1	25.8	34.6	0.4	42.7
1963	0.9	7.4	1.4	28.3	37.1	0.3	38.2
1964	0.7	7.4	1.1	26.2	34.8	0.3	45.4
1965	0.6	7.0	0.8	27.6	35.4	0.3	38.8
1966	1.3	10.7	1.9	47.9	60.5	0.3	46.6
1967	0.4	10.8	2.2	54.7	67.8	0.3	43.1
1968	0.8	26.3	4.4	45.3	76.0	0.3	50.2
1969	0.9	14.6	4.3	45.4	64.3	0.3	49.1
1970	0.8	18.0	4.5	49.5	72.0	0.3	56.0

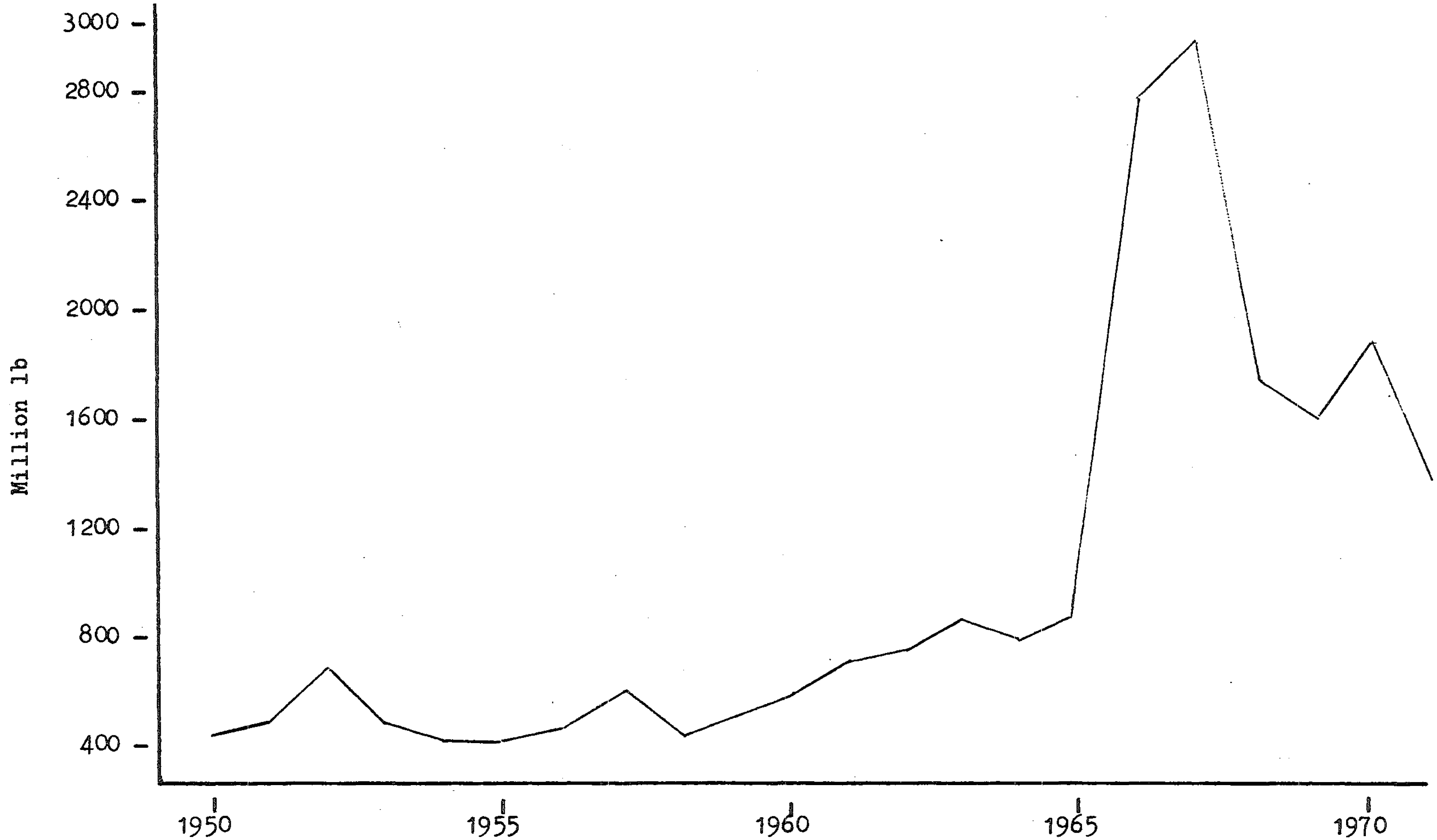
Source: U.S.D.A., Agricultural Statistics (various issues).

[a]Includes cream and whole and skimmed milk.

[b]Includes Emmenthaler with eye-formation and Gruyere process cheese.

[c]Less than 50 tons.

FIGURE 3 - 2 MILK EQUIVALENT OF UNITED STATES DAIRY PRODUCT IMPORTS, 1950 - 1971



Source: U.S.D.A., <u>Dairy Situation</u> (various issues).

more per lb f.o.b. in the country of origin are the only dairy products still outside the import quota system.[1] Until June 1972 the 'pricebreak' for non-quota cheeses was 47 cents f.o.b.[2] These non-quota cheeses, even to the American consumer, are relatively expensive specialty cheeses when freight, insurance, duty and distribution costs are added to the above figure.

In 1966 American dairy imports, for the first time since the imposition of quantitative restrictions, exceeded 1 per cent of the domestic production. The following year they rose to a record 2,908 million lb milk equivalent fat solids basis, or 2.4 per cent of the total United States dairy production. However, the placing of further products under import controls between July 1967 and January 1971 has reduced imports, as Figure 3 - 2 shows, to less than half the 1967 level, on a milk equivalent basis.

The quotas applicable to some individual dairy products are infinitesimal compared with domestic output; especially those on butter and dried milk products. Some of the exotic cheeses, such as blue-mould and Italian-type cheeses, have been given more favourable allocations. In 1966 quotas on these two cheeses were equivalent to approximately 22 and 14 per cent, respectively, of the domestic output while quotas on Edam and Gouda cheeses were larger than the current domestic output.[3] But it should be noted that these cheeses

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[1]Casein and lactose are classified under United States tariff schedules as chemical products, even though they are byproducts of milk.

[2]Under the terms of the Presidential Proclamation issued on 3 June, in future the pricebreak is to be a flexible figure set approximately 7 cents above the Commodity Credit Corporation price for cheese. Since the current price is 54.75 cents per lb, the new pricebreak will initially be 62 cents per lb.

[3]U.S. Tariff Commission, Quantitative Import Restrictions of the United States, T.C. Publication 243 (Washington, D.C., April 1968), p. 23.

account for only a very small proportion of total United States dairy consumption[1] and the more important items, such as Cheddar cheese, which present a greater 'threat' to domestic producers are severely restricted.

United States tariffs on dairy products have not been of major concern to exporters, such as New Zealand.[2] Rather, the main problem has been one of obtaining access to the American market. The general level of efficiency of the American dairy industry is well below that of most other sections of American agriculture. Its 400,000 active dairy farmers, according to the President of the United States Milk Producers Federation,[3] milk an average herd of about 35 cows[4] compared with his New Zealand counterpart's 98 cows.[5] As Professor D. Gale Johnson, of the University of Chicago, has commented:

> If the United States is to gain the potential advantages from international specialization it is highly probable that domestic milk production should be only somewhat larger than the amount that is required for fluid milk and cream consumption and

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[1]Blue-mould cheese has accounted for about 1 per cent of the total cheese consumption of the United States in recent years while Edam and Gouda cheeses consumption is even smaller. U.S. Tariff Commission, Summaries of Trade and Tariff Information Prepared in Terms of the Tariff Schedules of the United States, Schedule 1: Animal and Vegetable Products. Volume 4: Dairy Products and Bird's Eggs. T.C. Publication 240 (Washington, D.C., 1968), pp. 63, 91. Hereafter cited as U.S. T.C. Publication 240.

[2]See Appendix II for details on the levels of tariffs on individual dairy products.

[3]Press, 7 October 1970.

[4]Figure calculated on the number of American dairy farmers, as quoted by G. Lake, President of the United States National Milk Producers Federation and the 1969 American dairy cow numbers of 14.2 million.

[5]Ninth Annual Report of the New Zealand Dairy Board, 1970, p. 21.

> that required for certain specialized manufactured dairy products.[1]

A reduction of this amount could be 40,000 million lb or more annually,[2] which would be greater than the total quantity of milk used in manufacturing in New Zealand, Denmark and Australia combined.

New Zealand and United States Dairy Policy

The growth and extent of New Zealand dairy sales to the United States since 1953 has been made possible by the ingenuity of the New Zealand dairy industry to develop and adapt a number of products so that the severe import restrictions could legally be circumvented. Under the Section 22 quota restrictions imposed on dairy imports in 1953 New Zealand was allocated an annual quota of 148 tons of butter, 982 tons of Cheddar cheese, 31 tons of dried buttermilk powder and 1 ton of dried whole milk powder. Since that time dairy researchers in New Zealand have developed and shipped Exylone, Colby cheese, frozen cream, Meletone, 'ice cream', animal milk replacers, Monterey cheese and Cheshire cheese to the United States. Everyone of these products has been severely limited by United States administrative action. Nonetheless, in recent years the United States has become one of New Zealand's largest dairy markets. In the 5 years between 1967 and 1971 it imported, by average value, nearly 8.5 per cent of

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[1]D. Gale Johnson, 'Agricultural Trade and Foreign Economic Policy', in National Advisory Commission on Food and Fiber, 'Foreign Trade and Agricultural Policy', Technical Papers, Vol. VI (Washington, D.C., U.S. Government Printing Office, 1967), p. 18.

[2]In 1971 approximately 62,000 million lb of milk equivalent went into the manufacturing of dairy products in the United States. U.S.D.A., Dairy Situation, March 1972, p. 11.

New Zealand's dairy exports, being the second largest market after the United Kingdom (Table 3 - 14).

Despite the substantial growth in New Zealand's dairy sales to the United States in recent years, American dairy policy has been a source of strain in the trading relationship between the two countries. Difficulties in diversifying dairy sales away from the United Kingdom; the dumping of surplus dairy products by the EEC countries and, to a certain extent the United States, on potential markets as well as on the British market; the announced intention of British entry into the EEC during the 1960s in circumstances in which the extent of protection attainable for vital New Zealand trading interests remained very much an unknown factor; have all contributed to New Zealand's anxiety at American policy.

Prior to the Second World War small quantities of butter had been shipped by New Zealand to the United States and this trade continued in the immediate postwar years. However, because of the bulk-purchase contracts with the United Kingdom and the serious shortage of dairy products in that country, it was the policy of the New Zealand government to make available maximum supplies to that country. In the words of the New Zealand Prime Minister, P. Fraser:

> Under the terms of the existing contract, all dairy produce and meat surplus to New Zealand's domestic requirements were, with some minor exceptions, sold to the British Government, and supplies might be diverted to other purposes only with the agreement of that Government.[1]

But even with the small quantity of butter that was available for export to the United States great difficulty was encountered in

[1] Press, 28 June 1946.

TABLE 3 - 14 DESTINATION OF NEW ZEALAND DAIRY PRODUCT EXPORTS, 1953 - 1971, INCLUSIVE

Year	United Kingdom	United States	U.K. Percentage of Total	U.S. Percentage of Total	Total to all Destinations
	($NZ million)				
1953	136.1	4.1	85.0	2.6	160.1
1954	83.8	1.6	80.5	1.5	104.1[a]
1955	123.7	1.5	87.4	1.1	141.6
1956	127.2	1.9	83.6	1.2	152.1
1957	112.0	5.3	85.9	4.1	130.4
1958	123.6	3.9	88.8	2.8	139.2
1959	161.7	4.6	86.2	2.5	187.5
1960	134.4	5.0	83.0	3.3	149.8
1961	120.9	6.5	84.1	4.5	143.8
1962	131.3	5.1	84.8	3.3	154.8
1963	147.7	6.1	84.7	3.5	174.4
1964	156.3	9.1	81.0	4.7	192.9
1965	150.3	8.9	75.6	4.4	198.8
1966	144.3	13.8	67.1	6.4	215.0
1967	146.7	23.1	66.0	10.4	222.2
1968	150.7	19.2	69.2	8.8	217.7
1969	160.9	18.6	69.9	8.1	230.1
1970	151.7	21.9	62.6	9.0	242.5
1971	189.5	19.0	65.6	6.6	288.9

Source: Reserve Bank of New Zealand, Bulletin (various issues).

[a]The reduction was caused mainly by a change from sales to the United Kingdom on an f.o.b. basis to ex-store marketing.

TABLE 3 - 15 NEW ZEALAND EXPORTS OF DAIRY PRODUCTS TO THE UNITED STATES, BY TYPE, 1946 - 1971, INCLUSIVE

Year	Butter[a]	Butteroil	Exylone-Meletone	Cheddar Cheese	Colby Cheese	Processed Cheese	Skim Milk Powder	Whole Milk Powder	Butter Milk Powder	Frozen Cream
	(Tons)									(Imperial gal.)
1946	2,819	-	-	-	-	-	-	-	-	-
1947	1,645	-	-	-	-	-	-	-	-	-
1948	187	-	-	-	-	-	-	-	-	-
1949	91	-	-	-	-	b	-	-	1	-
1950	b	-	-	6,234	-	2	-	-	-	-
1951	b	-	-	5,200	-	4	-	209	888	-
1952	b	-	-	1,492	-	-	-	3,854	2,882	-
1953	90	-	-	2,886	-	-	-	939	125	-
1954	231	-	-	1,198	-	-	-	2	190	-
1955	147	-	-	867	-	-	-	3	24	-
1956	183	609	4	815	-	a	-	3	48	-
1957	163	846	3,993	648	-	3	199	3	61	-
1958	178	414	-	1,619		-	778	3	216	-
1959	211	551	-	1,927		-	512	3	202	-
1960	205	536	-	3,153		-	487	3	205	-
1961	149	340	-	6,487		a	435	3	19	-
Jan-June 1962	62	195	-	3,703		-	-	-	100	-
1962/63	207	481	-	932	3,021	1	-	3	48	368,036
1963/64	174	299	-	941	3,000	-	-	3	98	879,632
1964/65	186	202	-	949	3,009	a	-	3	48	933,060
1965/66	194	357	-	1,204	6,871	a	-	3	48	1,170,940
1966/67	186	144	9,627	877	14,561	1	-	3	68	1,280,440
1967/68	167	357	-	2,055	812	1	-	2	32	1,102,645
1968/69[c]	193	1,070	-	2,111	1,649	3	-	3	91	1,125,390
1969/70[c]	189	593	-	2,454	1,016	4	-	4	99	1,167,030
1970/71	159	675	-			-	-	3	-	1,099,060

Sources: Department of Statistics, Export Statistics; and Annual Reports of the New Zealand Dairy Board. (On ocassions the Department of Statistics has wrongly classified earnings of some products. However, this has been rectified in the above table by taking into account Dairy Board classifications.)

[a]Figures for butter include ship's stores, usually about 40 tons a year.

[b]Less than 0.5 tons.

[c]In the years 1968/69 and 1969/70 New Zealand exported 1,556 and 3,408 tons of cheese, respectively, in the category of 'other kinds of cheese', presumably Monterey.

TABLE 3 - 16 VALUE OF INDIVIDUAL DAIRY PRODUCTS EXPORTED TO THE UNITED STATES BY NEW ZEALAND, 1946 - 1971, INCLUSIVE (f.o.b.)

Year	Butter	Butteroil	Exylone-Meletone	Cheddar Cheese	Colby Cheese	Processed Cheese	Skim Milk Powder	Butter Milk Powder	Whole Milk Powder	Frozen Cream
				($NZ 000)						
1946	1,217	-	-	-	-	-	-	-	-	-
1947	716	-	-	-	-	-	-	-	-	-
1948	58	-	-	-	-	-	-	-	-	-
1949	71	-	-	-	-	a	-	a	-	-
1950	a	-	-	1,963	-	1	-	-	-	-
1951	a	-	-	1,696	-	2	-	102	74	-
1952	a	a	-	783	-	-	-	370	1,424	-
1953	70	-	-	1,348	-	-	-	16	338	-
1954	198	-	-	477	-	-	-	22	1	-
1955	99	-	-	349	-	-	-	3	1	-
1956	31	508	-	338	-	a	-	6	1	-
1957	100	748	2,744	272	-	1	22	9	1	-
1958	136	319	-	578		-	88	29	1	-
1959	171	478	-	712		-	65	25	1	-
1960	162	491	-	1,218		-	69	31	1	-
1961	114	302	-	2,547		a	55	3	1	-
Jan-June 1962	50	171	-	1,465		-	-	14	-	-
1962/63	116	420	-	393	1,147	1	-	6	1	805
1963/64	114	228	-	409	1,140	-	-	10	1	1,361
1964/65	150	193	-	422	1,226	a	-	8	1	1,584
1965/66	161	241	-	581	2,814	a	-	9	1	1,975
1966/67	141	133	3,864	488	6,732	1	-	13	1	2,287
1967/68	178	329	-	1,205	424	a	-	7	1	2,444
1968/69[b]	174	420	-	1,646	1,060	a	-	24	2	2,477
1969/70[b]	156	232	-	1,835	694	a	-	27	2	2,859
1970/71			-				-			2,668

Sources: Department of Statistics, Export Statistics; and Annual Reports of the New Zealand Dairy Board. (On ocassions the Department of Statistics has wrongly classified earnings of some products. However, this has been rectified in the above table by taking into account Dairy Board classifications.)

[a]Less than $500.

[b]Earnings for 'other kinds of cheese', presumably Monterey cheese were $1,051,243 in 1968/69 and $2,384,602 in 1969/70.

obtaining licences from the American authorities. Practically no butter exports were made to the United States between 1949 and 1953.

Towards the end of the 1940s the New Zealand Dairy Products Marketing Commission appears to have decided to extend its trade to the United States. Apart from butter, no other dairy products of interest to New Zealand were subject to quantitative restrictions in the United States. The first exports of Cheddar cheese were made in 1950, followed by large sales of dried milk powder in the next two years. As the Chairman of the Dairy Products Marketing Commission, W. Marshall, commented:

> Subject to things that we cannot foresee, such as political opposition or anything of that kind, we would expect that we shall continue to develop an outlet for reasonable quantities, though not necessarily large quantities.[1]

The adoption of Section 104 controls by Congress in August 1951 dealt a serious blow to New Zealand's efforts to develop a trade in dairy products with the United States. Although the embargo on butter and nonfat dry milk solids merely confirmed the existing arrangements, the restrictions of Cheddar cheese imports to a quota based on a percentage of average annual imports during the years 1948 to 1950 was a setback. New Zealand had not shipped Cheddar to the United States until 1950 and as a result of the new regulations exports fell from over 6,000 tons in 1950 to under 1,500 tons in 1952.

The extension of the provision of Section 104 to embargo wholemilk and buttermilk powders and dried cream in April 1953,

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[1] Press, 30 October 1950.

following pressure from domestic producers to review the import control programme, was another setback. Despite a 15 per cent relaxation in the Cheddar quota New Zealand was in no way consoled. A number of protests were made to the United States government, as well as at the sessions of GATT. New Zealand's delegate to the Seventh Session of GATT claimed New Zealand had lost potential dollar earnings in the order of $14 million yearly as a result of the restrictions imposed under Section 104.[1] In a note to the United States government in March 1953, protesting at the imposition of controls on wholemilk and buttermilk powders, it was stated:

> With these milk products the effect has been particularly severe because New Zealand export agencies, in their effort to maintain some share in the United States market and to reduce the adverse effects of United States import restrictions against cheese and other products, have encouraged a section of the dairy industry to manufacture limited quantities of dried milk products especially for the United States market. This production is not of a type which can be readily and economically disposed of elsewhere. New Zealand is now under a serious disability in its remaining trade in dairy products with the United States because while it is necessary to plan production well ahead of sales, conditions exist under which import restrictions might be tightened without notice.[2]

With the lapsing of Section 104 and the imposition of quotas under Section 22 of the Agricultural Adjustment Act, New Zealand's dairy exports to the United States were even further curtailed. While butter was readmitted and the proportion of the quotas for Cheddar and dried wholemilk and buttermilk were fair in view of its trade history to the United States in these commodities, the global

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[1] External Affairs Review, Vol. II, No. 13, December 1952, p. 33.

[2] External Affairs Review, Vol. III, No. 3, March 1953, pp. 6 - 7.

quotas were well below the level of recent imports. New Zealand's Cheddar quota, for example, was reduced from 3,500 tons to 982 tons while the quota for dried milk at 32 tons was less than 0.5 per cent of New Zealand's exports of dried milk to the United States in 1952.[1]

These restrictions underlined New Zealand's dependence on the British market, and highlighted some of the likely frustrations New Zealand would encounter in its efforts to diversify its dairy exports away from that market. But import restrictions were not the only obstacle New Zealand was to encounter as a result of American dairy policy. In 1954 New Zealand's attention quickly shifted from one of concern with restrictions imposed on dairy imports, to the disposal of American dairy surpluses on world markets.

Protests Against United States Dumping

Although the provisions of various Agricultural Acts affecting the disposal of price support commodities made it impossible for surplus dairy products to be sold for consumption in the United States at prices below the support levels plus storage and other expenses, except under special programmes, it did not prevent them from embarking on a programme in the mid-1950s to dispose large accumulated stocks on the world market.

New Zealand's bulk-purchase arrangements with the United Kingdom had terminated and the Dairy Products Marketing Commission had begun developing small markets in various areas of the world. Selling surpluses abroad at prices lower than those in the United States

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[1] A.J.H.R., 1953, Vol. IV, H - 44, p. 31.

meant undercutting prices and taking away some of New Zealand's newly found customers.

One of the first markets to be affected was that of Panama. In a Note to the Administration in September 1954 New Zealand protested that sales of American surplus butter to Panama had forced down the prices and edged out New Zealand sales in that market.[1] Although sales to Panama, about 800 tons a year, were small in relation to total exports, it had been a valuable outlet for New Zealand dairy produce.

Problems in the Panamanian market were on the beginning. The United States continued to dispose surplus dairy products on potential dairy markets during 1955 and 1956, despite a stream of protests lodged in Washington and at the GATT sessions. The direction of surplus dairy products away from areas where they would not affect the main butter markets was repeatedly urged by the New Zealand government. It suggested that greater use be made of the facilities offered by the FAO Consultative Sub-Committee on Surplus Disposal so as to ensure that New Zealand's interests were not harmed.[2] The United States, for its part, tried to persuade New Zealand of its desire to dispose of the surpluses with the least possible injury to food-producing nations,[3] but surplus disposal resulted in the loss for New Zealand of some butter sales to Europe, aggravated the normal seasonal fall in New Zealand butter prices in Britain, and

[1] Press, 10 September 1954.
[2] A.J.H.R., 1956, Vol. IV, H - 29, p. 15.
[3] Press, 11 September 1954.

impeded the expansion of New Zealand dairy exports to markets such as Japan.[1]

Although the bulk of American dairy exports went in foreign-aid programmes, the United States in 1955 was the third largest exporter of butter in the world, in contrast with the position before the Second World War, when it was a net importer of butter.[2] The Americans during that year offered surplus butter on the world market on a 'bid basis'. The Chairman of the New Zealand Dairy Products Marketing Commission, W. Marshall, described this action as 'unadulterated dumping'.[3]

The difficulties American surplus disposals presented to New Zealand are perhaps best summed up in a statement by W. Marshall in March 1956:

> ... the consequences for New Zealand of dumping ... had been to restrict the Dominion's ability to sell in markets outside Britain and to reduce realisations from sales both in Britain and in other markets.
> ... under normal conditions, the international butter trade tends to form a large, integrated market, because of the overwhelming importance of the United Kingdom as the largest importer of butter. Because it is the only free market of any consequence ... the United Kingdom tends to be the recipient of all butter from New Zealand, Denmark, Australia, and other regular exporting countries that cannot be sold elsewhere. ... substantial quantities of Danish butter, which would otherwise have been sold to East and West Germany, Finland, and other European countries, have, because of dumping in those countries by America, been forced to the United Kingdom. We ourselves have lost sales to France, Czechoslavakia, Portugal, and other countries, and our butter which would have gone to those markets has gone instead to the United Kingdom. The result has been a heavy concentration of butter from all exporting countries on the United Kingdom

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[1] A.J.H.R., 1955, Vol. III, H - 44, p. 38.

[2] Ninth Annual Report of the New Zealand Dairy Products Marketing Commission, 1956, p. 6.

[3] Press, 15 January 1955.

market, and this has undoubtedly been an important factor in the fall of butter prices, our own ex store London prices declining in less than three months from 403 s[hillings] to 340 s[hillings] per cwt.[1]

The Fate of Products Developed by New Zealand to Circumvent Import Regulations

(a) Butter-Oil and Exylone

With prices falling in the United Kingdom and difficulties being encountered in diversifying markets elsewhere, the New Zealand Dairy Products Marketing Commission naturally started looking at the possibilities of circumventing American import restrictions. In 1956 the Commission discovered that licences were being issued for the importation of butter-oil (dry butterfat) into the United States. The Commission had been exporting this commodity to a number of markets, notably Fiji and Pakistan, since the end of the Second World War, but the latter market had been lost in 1952 when the United States began large-scale exports of butter to Pakistan under foreign-aid programmes.[2]

Trial shipments to America began in June 1956 but soon drew the inevitable chorus of protests from American dairy interests which led to a Section 22 hearing in January 1957. New Zealand's interests were represented at the Tariff Commission hearings and an Aide-memoire on the subject was presented to the State Department. Nonetheless, a quota of 1.8 million lb (804 tons), the approximate level of 1956 imports, was imposed for 1957. This quota was to be reduced to 536 tons after 1957. It included butter-oil and all butter

[1]Press, 26 March 1956. See also A.J.H.R., 1956, Vol. IV, H - 29, pp. 14 - 15.

[2]Press, 13 December 1956.

substitutes containing 45 per cent or more butterfat. Despite protests by New Zealand officials, no apportionment of the quota on a country basis was made. New Zealand in 1956 had supplied about 80 per cent of the imports.

At about the same time as the discovery of the issuing of licences for butter-oil imports the Dairy Products Marketing Commission, in response to requests from American ice cream manufacturers, developed a new mixture, first known as Azolene and then as Exylone. This mixture was composed of 75 per cent or more butterfat, together with sugar, water and vanilla. The extra ingredients removed Exylone from the class of butter substitutes and it therefore did not come under the quotas for butter-oil. Trial shipments in late 1956 confirmed this and were followed by three shipments amounting to just over 4,000 tons in early 1957. It was not long before American dairy interests, led by three Wisconsin Congressmen, protested to the White House and the U.S.D.A., urging steps be taken to block further imports of the commodity.[1] The matter was referred to the Tariff Commission to investigate and after hearings in June 1957 the Commission, in a 3 - 2 majority decision, held that the New Zealand product was disrupting the domestic price support programme on wholemilk and butterfat.[2] Again, despite submissions by New Zealand representatives to the Tariff Commission and discussions with

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[1]Press, 20 May 1957.

[2]U.S. Tariff Commission. Report to the President on Investigation No. 22 - 16 under Section 22 of the Agricultural Adjustment Act, as Amended (July 1957).

the State Department and the Department of Agriculture, they met with no success. A total embargo was placed on all imports containing more than 45 per cent butterfat, apart from cheese and products already subject to quotas. Thus ended sales of Exylone to the United States, a trade that had been worth more than $NZ 2.7 million to New Zealand and had provided a valuable outlet for New Zealand butterfat.[1]

(b) Colby Cheese

In 1958 the Dairy Products Marketing Commission, after a ruling by the United States Bureau of Customs declaring Colby cheese was not classifiable in the tariff provisions for Cheddar cheese, and therefore was not subject to the quantitative restrictions imposed on Cheddar under Section 22, decided to manufacture Colby cheese for export to the United States.[2] During that year New Zealand sent 241 tons of Colby. Shipments rapidly increased to 6,500 tons in 1961 when a Tariff Commission hearing, called to examine the possibility of liberalising Cheddar quotas, produced a negative recommendation. American authorities soon began to urge New Zealand to voluntarily limit its Colby exports in order to avoid a Section 22 hearing.

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[1] A.J.H.R., 1958, Vol. IV, H - 44, p. 40.

[2] In the production of Colby cheese the curd is not 'matted' and 'milled' as is the curd of Cheddar, and the texture of Cheddar is generally more compact than that of Colby. The United States Bureau of Customs standards of identity allow Colby to contain not more than 40 per cent moisture, which is 1 per cent higher than the maximum for Cheddar cheese. U.S.T.C. Publication 240, op.cit., p. 77.

In January 1962 New Zealand was told that unless Colby exports were restricted to 3,000 tons for that year, Section 22 action would be taken. It was with considerable reluctance that New Zealand eventually agreed to such an arrangement and exports for the year ended June 1963 did not exceed 3,000 tons. Evidence of this reluctance is borne out in a statement by P.B. Marshall, General Manager of Marketing for the Dairy Board:

> As the most efficient and most ill-treated dairy industry in the world trade, I think we have been too patient and too understanding for too long about the United States' administration's political problems with their farm pressure groups.

He went on to say that the United States gave a very strong impression of being opposed to trade restrictions, so long as they were other people's restrictions. It wanted to maintain free trade for its exports while continuing embargoes, quotas and prohibitions, against countries trying to sell to the United States.

> For many months we have been waiting for a Presidential decision as to whether the United States quota on cheddar cheese - of which New Zealand has the major share - will be relaxed. The ... Tariff Commission's recommendation [September 1961] to hold that quota at its present absurd level of little more than 1,000 tons a year still lies on the President's table, while we wonder whether the Administration will seize upon it as an opportunity to reverse it, and thus show some practical evidence of its desire to free trade for our benefit.[1]

Other countries, notably Australia, stepped up their exports of Colby to the United States. This led to the U.S.D.A. recommending a Tariff Commission investigation into not only Colby imports, but all dairy imports containing less than 45 per cent butterfat. To

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[1] Press, 11 May 1962.

avoid such an investigation, it proved necessary for New Zealand to extend its 'voluntary' restraint on Colby exports in conjunction with the two other major suppliers, Australia and Ireland. Under this tripartite arrangement maximum annual quantities of Colby shipments to the American market were agreed to. New Zealand's quota was 3,000 tons while the Australian's and Irish were 1,500 tons and 500 tons respectively. Although this arrangement allowed New Zealand to supply twice as much as Australia it should be remembered that this was a market New Zealand had developed and it was not until 1961 that Australia entered the trade with sales of 97 tons, while New Zealand supplied 6,500 tons. New Zealand's position had been eroded by the 'voluntary' agreement. The tripartite arrangement, however, was preferable to a Section 22 investigation which probably would have reduced Colby imports still further.

The tripartite arrangement was not renewed after June 1965. With no restraint on Colby exports and a relative shortage in domestic Cheddar supplies in the United States New Zealand stepped up shipments to 6,871 tons in 1966.

A temporary relaxation of over 400 tons was granted in the Cheddar quota for the year ended 30 June 1966 as a measure to relieve the domestic shortage. However, despite a Tariff Commission recommendation that the Cheddar quota be increased for an indefinite period by 44 per cent to 1,788 tons,[1] Cheddar imports for the 1966 - 67

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[1]U.S. Tariff Commission, Cheddar Cheese. Report to the President on Investigation No. 22 - 6:8 (Supplemental) Under Section 22 (d) of the Agricultural Adjustment Act, as Amended. T.C. Publication 175 (Washington, D.C., June 1966), p. 1. Hereafter cited as U.S.T.C. Publication 175.

marketing year reverted back to the level set in 1953. The Tariff Commission report, which was not published at the time, noted that 'imports restricted by the quota have supplied an insignificant and declining share of consumption'. It further stated that an enlargement in the quota of the level it recommended was equivalent to about 0.1 per cent of total United States consumption of Cheddar cheese and thus would not 'interfere materially with the [Agriculture] Department's programs'.[1]

The French entered the United States Colby market in 1966 sending 4,000 tons that year at the subsidised rate of 38 cents per lb compared with 46 cents per lb for the New Zealand product.[2] Efforts by other exporters, including New Zealand, to persuade the United States Treasury to impose countervailing duties on the French Colby imports were unsuccessful.

French action, however, did not prevent New Zealand from exporting over 14,500 tons of Colby to the United States in 1966 - 67. Apart from the purely commercial considerations it was undoubtedly the intention of the New Zealand Dairy Board to establish a substantial trade in this product in the event of quotas being imposed on the basis of the 1966 trade.

(c) Frozen Cream

Towards the end of 1962, after more than two years of preparation,

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[1] Ibid., p. 5.

[2] The French subsidy was equivalent to about 23 cents per lb. U.S.T.C. Publication 240, op.cit., p. 141.

New Zealand exported frozen cream to the United States. Before this trade could be undertaken stringent American requirements had to be met. Investigations were carried out by the Dairy Board, the Dairy Division of the N.Z.D.A., the Dairy Research Institute, and carton manufacturers, as well as many others.[1] The cream is pasteurised, packed in drums, then frozen by a fast-freezing process and shipped at a temperature lower than that used for other dairy products. One of the major problems that had to be overcome was packaging, a process European competitors had not been able to master.[2]

Reaction from American dairymen was almost immediate. In February 1963 they asked for Section 22 action. The New Zealand Dairy Board pointed out that the frozen cream trade was already effectively limited by a tariff quota which permitted the entry of up to 1.5 million US gallons annually at 15 cents per gallon, the duty rising thereafter to 56.6 cents per gallon, making the sale of non-subsidised exports above this level prohibitive.[3] An assurance soon after was given to the American authorities that New Zealand shipments would not exceed 1.5 million gallons annually and that advance notification would be given if there was any change in this position.

[1]The N.Z.D.A. had to issue certificates on the health of each of the 20,000 cows and all other dairy cattle on every farm supplying the Kaipara Co-operative Dairy Company, Helensville, where the product was supplied from.

[2]H.S. Blackmore, Interview, Wellington, 4 June 1971.

[3]This quota came into effect in 1936 when a duty of 20 cents per gallon was imposed. The duty was reduced in 1951 to 15 cents at the request of Canada in GATT.

(d) The 1967 Restrictions

New Zealand, as a result of the low level of stocks and high prices of dairy products in the United States in late 1965, presented a Note to the State Department in April 1966 urging the United States to liberalise its restrictions on dairy imports. It expressed the view that the dairy supply situation in the United States had changed and the factors which led to the imposition of import restrictions in 1953 no longer applied. The Minister of Overseas Trade, J.R. Marshall, when announcing the move said:

> It has been of long-standing regret to the New Zealand Government that the area of trade singled out by the United States for the most severe restrictions should include dairy products ...

He went on to say that New Zealand recognised the United States government had pursued, overall, a liberal trading policy and did have as one of its main objectives the elimination of quantitative restrictions to trade.

> But the strenuous efforts of the New Zealand Government and the New Zealand dairy industry to diversify markets for dairy products continue to be inhibited by the restrictive trading policies of countries which would otherwise provide significant export opportunties. A removal of the United States' import restrictions on dairy products would materially assist New Zealand in obtaining the objectives of expanding trade in agricultural products, which is also the objective of the United States Government.[1]

Soon after the Note had been presented to the State Department, 24 Senators, led by Sen. Proxmire of Wisconsin, co-sponsored a bill in the Senate proposing even greater restrictions on dairy imports.[2]

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[1] Press, 21 April 1966.

[2] S3273. Congressional Quarterly Almanac, 1966 (Washington, D.C., Congressional Quarterly, Inc., 1967), p. 1093. Hereafter cited as C.Q. Almanac.

The action of these Senators, together with those of a number of Congressmen who presented similar measures in the House,[1] probably accounted for the Administration preventing immediate publication of the June 1966 Tariff Commission findings on Cheddar imports. The Tariff Commission, as noted above, rather than advocating greater controls, called for a relaxation of the Cheddar quota.

Not long after the Tariff Commission hearings on Cheddar, import restrictions were imposed on dairy products containing between 25 and 45 per cent sugar under the Sugar Act of July 1966. These restrictions, in fact, applied to butterfat and flour mixtures containing over 25 per cent sugar. Dairy producers in several countries, after the embargo on products containing more than 45 per cent butterfat (Exylone) in 1957, looked for an alternative ice cream mix formula. The result was Junex (Junior Exylone), a mixture containing 44 per cent butterfat, 50 per cent sugar and 6 per cent water. Australia and Belgium were the two largest suppliers of the product. New Zealand had no trade history in the product at the time quotas were imposed.[2]

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[1] 13 Congressmen, between 17 May and 10 August introduced bills in the House aimed at restricting dairy imports.

[2] Although commercial demand for Junex was favourable and the product could have been manufactured in New Zealand without difficulty, the Dairy Board refrained from exporting it to the United States in light of the 1957 Exylone decision. When quotas were imposed on Junex New Zealand was granted the minimum quota of less than 90 tons. Requests were made to American authorities for a quota at least equal to that of Australia and Belgium. They felt this was justified on the grounds that it had abided with the 1957 decision. This request was not granted. The Dairy Board, because of the smallness of the quota, have not manufactured Junex for export to the United States.

In view of the action taken by American authorities under the Sugar Act, the New Zealand Dairy Board in 1966 developed another new product known as Maytex or Meletone, containing 44 per cent butterfat, 24 per cent nonfat milk solids, 10 per cent sugar and 22 per cent water. This product circumvented both the 1957 Section 22 quotas on butter substitutes and the embargo on Exylone, as well as the 1966 Sugar Act restrictions. The first shipments were made in September 1966, with total exports of 9,627 tons in the year ended 30 June 1967.

Protectionist demands intensified throughout 1966 and soon after the commencement of the 1st Session of the 90th Congress in January 1967, Sen. Proxmire, now with 40 co-sponsors, reintroduced his bill designed to place further limitations on dairy imports.[1] The main featuresof the bill, in summary, were:

1. limit imports of all dairy imports containing 5 per cent or more of butterfat and/or of nonfat milk solids to the 1961 - 65 average (371,000 tons compared with the 1966 level of 1,205,000 tons);
2. the growth of imports be based on United States domestic consumption, excluding Federal distribution programmes;
3. the President could authorise additional emergency imports but if the domestic price was less than parity the U.S.D.A. would have to purchase an equivalent quantity of domestic products;
4. the Act would not repeal Section 22 nor Section 22 limitations currently in force, but limitations under the new Act would prevail.

On 30 March the Secretary of Agriculture announced a Section 22 investigation on 'certain dairy products not now subject to quotas', including Colby cheese, Meletone and frozen cream. The Tariff

[1] S612. C.Q. Almanac, 1967 (no page number).

Commission's hearings were held in May and in its findings it recommended that total annual dairy imports be restricted to the 1966 level of 2,800 million lb milk equivalent.[1] However, President Johnson on 30 June issued a proclamation under Section 22 aimed at limiting annual dairy imports to the average level for the period 1961 - 65, which was equivalent to approximately 1,000 million lb milk equivalent. He claimed 'this action is of benefit to all Americans'.[2]

Undoubtedly the growing intensity of protectionist demands by American dairymen and by Congress was the reason for the Tariff Commission's recommendation being rejected. Besides Proxmire's bill in the Senate, 181 Congressmen by the end of June had sponsored or co-sponsored one or more bills urging restrictions of varying proportions on dairy imports. All, or the majority of Congressmen representing 21 States, including Wisconsin, Minnesota, Washington, Florida, Mississippi, Kansas, Iowa and Kentucky, had sponsored or co-sponsored such legislative action.[3] A number of these bills would have restricted dairy imports even further than that imposed by the 30 June proclamation. It therefore appears that the President's action was designed to forestall the more restrictive legislation.

The new regulations restricted imports of frozen cream to 1.5 million US gallons, the previous 'low' tariff level, of which New

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[1]U.S. Tariff Commission, Dairy Products. Report to the President on Investigation No. 22 - 26 Under Section 22 of the Agricultural Adjustment Act, as Amended. T.C. Publication 211 (Washington, D.C., June 1967).

[2]Press, 3 July 1967.

[3]C.Q. Almanac, 1967 (no page numbers).

Zealand was to be the sole supplier. Butterfat mixtures containing less than 45 per cent butterfat were drastically cut to 1,152 tons. Over 47,000 tons of this product was exported to the United States in 1966. New Zealand received no share of the butterfat quota and therefore its trade in Meletone ceased. The proclamation also brought Colby cheese under a formal quota for the first time,[1] restricting imports to 2,721 tons a year; about 13 per cent of the 1966 import level. However, the global quota for Cheddar was increased from 1,241 tons to 4,481 tons.

When the country allocations for cheese were announced in July, New Zealand received 55 per cent of the Colby quota and 55 per cent of the additional Cheddar quota.[2]

Besides a nil quota on butterfat mixtures containing less than 45 per cent butterfat and a drastic cut in Colby exports, the repercussions of the new American restrictions for New Zealand were even more severe in the light of growing EEC surpluses of dairy products. The EEC in 1966 began disposing some of its surplus by heavily subsidising exports and this method of disposal was seriously hampering New Zealand's efforts to diversify its markets. As one spokesman for the Dairy Board commented:

> From an international point of view the effect of the new United States restrictions is to throw on to other markets the equivalent of about 50,000 tons of butter. Add this to the

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[1] Colby was placed in the category of 'other American-type cheeses'. In the United States Cheddar cheese is regarded as an American type cheese.

[2] The new Cheddar quota included 547 tons over nine months old and made from unpastuerised milk. Although this aged Cheddar was to be administered on a global basis the major part of quota, would in practice, be supplied by Canada.

> existing surplus in Europe [over 200,000 tons] and you have some idea of the surplus problem.[1]

(e) 'Other Cheeses' Quota

United States officials emphasised that the June proclamation had been issued as a step to stop the 'flagrant dumping of dairy products on the American market by certain countries in which subsidised export trading is practiced'.[2] New Zealand, however, had at no time adopted this practice and considered it had been unjustly treated in the allocation of quotas for the butterfat mix, Colby, and Cheddar cheese. The Chairman of the Dairy Board, A. Linton, complained that 'equity had been discarded'.[3] His statement, even in terms of the trade history of Colby and Cheddar cheese had some substance. The President's proclamation was to limit dairy imports to the average level for the years 1961 - 65. During this period New Zealand had supplied over 80 per cent of American imports of Cheddar and 67 per cent of Colby and yet was granted only 55 per cent of the new quotas.[4]

It appears that a number of exchanges were held between the two governments over the allocation of quotas, with New Zealand expressing the view that it had been unfairly penalised as a non-subsidising exporter.[5] These representations bore no immediate

[1] Press, 15 September 1967.
[2] Press, 28 July 1967.
[3] Press, 24 July 1967.
[4] Press, 28 July 1967.
[5] Confidential Appendix.

fruit in the form of an increased allocation in the various quotas. However, in January 1969 there was a welcome relaxation of restrictions on cheese imports, with New Zealand being the principal beneficiary. In September 1968 temporary restrictions had been imposed by the Administration on imports of processed Italian-type cheeses, processed Edam and Gouda, and a category of 'other cheeses' with a value of less than US 47 cents f.o.b. in the country of origin. When the quotas for these 'other cheeses' were announced, New Zealand was allocated 7.5 million lb (3,348 tons). The Minister of Overseas Trade, J.R. Marshall, in a press statement announcing this move said:

> The latest Administration decision was made after a long series of representations to the United States authorities during the last six months, in which New Zealand sought recognition of its legitimate trading interest as an efficient and non-subsidising producer. ... New Zealand had been disturbed that the manner in which the United States import quotas were being allocated tended to reward those countries which subsidised the export of these products, and considered that its previous quota of 8.8 m[illion] lb for cheddar and colby cheese only, did not provide a reasonable trading opportunity in relation to the demand for New Zealand dairy products in the United States.[1]

(f) Monterey Cheese Controversy

To comply with United States Bureau of Customs specifications of the 'other cheeses' category, the New Zealand Dairy Board manufactured Monterey Cheese. From the very beginning members of the American dairy lobby opposed the allocation on the grounds that New Zealand had not been an historical supplier of such cheese.

Only a few months after the Monterey trade had begun the issue

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[1] Press, 8 January 1969.

arose as to whether the cheese was, in fact, Monterey, or whether it was Cheddar and therefore subject to the Cheddar quota. A senior Republican member of the House Ways and Means Committee, J. Byrnes of Wisconsin, sponsored a bill in the House aimed at classifying all imports with milk-solids or butterfat content so that they would fall within the present quota regulations.[1] Although Monterey cheese was under quota control Brynes claimed that the cheese was incorrectly labelled and, in fact, was Cheddar. He had, prior to the presenting of his bill, along with other members of a Congressional delegation from Wisconsin, arranged a cheese-tasting test. A panel of 8 'experts' tasted various samples of the New Zealand cheese, together with the domestic cheese in question, and although not unanimous in their findings, had agreed that the imported cheese was Cheddar. Allegations were also made that four companies had used the imported commodity in making processed American cheese.[2] Nevertheless, the Bureau of Customs continued to classify Monterey as 'other cheese'.

In July 1970 officials of the Food and Drug Administration examined a shipment of the cheese and determined that it complied with standards of identity for Cheddar, rather than Monterey. During the same month, at the request of the House Ways and Means Committee, the Tariff Commission was asked to investigate New Zealand's 'other cheeses' quota, along with imports of certain cheeses priced at US 47 cents per lb or over f.o.b. in the country of origin, lactose, and chocolate crumb containing 5.5 per cent or less of butterfat.

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[1] Press, 26 May 1970.

[2] U.S.T.C. Publication 340, op.cit., pp. 89 - 94.

Soon after the Food and Drug Administration issued 10 detention orders, involving 100 tons of the cheese, to importers on the grounds that the cheese was mislabelled and therefore in violation of the Federal Food, Drug and Cosmetics Act. It was only following this action that the Bureau of Customs decided that the New Zealand cheese be classified as Cheddar, placing the Monterey under New Zealand's Cheddar quota rather than its 'other cheeses' quota.

The most amazing feature about the whole controversy was that the cheese was manufactured to the exact specifications laid down for its manufacture by the American authorities. As the Director-General of Agriculture, A.T. Johns, was to comment following reports of the tasting exercise:

> New Zealand Monterey cheese exported to the United States is manufactured strictly in accordance with the United States Department of Agriculture prescriptions and this has been confirmed by the United States Customs Department. We do not consider that the tasting exercise, however expert the members of the panel might be, was soundly based. A more realistic comparison would have been between New Zealand cheddar and New Zealand Monterey manufactured in the same locality at about the same time. The composition of New Zealand milk, which has a higher ratio of fat to solids than that of other countries, is an important factor that should not be overlooked.[1]

The action of the Bureau of Customs was considered by the dairy lobby as a major victory and the start of a tightening up of dairy import laws.[2] Indeed, soon after the Monterey decision a number of other dairy product imports complained of by Byrnes and other Congressmen were placed under quota control. However, New Zealand did not lose its 'other cheeses' quota and was given time to clear

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[1] Straight Furrow, 8 April 1970, p. 19.

[2] Press, 12 September 1970.

existing stocks of the cheese. While sales of Monterey totalled 3,860 tons during the 1969 - 70 season, they were restricted to 820 tons in 1970 - 71.[1] The Dairy Board is now selling Cheshire cheese, a cheese with less resemblance to Cheddar, in the place of Monterey.

(g) Ice Cream and Stock Milk Feeds

As part of the tightening up of dairy import laws the Tariff Commission, in July 1970, under Section 22, investigated imports of ice cream, lowfat chocolate crumb, stock feed containing milk solids, and certain lowfat cheese. Two of these, ice cream and stock feed, New Zealand began exporting to the United States in 1969. During that year it supplied US 526,000 of the US 2.6 million gallons of ice cream imports and 514 of the 4,327 tons of stock feed milk compound imports.[2]

Although not the first country to export either item to the United States, New Zealand had, by the time of the Tariff Commission hearings, become the second largest supplier of both products. The stock feed consisted of over 70 per cent nonfat dry milk, 21.6 per cent butterfat and 2.4 per cent of other animal fat, together with a vitamin mix.[3] As such, it circumvented existing quotas for the milk-derived ingredients of the stock feed. Both the stock feed and the ice cream required further processing before entering the retail market. As A.L. Friis, Deputy-Chairman of the New Zealand

[1] Tenth Annual Report of the New Zealand Dairy Board, 1971, p. 46.
[2] U.S.T.C. Publication 338, op.cit., pp. A 65 - 66.
[3] Ibid., p. A 48.

Dairy Board, told the Tariff Commission in his testimony:

> Americans who buy our products make it clear by doing so that they are just as eager to have them as we are to sell them. The ease with which the American market absorbs dairy product imports, unusual as well as traditional ones, suggests that the American consuming public is hungry for greater supplies of dairy products.[1]

For each product, except certain lowfat cheese, the Tariff Commission recommended nil quotas.[2] Although these findings were not accepted by the Administration, quotas were set at US 431,330 gallons (1,508 tons) for ice cream and 7,277 tons for stock feeds; 5 per cent and 60 per cent, respectively, of the level of total imports in 1970.[3]

Evaluation

Of all the agricultural commodities placed under import control by the United States, those on dairy products have been the 'most sensitive politically' and have 'provoked the greatest animosity abroad'.[4] The United States has been a major contributor to the chaotic international situation that has existed in the marketing of dairy products during the last two decades where low cost producers, such as New Zealand, have found themselves excluded from the main sizeable markets for dairy products, with the exception of the United Kingdom, by excessive import restrictions and have in turn had to compete with highly subsidised exports in whatever other alternative

[1]The New Zealand Dairy Exporter, Vol. XLVI, No. 2, August 1970, p. 38.

[2]U.S.T.C. Publication 338, op.cit., p. 8.

[3]U.S.D.A., Dairy Situation, March 1971, p. 23.

[4]Mackenzie, op.cit., p. 194.

markets that may be accessible.

In 1970 New Zealand was the only country with producer returns of less than $US 6 per 100 kilograms of milk. Three countries, Denmark, Ireland and Australia had prices in the range of $6 to $8 per 100 kilograms. In the general range of $8 to $10 were the United Kingdom, Austria, France, Belgium, Canada and the Netherlands; while between $10 and $12 were West Germany, Italy, Switzerland and the United States. Norway and Japan had producer prices in excess of $12. Since 1970 the United States has moved to a price in excess of $13.[1]

However, it appears that whatever the American dairy farmer may lack in economic efficiency he makes up in political know-how. Besides the continuing pressure he has been able to exert in having quantitative restrictions imposed on dairy imports circumventing existing quota controls, his political strength was highlighted in March 1971, following the announcement by the Secretary of Agriculture that the dairy price support level would be maintained at its existing level of $4.66 a cwt. Thirteen days later, after intense lobbying by dairy interests, the price was raised by 27 cents. Between the two price announcements spokesmen for the industry had met with President Nixon and Secretary of Agriculture Hardin, while between 6 and 25 March a total of 29 senators and 116 congressmen had sponsored legislation to increase the support level to almost $5 per cwt. Nearly half of these sponsors, 13 in the Senate and 50 in the House of Representatives, have received $187,000 in campaign contributions

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[1]D. Gale Johnson, Comparative Advantage and U.S. Exports and Imports of Farm Products, Paper prepared for the 50th National Agricultural Outlook Conference, Washington, D.C., 23 February 1972, pp. 11 - 12.

in the last three years from organisations connected with dairy interests.[1]

Some of the impact of the lobbying done by dairy interests can be gauged from the reaction of the Republican Party national chairman, Sen. Robert Dole, whose party's campaign funds were boosted by contributions from dairy groups. In a speech on 29 March he commended the action of increasing dairy price supports saying 'the time had come when our dairy farmers deserve a rise in milk prices'. It was not more than one week beforehand that he had praised the U.S.D.A. for holding the line on milk price supports and had said that the Secretary of Agriculture had chosen the wise rather than the popular decision.[2] As one person summed up the situation:

> Perhaps the greatest achievement of the dairy politicians came this spring when they managed to have the Secretary of Agriculture overruled on an initial decision to leave the milk support price unchanged. After a slush fund (the Trust for Agricultural Political Education) had made contributions totalling some $100,000 to various campaign committees, the support price was raised by about 6 per cent. Without going into the ethics of this transaction it is interesting to note that this price increase is likely to transfer hundreds of millions of dollars from consumers to dairymen, so that the political contribution was a splendid investment from the donor's point of view.[3]

The American 'consumer advocate', Ralph Nader, has estimated that this increase in dairy price supports will cost the United States government an extra $US 126 million a year.[4]

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[1] Press, 29 January 1972.

[2] Congressional Quarterly Weekly Report, Vol. XXIX, No. 29, 16 July 1971, p. 1515.

[3] H.S. Houthakker, 'Domestic Farm Policy and International Trade', American Journal of Agricultural Economics, Vol. LIII, No. 5, December 1971, p. 765.

[4] Press, 29 January 1972.

The United States dairy industry is a classic example of an agricultural industry which is characterised by policies which restrain demand, stimulate output and require trade barriers to support the artificially high prices. One can, as the New Zealand government and Dairy Board has done on many occasions, point to declining production, increasing consumer prices, or to any other economic factors which support arguments in favour of cheaper imported supplies, but none of these will have any effect on policy decisions so long as the American dairy lobby is able to maintain its influence in Washington against imports and against basic changes in the price support programme.

Market prices for dairy products in the United States, as Table 3 - 17 indicates, have been significantly higher than the prevailing world prices and it has only been natural that the New Zealand Dairy Board, encountering difficulties in penetrating other markets, has developed products which circumvent existing American import quotas. In these operations the Board has demonstrated that it represents an industry which is extremely adaptable to prevailing market requirements.

Of the many different products New Zealand has shipped to the United States, casein is the only one which at present is not under quota controls. Casein production in the United States is negligible, with New Zealand being the main source of domestic needs.[1] The only other New Zealand dairy product which the United States provides a

[1] U.S.D.A., Dairy Situation, March 1972, p. 25. For details on the extent of New Zealand's casein trade with the United States, see Appendix III.

TABLE 3 - 17 COMPARISON OF WHOLESALE BUTTER AND CHEESE PRICES IN THE UNITED KINGDOM AND THE UNITED STATES, 1955 - 1969, BY SELECTED YEARS

	United Kingdom	United States
	$US per Kilogram	
Butter[a]		
1955	0.98	1.26
1957	0.78	1.31
1959	0.95	1.32
1961	0.71	1.33
1963	0.90	1.28
1965	0.92	1.33
1967	0.81	1.47
1969	0.71	1.49
Cheese[b]		
1955	0.53	0.82
1957	0.60	0.86
1959	0.81	0.85
1961	0.64	0.92
1963	0.64	0.94
1965	0.71	0.99
1967	0.71	1.15
1969	0.53	1.33

Source: F.A.O. Production Yearbook, 1970.

[a]United Kingdom: New Zealand, finest, salted, ex store, spot price, London.
United States: Grade A, 92 score, wholesale price, Chicago.

[b]United Kingdom: New Zealand, finest, white, ex store, London.
United States: American No.1, fresh, single daisies, wholesale price, Chicago.

reasonably large market for is cheese; being New Zealand's second largest market in recent years.[1]

The New Zealand Dairy Board has participated in all the numerous Tariff Commission hearings on dairy products since quota restrictions in their present form were first instituted in 1953.[2] These hearings have been especially frequent in recent years. Unlike American sheep and cattlemen organisations, there is no compromise among dairy producer organisations on the question of imports. It has therefore been extremely difficult for the Dairy Board to foster any sort of liaison with them.

The Board has, however, recently established a wholly-owned company in Chicago acting as its agent. On announcing the move, its chairman said:

> A number of United States companies have extensive affiliations with the international dairy produce trade. The Board regards it as important that direct 'on the spot' contact be established with these companies and with the United States authorities who determine dairy import policy in Washington.[3]

The Chicago office is similar to others established by the Board in Tokyo and Singapore and provides a direct link with the domestic processing industry, which the Board no doubt hopes, will provide closer technical liaison and in the long term, at least, some liberalisation in the present stringent import restrictions.

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[1]See Appendix IV.

[2]Blackmore, Interview, Wellington, 4 June 1971.

[3]*The New Zealand Dairy Exporter*, Vol. XLVII, No. 4, October 1971, p. 21.

CHAPTER IV

MEAT

Most of the meat produced in the world is supplied to domestic markets. Despite the fact that there has been a large increase in the volume of international trade in carcase meat during the last two decades it still only represents about 8 per cent of world output. Among the few countries with large exportable surpluses are Argentina, Australia, New Zealand, Denmark, the Netherlands and Ireland. The chief flows of trade are to Western Europe; in particular the United Kingdom, which accounted for nearly 32 per cent of world trade in 1969. In recent years United States imports of red meats have expanded rapidly. Whereas between 1951 and 1955 it, on an average, took about 10 per cent of world imports, in 1969 the United States accounted for over 22 per cent of total meat imports (Table 4 - 1). During that same period American meat imports increased by 490 per cent, from 209,000 tons to over 1 million tons.

As Table 4 - 2 indicates, since the termination of the bulk-purchase agreements with the United Kingdom in 1954, the United States has become a very important market for New Zealand meat. However, the United Kingdom during the 1970 - 71 season still imported 53 per cent, by weight, of New Zealand's meat exports.

Although meat is one of the more freely traded agricultural commodities, trade in this commodity is circumscribed by a number of restrictions which can limit both the quantity of meat which

TABLE 4 - 1 MAJOR MEAT PRODUCING, EXPORTING AND IMPORTING COUNTRIES, 1969[a]

Meat Products	Producing Countries Country	'000 Tons	%	Exporting Countries Country	'000 Tons	%	Importing Countries Country	'000 Tons	%
Beef and Veal	United States	9,746.0	30.0	Argentina	757.8	28.0	United States	732.4	30.7
	USSR	4,948.1	15.3	Australia	398.6	14.7	United Kingdom	478.0	20.0
	Argentina	2,837.5	8.7	New Zealand	222.6	8.2	Italy	272.1	11.4
	Total (3)	17,531.6	54.0	Total (3)	1,379.0	50.9	Total (3)	1,482.5	62.1
	World Total	32,443.3	100.0	World Total	2,709.3	100.0	World Total	2,388.7	100.0
Pork	United States	5,782.5	25.8	Denmark	504.3	39.0	United Kingdom	584.2	44.6
	USSR	2,822.9	12.6	Netherlands	225.1	17.4	France	195.8	15.0
	West Germany	2,131.8	9.5	Poland	118.4	9.2	United States	182.5	14.0
	Total (3)	10,737.2	47.9	Total (3)	847.8	65.6	Total (3)	962.5	63.6
	World Total	22,382.6	100.0	World Total	1,294.0	100.0	World Total	1,308.9	100.0
Lamb, Mutton and Goat	USSR	935.0	21.0	New Zealand	479.6	62.0	United Kingdom	372.5	51.0
	Australia	669.4	15.0	Australia	180.6	23.0	Japan	127.2	17.4
	New Zealand	553.8	12.4	Argentina	57.4	7.4	United States	68.0	9.3
	Total (3)	2,158.2	48.4	Total (3)	717.6	92.4	Total (3)	567.7	77.7
	World Total	4,455.1	100.0	World Total	774.4	100.0	World Total	730.2	100.0
All Meat	United States	15,774.0	26.6	Argentina	893.1	18.2	United Kingdom	1,434.7	31.6
	USSR	8,706.0	14.7	New Zealand	702.7	14.3	United States	1,006.6	22.2
	West Germany	3,390.6	5.7	Denmark	596.1	12.2	Italy	351.1	7.7
	Argentina	3,233.8	5.5	Australia	581.2	11.9	France	314.9	6.9
	Total (4)	31,104.4	52.5	Total (4)	2,773.1	56.6	Total (4)	3,107.3	68.4
	World Total	59,281.3	100.0	World Total	4,900.1	100.0	World Total	4,543.7	100.0

Sources: U.S.D.A., World Agricultural Production and Trade, May 1971, and Foreign Agriculture Circular, FLM 11 - 70, December 1970.

[a]Carcase weight equivalent.

TABLE 4 - 2 SHIPMENTS TO THE UNITED KINGDOM AND THE UNITED STATES, BY VOLUME, AS A PERCENTAGE OF NEW ZEALAND FROZEN MEAT EXPORTS, 1953 - 1971, INCLUSIVE

Year Ending 30 September	United Kingdom	United States	U.K. Percentage of Total	U.S. Percentage of Total	Total to all Destinations
	(Thousand Tons)				
1953/54	309.9	0.7	91.7	0.2	338.0
1954/55	335.6	1.3	86.6	0.3	387.5
1955/56	339.1	1.5	82.2	0.4	412.7
1956/57	321.8	20.3	81.0	5.1	397.3
1957/58	285.4	82.9	71.1	20.7	401.3
1958/59	328.2	79.0	74.2	17.9	442.1
1959/60	343.9	61.3	73.8	13.2	465.9
1960/61	327.7	70.8	70.4	15.1	465.7
1961/62	326.8	96.8	64.5	19.1	506.4
1962/63	308.4	107.5	61.2	21.3	504.2
1963/64	350.6	73.1	65.5	13.7	535.0
1964/65	349.8	51.5	69.0	10.2	507.2
1965/66	336.9	68.7	64.8	13.2	519.9
1966/67	336.1	81.4	63.0	15.3	533.4
1967/68	350.5	95.7	59.3	16.2	591.0
1968/69	345.9	74.8	61.4	13.3	563.4
1969/70	369.6	101.8	55.5	15.3	666.0
1970/71	365.2	121.2	52.8	17.5	691.6

Sources: New Zealand Meat Producers Board: The Annual Report (various issues); Meat, a monthly publication (various issues).

maybe traded and, to some extent, the prices which maybe realised.[1]

Exports of New Zealand meat, mainly in the form of beef, veal and lamb, to the United States have been less subject to restrictive trading practices than in the case of dairy products. Nevertheless they have been a source of constant anxiety to the New Zealand government and Meat Producers Board officials. Although technically the United States market for meat is free from quantitative restrictions, and imported meats only attract a nominal tariff, legislation was passed in 1964 which in effect places a quantitative limit on imports of beef, veal and mutton. While the restrictions imposed by this legislation have been of less harm than those on dairy products, because of the rising world demand for beef, they are an example of the frustrations successful exporters can encounter in the American market.

Currently no quantitative restrictions are placed on lamb imports. However, during the last decade strong pressure has been applied by interested producer organisations in the United States to restrict lamb imports. Efforts to include lamb within the scope of the 1964 meat legislation brought what the Prime Minister, K.J. Holyoake, has described as 'perhaps the strongest message we have ever addressed to the United States'.[2]

Unlike beef and veal, sizeable markets for sheepmeats are

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[1] For a summary of trade restrictions on meat and meat products in individual countries, see New Zealand Meat Markets 1970 (Wellington, New Zealand Meat Producers Board, 1971), pp. 31 - 36.

[2] New Zealand External Affairs Review, Vol. XIX, No. 9, September 1969, p. 32.

confined to only a few countries. The United States has been considered as one of New Zealand's best prospects of providing a market which will reduce its almost total dependence on the United Kingdom for lamb exports. During the last twelve years much money and effort has been spent by New Zealand on lamb promotional activities in the United States. Any trade restrictive policy on lamb would not only prevent New Zealand from reaping the benefits of a difficult promotional campaign, but more important, would seriously impair efforts to reduce dependence on the British market while at the same time providing an outlet for New Zealand's increasing lamb output.

This chapter examines the development of the New Zealand meat trade to the United States and the actual and threatened restraints on the marketing of this commodity in that market. Particular attention is given to the 1964 meat import restriction legislation, not only because of its hindrance to New Zealand's trade in beef and veal, but also because it provides an important example of the overriding pressure of Congress, despite a determined effort by the Administration to prevent the passage of such legislation.

I BEEF AND VEAL

The United States has long been the world's leading producer of beef and veal. Imports, as Table 4 - 3 shows, have never been equivalent to more than 9.6 per cent of its domestic production. In 1969 the United States produced one third of the world's beef and veal and imported 732,000 tons, nearly 31 per cent of total world exports of beef and veal, to supplement domestic production.

TABLE 4 - 3 IMPORTS AS A PERCENTAGE OF TOTAL UNITED STATES PRODUCTION OF BEEF AND VEAL, 1950 - 1971, INCLUSIVE[a]

Year	Total U.S. Production	Total U.S. Imports	Imports as a Percentage
		(Thousand Tons)	
1950	4,805.4	155.4	3.2
1951	4,417.9	261.1	5.9
1952	4,829.9	191.5	4.0
1953	6,229.0	121.0	1.9
1954	6,522.3	103.6	1.6
1955	6,762.1	102.2	1.5
1956	7,184.8	94.2	1.3
1957	7,021.4	176.3	2.5
1958	6,480.4	405.8	6.3
1959	6,512.5	474.6	7.3
1960	7,081.3	337.1	4.8
1961	7,308.5	462.9	6.3
1962	7,294.2	642.9	8.8
1963	7,761.2	748.7	9.6
1964	8,691.5	484.4	5.6
1965	8,837.9	420.5	4.8
1966	9,212.5	537.5	5.8
1967	9,379.9	592.9	6.3
1968	9,649.1	677.7	7.0
1969	9,746.0	732.1	7.5
1970	9,942.9	810.7	8.2
1971	9,913.4	783.9	7.9

Source: U.S.D.A., Agricultural Statistics (various issues).

[a]Carcase weight equivalent.

American consumption of beef and veal has risen rapidly since 1952. By 1953 beef had replaced pork as the primary meat consumed in the United States and has since maintained its primacy. Whereas in 1950 per capita consumption of beef and veal was 71 lb, carcase weight equivalent, in 1970 it had increased by over 60 per cent to

117 lb. Beef and veal now constitute approximately 63 per cent of the American red meat diet.[1]

Until recently, and still in the vast majority of farming areas in New Zealand, production of beef, apart from dairy beef, has been closely tied with the sheep industry. In a great deal of the hill country, particularly in the North Island, the beef animal has been required for the economic management of the sheep farm. Beef production therefore, has been ancillary to and necessarily smaller than that of lamb and mutton. However, their role has changed considerably in that they are now regarded as income earners in their own right, instead of just being pasture and roughage control agents.

At present New Zealand produces less than 2 per cent of the world output of beef and veal but exports about 70 per cent of total production.[2] After Argentina and Australia, New Zealand ranks as the third largest exporter of beef and veal. As Table 4 - 4 clearly shows, since the end of the bulk-purchase agreements the United States has become by far the most important outlet for New Zealand's exportable beef and veal.

Early Developments

The development of the New Zealand meat trade to the United States began in the early 1950s with experimental shipments of lamb and beef. Arrangements were made between the New Zealand and British governments to redivert a shipment of 5,000 tons to the United States

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[1] U.S.D.A., Agricultural Statistics, 1971, p. 362.

[2] See Appendix VI.

TABLE 4 - 4 SHIPMENTS TO THE UNITED KINGDOM AND THE UNITED STATES AS A PERCENTAGE OF NEW ZEALAND BEEF AND VEAL EXPORTS, 1953 - 1971, INCLUSIVE

Year Ending 30 September	United Kingdom	United States	U.K. Percentage of Total	U.S. Percentage of Total	Total to all Destinations
	(Thousand Tons)				
1953/54	49.2	0.5	81.3	0.8	60.5
1954/55	68.4	0.9	70.7	0.9	96.8
1955/56	70.0	1.4	59.4	1.2	117.9
1956/57	55.8	19.7	46.7	16.5	119.6
1957/58	13.6	79.1	12.4	72.0	109.8
1958/59	8.2	73.1	8.7	77.5	94.3
1959/60	20.3	57.2	20.4	57.4	99.6
1960/61	10.4	69.3	11.0	73.0	94.9
1961/62	6.9	95.8	5.8	80.8	118.5
1962/63	1.5	105.0	1.2	87.0	120.7
1963/64	26.4	71.9	21.4	58.2	123.6
1964/65	29.1	44.5	26.4	40.3	110.3
1965/66	22.6	62.2	21.0	57.8	107.6
1966/67	9.5	76.8	8.7	70.3	109.2
1967/68	8.7	89.3	7.1	72.7	122.9
1968/69	12.9	65.4	10.8	54.7	119.6
1969/70	14.8	90.2	8.5	51.7	174.5
1970/71	14.1	114.4	7.3	59.4	192.5

Sources: New Zealand Meat Producers Board: <u>The Annual Report</u> (various issues); <u>Meat</u>, a monthly publication (various issues).

and Canada.[1] A warning of the problems New Zealand might encounter in this market was given by the experience of Australian efforts to sell 1,000 tons two years previously. The Chairman of the New Zealand Meat Producers Board, G.H. Grigg, addressing a meeting of the Dominion Meat and Wool Council of Federated Farmers, said Australia had made a 'horrible mess' of selling in North American markets, but the board did not intend to have the same thing happen to New Zealand meat:

> The meat was hawked round, getting low prices, upsetting the American farmers and being handled in a completely wrong way. Now we've got to live this down.[2]

Much the same sort of criticism was to be directed against New Zealand in 1953.

After an outbreak of foot and mouth disease in Canadian livestock, meat normally sold to the United States was not permitted entry. A trade switch between the Canadian, British and New Zealand governments were agreed to, on a temporary basis, so that Canadian meat surpluses could be sold to the United Kingdom while New Zealand was to supply Canada's share of the American market.[3]

Some 22,000 tons of beef was sent to the United States between August and November 1952.[4] Inexperience in marketing in the United States helped to stimulate objections from American cattlemen. The

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[1] Press, 9 January 1952.

[2] Press, 13 November 1950.

[3] Press, 12 May 1952; External Affairs Review, Vol. II, No. 7, July 1952, pp. 6 - 7; A.J.H.R., 1953, Vol. IV, H - 44, p. 30.

[4] Press, 13 February 1953.

beef retailed at 39 cents a lb, about half the price of home produced beef in the United States. This together with a concentration of sales in just a few areas brought numerous highly vocal protests. Perhaps one of the more amusing examples was in February 1953 when a thick, low priced New Zealand steak decked with parsley was carried on a platter before a Congressional committee by two angry Ohio cattlemen, representatives of the Corn Belt Livestock Feeders Association, who demanded that further imports should be stopped in order to protect the domestic industry against a decline in prices to which they argued, New Zealand beef was contributing.[1]

Although during 1952 New Zealand sent just over 26,000 tons of beef to the United States,[2] representing less than 0.5 per cent of total beef production, American cattle interests claimed that such imports were having 'a severely depressive effect on our domestic industry'.[3] There were claims, even by the Secretary of Agriculture, Ezra Benson, that American packers attempting to market New Zealand beef were having difficulty disposing of it.[4] Such comment conflicted with reports in Ohio of customers queuing for up to three hours to buy cheap New Zealand beef at half the average retail price of 79 cents per lb.[5]

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[1] Trevor R. Reese, Australia, New Zealand and the United States: A Survey of International Relations 1941 - 1968 (London, Oxford University Press, 1969), pp. 229 - 30.

[2] W.G. Hine, 'The United States Market for Beef', The Beef Situation, No. 4. (Canberra, Bureau of Agricultural Economics, 1958), p. 29.

[3] Press, 14 February 1953.

[4] Press, 12 February 1953.

[5] Press, 10 February 1953.

The General Manager of the New Zealand Meat Board, J.J. Evans, admitted that at the time of the meat switch agreement they knew the beef they were sending to the United States was not cut and prepared to the exacting standards the Americans insisted on. Although this had been pointed out to authorities New Zealand was told to go ahead and do the best it could with what was available.[1] Despite American assurances, it was a pity New Zealand had not learnt from the Australian experience in 1950. It was unfortunate that New Zealand's first large-scale meat venture into the American market had been so poorly equipped to meet the market requirements of that country.

By 1958 many of the initial problems of marketing beef and veal in the United States had been overcome. There were still problems of meat rejections by American authorities, such as those encountered in 1957 when a consignment of boneless beef was rejected on the grounds that the packages were contaminated. The Director General of Agriculture, E.J. Fawcett, was sent to the United States to investigate the rejections and import regulations.[2] However, as the Chairman of the Meat Board, J.D. Ormond, commented at the time, 'the amount of New Zealand meat rejected by the United States was small but it served as a warning of the perfection required'.[3]

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[1] Press, 13 February 1953.

[2] Press, 27 July 1957; N.Z. Parliamentary Debates, Vol. 312, pp. 1476 - 7, 7 August 1957.

[3] Press, 28 August 1957.

Between the trade switch agreement with Canada and 1957, only small quantities of New Zealand beef were exported to the United States. 1957, however, was to be a turning point. United States beef production in that year fell by 2 per cent as a consequence of reduced cattle numbers through drought and depressed prices in the previous year.[1] This, together with an even greater decline in domestic production of lower grade manufacturing or ground beef used in processed meat products, led to a rise in prices and generated a sharp increase in imports.[2]

Prices for boneless beef in the United States in early 1958 were about 35 per cent higher than those prevailing in the United Kingdom. The lucrative nature of the trade can be illustrated by the prices realised for cull cows in New Zealand. Previously they had been bringing between $16 and $20 per head, but in early 1958 were selling for $40 to $56. Towards the end of 1957 boner cow beef was quoted in schedules of prices offered by New Zealand meat companies at 75 cents per 100 lb above chilled ox beef. Normally boner cow prices were considerably less than those quoted for chilled ox beef.[3]

Unlike the great majority of beef shipped to the United States

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[1] Hine, op.cit., p. 28.

[2] The official U.S. grades for slaughter cattle and for beef are: prime, choice, good, standard, commercial, utility, cutter and canner. Beef graded 'good' or better, being well marbled with a layer of fat, is generally utilised as table beef, while the leaner beef of utility, cutter and canner grades is used for manufacturing purposes. Standard and commercial beef may be used either as table or manufacturing beef.

[3] Hine, op.cit., p. 30.

in 1952, only a small percentage exported in 1957 to the American market was bone-in meat. Great changes in meat preparation as well as in market outlets had taken place in just over 3 years, since the termination of the bulk-purchase agreements. During the 1957 - 58 season the United States imported nearly 21 per cent of New Zealand's total meat exports, all but a fraction of it consisting of boneless beef for manufacturing. In fact, in 1957 New Zealand supplied over 52 per cent of American boneless beef imports (Table 4 - 5).

Although opposition to increasing beef imports was voiced by certain sectors of the cattle industry, especially a number of Western cattlemen's organisations, it was not until Australia entered the market on a large scale in 1959 that such appeals had any real impact. Until 1959 Australia had been unable to take full advantage of the increased demand for boneless beef in the United States because of restrictions imposed on shipments to other markets by a Fifteen-Year Meat Agreement with the United Kingdom. However, with the lifting of the restrictions on lower quality beef in October 1958,[1] Australia became the leading supplier of beef and veal in the United States with exports of 99,900 tons in 1959 compared with only 7,400 tons in the previous year.[2]

Claims such as those made by the Washington State Cattlemen's

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[1] On 1 October 1961 all restrictions on the destinations of Australian exports of meat to countries other than the United Kingdom were lifted.

[2] J.L. Sault, 'Recent Developments in the Market for Beef in the U.S.A.', Quarterly Review of Agricultural Economics, Vol. XVIII, No. 1, January 1965, p. 36.

TABLE 4 - 5 UNITED STATES IMPORTS OF BONELESS BEEF, FRESH, CHILLED OR FROZEN, 1952 - 1964, INCLUSIVE[a]

(Thousand Tons)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Australia	—	—	0.6	1.0	1.3	2.4	7.2	98.6	63.5	102.7	196.5	227.3	165.9
New Zealand	3.7	0.2	0.4	1.1	1.8	20.5	67.9	60.5	51.6	62.1	84.6	95.5	70.1
Ireland	3.0	2.1	1.4	0.7	1.6	2.8	10.6	18.3	19.5	26.7	31.5	32.3	8.8
Canada	0.3	0.5	1.4	2.2	4.1	7.1	9.5	5.4	5.8	7.4	5.4	4.6	6.8
Mexico	7.0	6.1	—	3.9	2.4	5.7	30.3	17.2	16.5	22.1	24.7	29.9	20.2
Other Countries	0.1	—	—	—	0.2	1.1	2.1	9.5	14.5	14.4	22.9	30.0	27.8
	14.1	8.9	3.8	8.9	11.3	39.6	127.6	209.5	171.4	235.5	365.6	419.6	299.6

Source: U.S. Department of Commerce statistics.

[a]Product weight basis.

Association that imports of beef from Australia, New Zealand and other countries were depressing American cattle prices became more frequent.[1] The President of the American National Cattlemen's Association in his address to the association's annual convention in 1960 stated unequivocally the position of his organisation in its stand against imported beef:

> Your secretary and your legislative committee have always been in contact with the Tariff Commission and members of Congress. You will realise the world trade attitude with which we have to contend, but we must not hestitate to work for future protection.[2]

In 1960 there was a temporary downturn in imports of boneless beef due to a lowering of beef prices arising from larger supplies from domestic producers. However, prices soon recovered and United States imports of boneless beef reached record levels in 1962. In 1963 imports were 145 per cent higher than those in 1960. All the major beef exporting countries, except those in South America,[3] increased their sales of boneless beef to the lucrative American market.

American Cattle Industry Pressure, 1962 - 1964

In late 1962 saleyard prices for higher grades of slaughter cattle began to decline after being at their highest level since

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[1] Press, 21 January 1960.

[2] Press, 30 January 1960.

[3] Fresh, chilled or frozen beef and veal from South American countries are prohibited imports in the United States because of the presence of foot and mouth disease in South America. Since 1959 the United States has required imports of pickled and cured beef from countries where foot and mouth disease is present to comply with rigid specifications and this has resulted in a substantial decline in imports of this type of beef.

1952. Between November 1962 and May 1964 prices for choice grade slaughter steers at Chicago declined by over 30 per cent. Cutter and canner grade cattle, which make up the great majority of boneless beef imports, showed no marked downward price trend.[1] However, as the Tariff Commission which investigated the effect of beef imports on the American cattle industry, summed up the situation:

> In many quarters the view prevailed that the sharp rise in imports was largely - some thought wholly - responsible for the depressed prices and cattlemen turned to the government for assistance. A number of bills proposing to restrict imports of cattle and beef were introduced in Congress, representations were made to the White House, the Department of Agriculture, the Tariff Commission, and virtually every other agency of the government which could conceivably act to alleviate the distress of the cattlemen.[2]

The coinciding of a sharp decline in cattle prices with record increases in the level of boneless beef imports armed American cattlemen with figures to pressure the Administration for control of imports. The main pressure came from the two most powerful organisations representing the cattle industry; the American National Cattlemen's Association and the National Livestock Feeders Association.

The Cattlemen's Association is an affiliation of 40 state and 100 regional, local and breed organisations of cattle producers and feeders with a membership of approximately 270,000. Its area of

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[1]Sault, op.cit., p. 38.

[2]U.S. Tariff Commission, Beef and Beef Products. Report on Investigation No. 332 - 44 Under Section 332 of the Tariff Act of 1930, pursuant to a resolution of the Committee on Finance of the United States Senate, Adopted November 20, 1963, T.C. Publication 128 (Washington, D.C., June 1964), p. 1. Hereafter referred to as U.S.T.C. Publication 128.

regional strength is in the states on both sides of the Rocky Mountains, in the Midwest and South.[1] The National Livestock Feeders Association is much smaller. Its 5,000 members are engaged in 'finishing' livestock for the meat market.[2]

These two organisations, even before the drastic decline in domestic cattle prices, were behind efforts in Congress to require the President to place 'voluntary' quotas on exports of meat to the United States. Such efforts arose during consideration of a bill extending the President's power under section 204 of the Agricultural Act of 1956 to regulate imports of agricultural products and textiles. The bill, in effect, was designed to establish quota controls on American imports of cotton textiles. During its consideration by the House of Representatives, a Republican congressman from Iowa, H.R. Gross, offered an amendment providing that enforcement of the cotton textile agreements be suspended until similar agreements were negotiated on imports of beef, pork, lamb and dairy products. Similar amendments were submitted in the Senate but they, like the House proposal, were defeated.[3]

A number of American cattlemen visited Australia and New Zealand during 1963 to learn at first hand the conditions of production and the probable intensity of any future competition. The President

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[1] Testimony of C.W. McMillan, Executive Vice-President of the American National Cattlemen's Association, Berg, Public Hearings, op.cit., p. 1055; Congress and Nation, I, p. 680.

[2] Congress and Nation, I, p. 680.

[3] C.Q. Almanac, 1962, p. 346.

of the American National Cattlemen's Association, C.S. Radebaugh, while in Auckland, before leading a delegation of ranchers to a conference in Brisbane with Australian and New Zealand Meat Board officials, said:

> We feel we can work with you or we wouldn't be here. We don't want a quota system, but we don't want to cut each others throats. We feel that a great deal can be done on a producer-to-producer basis without governments coming in to upset things.[1]

The Brisbane conference was the second producer-to-producer meeting between American cattle interests and the Australian and New Zealand Meat Boards. The first had been held in Denver, Colorado, in October 1962, but it, like the Brisbane conference, produced no concrete agreement between the parties.

Even before the Brisbane conference President Kennedy's Special Representative for Trade Negotiations, Christian Herter, had been asked by the National Livestock Feeders Association to initiate talks with New Zealand and Australia to establish voluntary quotas on meat exports.[2] Presumably the American delegation at Brisbane had echoed the same thoughts.

Pressure mounted in Washington for restrictions on meat imports, despite the Administration making it abundantly clear that such moves would be contrary to its wishes. However, spokesmen for the beef industry, whose receipts for cattle and calf sales accounted

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[1] Press, 5 September 1963.

[2] C.Q. Almanac, 1964, p. 134.

for 22 per cent of total farm receipts,[1] could naturally expect a sympathetic hearing especially when many Congressmen from cattle producing states held senior positions in Congress.

Sen. Hruska, a Republican from Nebraska, on 24 September introduced a bill to direct the President to undertake negotiations with Australia and New Zealand to establish voluntary quotas on meat exports. On 20 November the Senate Finance Committee adopted a resolution directing the Tariff Commission to investigate the meat import situation.

The U.S.D.A., however, countered cattlemen's claims with a denial that imports had a major effect on cattle prices. In its view 85 per cent of the decline in the price of choice beef was due to a 7 per cent increase in fed beef production during 1962 and 1963. Such an increase was well above the calculated 3.7 per cent annual increase in beef consumption. Cattlemen took issue with the U.S.D.A.'s findings, contending that imports increased the supply of low cost meats and thus cut into fed beef sales.[2]

It was evident by the end of 1963 that some restraint was going to be imposed on meat imports. The State Department, in an effort to appease cattlemen and head off protectionist legislation, asked New Zealand and Australia to agree to a moderate reduction in beef and veal exports to the United States. The Prime Minister, K.J. Holyoake, commenting on the proposed discussions said:

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[1] U.S.D.A., Livestock and Meat Situation, July 1964, p. 26.

[2] C.Q. Almanac, 1964, p. 134.

> I am deeply disturbed that such a suggestion should be under consideration ... It is particularly surprising in view of the pending Tariff Commission hearing ... and at a time when the United States Government with strong New Zealand support is pressing for improved access for agricultural exports in the context of the forthcoming Kennedy round trade negotiation in the GATT.[1]

Discussions, obviously reluctantly agreed to by New Zealand, took place in Washington. The Secretary of Agriculture, on 17 February announced that agreements had been signed with the governments of New Zealand and Australia limiting imports of meat from these countries to the average shipped during 1962 - 63.[2] After 1964 imports could grow to a maximum yearly rate of 3.7 per cent, the expected growth in United States meat consumption.

The agreements covered beef and veal in all forms other than canned, cured and cooked meats, and live animals. Mutton was also included in the agreement with Australia.[3] Similar agreements were later announced with Ireland and Mexico. The exporting countries also agreed to limit their exports of better quality primal cuts of beef and veal, to the respective percentages of their total beef exports to the United States at the time of the agreements. The Administration, it seems, felt that it was only this higher quality meat which competed with the depressed American better grade product.

New Zealand's ambassador in Washington, G. Laking, said that

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[1] External Affairs Review, Vol. XIV, No. 1, January 1964, p. 18.

[2] See Appendix VII for full text of the agreement.

[3] Australia is the only substantial exporter of mutton to the United States. Mutton was included in the agreement because it was partly interchangeable with manufacturing beef.

his Government was limiting its exports upon an understanding that access for beef and veal 'is not limited by an increase in the duties on these products'.[1] The Prime Minister commenting on the agreement said, 'This agreement gives us a most satisfactory assurance of market access to the United States for beef and veal'. His comments may have given the impression that New Zealand had not reluctantly accepted the Agreement and that New Zealand now had an assurance that it would share in the future growth of the American meat market. However, later in the year when it became obvious that Congress would pass legislation imposing more stringent restrictions, he admitted:

> The agreement [17 February agreement] was signed somewhat reluctantly because ... the New Zealand Government had regard to the difficulties facing the United States administration.[2]

The announcement of the voluntary restraint agreements was 'met with an outcry of protest from Western Congressmen, Senators and Governors, as well as from cattle interests'.[3] They objected to 1962 - 63 being the base period; years of the greatest imports. The National Livestock Feeders Association described the agreements as a 'surrender' by the United States and pledged itself to fight for drastic cuts in imports.[4] Four Republican Congressmen from Colorado claimed in a joint statement that the Administration had carved out a section of the American market and made it permanently

[1] Press, 19 February 1964.

[2] Press, 19 August 1964.

[3] C.Q. Almanac, 1964, p. 134.

[4] Press, 20 February 1964.

available to Australian and New Zealand producers at the expense of the American meat producing industry and that it had done all of this without the advice of or approval of Congress.[1]

Senate Majority Leader, Mike Mansfield, himself from the cattle producing state of Montana, described the agreement as:

> This is a small step ... a very small one ... in the right direction, but it is not enough ... It would have been far more realistic if the average imports had been computed over the past five years, instead of the last two years.[2]

Numerous bills were introduced in both Houses of Congress within a few days of the meat agreements. Senators with normally such diverse viewpoints as the Democratic majority leader, Sen. Mike Mansfield, a strong Kennedy-Johnson Administration man, and Sen. Bourke Hickenlooper, a conservative Republican from Iowa, co-sponsored a bill to roll back beef imports to the 1959 - 63 average rather than the 1962 - 63 level provided in the agreement.

The first consideration by Congress of legislation on import quotas following the February Agreement came during a debate on an Administration sponsored Cotton-Wheat bill in the Senate. An import control amendment sponsored by R.L. Hruska, a Republican from Nebraska, and 21 other Senators, proposed to impose quotas on imports of fresh, chilled or frozen beef, veal, mutton and lamb at a level equal to the average imports of these commodities from 1958 - 1962. In effect such legislation would reduce boneless beef imports by 170,000 tons or 41 per cent below the February Agreement. For New Zealand it would

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1 Press, 21 February 1964.

2 C.Q. Almanac, 1964, p. 134.

have resulted in a cut of some 39 per cent (Table 4 - 5 figures). Hruska termed the voluntary agreements 'not acceptable or of any effective meaning in the distressed situation confronting' the livestock industry.[1]

Just prior to the Hruska amendment the Senate Democratic leader, Mike Mansfield, announced that the Senate Finance Committee would shortly begin hearings on legislation he sponsored, to establish meat import quotas, and urged Senators to vote against the Hruska amendment. He, along with Sen. George McGovern, warned that President Johnson might be forced to veto the Cotton-Wheat bill if the Hruska amendment was adopted. McGovern claimed that the amendment represented an invasion of President Johnson's trade-negotiating powers and that it would damage the United States position at the forthcoming 'Kennedy Round' GATT tariff negotiations and might endanger American farm exports.[2] The Congressional Quarterly Almanac commenting on the Hruska amendment states:

> Lobbying ... was intense. Peter H. Dominick [Republican, Colorado] ... said that "many of those in the White House and the State Department have been telephoning Senators" to defeat the amendment. Reports indicated active lobbying by cattle interests in favor of the amendment and by meat packing interests opposing it.[3]

Obviously the Administration had lobbied intensely against the amendment and yet it had only been defeated by two votes. It was clear at this stage that some form of import restrictive legislation was inevitable. Many Senators, such as McGovern and Mansfield, were

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[1] Ibid.

[2] Press, 7 March 1964; C.Q. Almanac, 1964, p. 134.

[3] C.Q. Almanac, 1964, p. 135.

in favour of import quotas being imposed but not as severe as thos proposed in the Hruska amendment.

Senate Finance Committee hearings were held between 11 and 31 March and on 17 June. Among proposals before the Committee was a bill sponsored by Mansfield and 19 other Senators which intended to limit annual imports of beef, veal and mutton from any country to an average amount imported during 1959 - 63, and for 1965 and thereafter to permit quotas to increase at the rate of growth of demand for such products in the United States. In the case of beef it had been estimated at 3.7 per cent per year.[1]

The Hruska amendment was also included in proposals before the Committee. Both Hruska's and Mansfield's proposals were introduced as amendments to a minor House of Representatives bill under consideration by the Senate Finance Committee.

During the hearings Mansfield claimed that the voluntary agreements, basing quotas on the 1962 - 63 level, guarantee the importers a future market at levels higher than at anytime in history. He said that the years 1959 - 63 reflected 'current trends in imports without giving special consideration to the highest years on record'.[2]

McGovern, in this testimony, claimed that the proposal before the Committee was 'moderate'. However, he said he shared the Administration's concern with the possible effect of the legislation on the Kennedy Round negotiations, but the effect might in reality

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[1]Hruska amendment proposed to permit imports to increase at the rate of population growth, which was about 1.5 per cent a year.

[2]C.Q. Almanac, 1964, p. 135.

be 'more sobering than disruptive' because it would 'underline the importance of developing sound world trade patterns, which would be stable because they are adjusted to real needs'.[1]

Allegations, such as those of the Governors of Wyoming and Colorado, illustrate some of the exorbitant arguments made against imported meats during the hearing. The Wyoming Governor claimed that Wyoming towns were 'absolutely dependent on the economic welfare of the surrounding agricultural lands ... the impact of meat imports has struck a crippling blow to the livestock industry'. The Colorado Governor contended that the state's livestock industry had lost $50 million because of excessive meat imports in 1963, resulting in a loss of over $200 million to the state's economy.[2] Similar claims were echoed by cattlemen representatives and woolgrowers associations.

While the Senate Committee considered drafting a meat import quota bill, the Administration sought to mollify those seeking protection by implementing a programme, which in effect, would keep beef prices up. President Johnson, in a speech on 12 May, said the U.S.D.A. was preparing 'a detailed, multiple-point program for effective action' in propping beef prices.[3] In June the Secretary of Agriculture listed steps taken by the Administration to aid the cattle industry. These included: stepped-up purchases of beef for distribution to schools, institutions and needy persons; 'vigorous

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[1] Ibid.

[2] Ibid.

[3] Ibid., p. 136.

promotional efforts' in co-operation with the industry to boost domestic beef sales; creation of a National Advisory Committee on Cattle; negotiations with exporting countries to reduce imports into the United States below levels specified in the voluntary agreements;[1] and development of export markets. He further stated that 'overproduction' was the major cause of low beef prices and:

> ... it would be a serious mistake to legislate quotas which, while serving no immediate purpose, would weaken the position of our Government in attempting to expand markets for all of American agriculture in the current GATT negotiations.[2]

In the meantime the Tariff Commission beef import inquiry, ordered by the Senate Finance Committee in November 1963, held public hearings in April and May at which interested parties were given the opportunity to produce evidence and be heard. New Zealand was represented at the hearings by Meat Board officials. Two American economists, Mrs D. Nichols and Dr H. Breimyer, both of whom had served with the U.S.D.A., made submissions on behalf of the Meat Board.

Much the same charges presented in testimony before the Senate Finance Committee were used by cattlemen representatives before the Tariff Commission. New Zealand's representatives argued that there was a deficiency in processing beef in the United States because 'your beef producing industry is abandoning the sausage maker for richer markets'.[3] They said that a reduction of beef imports by the action of the United States government would not solve a situation

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[1]This was made possible by heavy European demand for Australian and New Zealand beef at comparable prices with those in the United States.

[2]C.Q. Almanac, 1964, p. 136.

[3]Sir John Andrew, a member of the Meat Board, testimony, Press, 8 May 1964.

arising from domestic over-production of feedlot cattle and presented evidence of meat imports helping to maintain production and employment in the beef manufacturing industry, which otherwise would have been faced with a severe shortage of manufacturing beef. Mrs Nichols submitted evidence of a government survey of consumer expenditure which showed that lower income families ate less expensive cuts of beef, more sausage and stewing beef than higher income families, and that a large proportion of their expenditure for beef was on hamburgers. Since imported beef and veal consisted largely of meat suitable for these products they particularly benefited the low income groups. A reduction of manufacturing beef imports would have no alternative source for cheaper beef for manufacturing.[1]

The Tariff Commission published its report at the end of June.[2] It was largely a factual survey outlining the various factors affecting United States consumption, prices and supplies of beef and made no recommendations regarding possible action to restrict foreign supplies, which was rather surprising. The report did, however, provide a factual basis upon which the Administration or Congress could determine what action, if any, was required to protect the American beef industry.

The Chairman of the New Zealand Meat Producers Board, J.D. Ormond, on his arrival back in New Zealand after giving evidence

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[1] Doris Nichols, Beef: Supply and Demand in the United States. A factual study submitted to the United States Tariff Commission on behalf of the New Zealand Meat Producers Board.

[2] U.S.T.C. Publication 128, op.cit.

to the Tariff Commission was asked by reporters what publicity the hearing had received. He said there was very little publicity given to it in Washington newspapers but in the cattle producing states they were full of it.[1]

Final Action Leading to Meat Import Control Act

The Senate Finance Committee on 2 July reported the bill containing the amendment setting quotas on imports of beef, veal, mutton, lamb and goat meat to the floor of the Senate. On 28 July, by a roll-call vote of 72 - 15, the Senate passed the bill and returned it to the House with the meat import quota amendment attached.

Sen. Simpson of Wyoming called the Administration's actions to aid beef producers a 'smokescreen' and an attempt to 'divert attention from the import problem which is causing us so much damage'. He said he was:

> ... convinced that this Democratic Administration has done everything in its power to kill this legislation and I am convinced it will make every effort to get one of the committees in the House ... to sit on this bill.[2]

The bill, as passed by the Senate, imposed specified quarterly quotas on imports of fresh, chilled and frozen beef, veal, mutton, lamb and goat meat, sausages and prepared and preserved beef and veal beginning 1 January 1965. It also stipulated that no United States trade agreement could be inconsistent with the bill's provisions.

The New York Times, commenting on the Senate vote, said:

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[1] Press, 11 May 1964.

[2] C.Q. Almanac, 1964, p. 137.

> The Senate's demand for stiff new quotas on imports of meat is a clear domonstration of the power of a political pressure group in an election year. In taking this step the Senate has let short-term political consideration prevail over economics. Imports have not been a major factor in the slide of meat prices. Foreign meat is low grade and cheap, offering little competition for high-quality domestic production. Traditionally, they [American cattlemen organisations] have been aloof from the farm lobby and scornful of agricultural subsidies. Yet as soon as their high profits begin shrinking they resorted to every kind of pressure tactic to seek relief. Import quotas are nothing more than a disguised form of subsidy that would create more problems than they solve.[1]

Another New York newspaper, the New York World-Telegram and Sun, in an editorial on 30 July, said rather hopefully:

> One must assume ... that the Senate vote was merely an election-year gesture to help beef-state senators - including that hitherto great exponent of increased trade, Senator [Hubert] Humphrey of Minnesota - in good with the cattlemen back home, and that, as is now predicted, the quota bill will be given a quiet burial in the House as Congress rushes for adjournment.[2]

The prediction of the New York paper was not to pass. After considerable manoeuvring within the House the bill went to a conference of representatives of both houses of Congress. Because the original Senate bill had been so strongly opposed by the Administration, Congressional members worked with Secretary of Agriculture Freeman and the Under-Secretary of State, George Ball, together with cattle interests to develop a bill acceptable to the White House and to the cattlemen. In the compromise version of the bill, reported on 17 August, the Senate provisions were considerably watered down. The Senate bill imposed mandatory quotas at the 1959 - 63 average, to take effect on 1 January 1965; the conference

[1] Quoted in Press, 31 July 1964.

[2] Quoted in Press, 1 August 1964.

version included a trigger mechanism imposing quotas only if imports exceeded the 1959 - 63 average by 10 per cent, with adjustments for market developments in the United States. The conference version excluded quotas for lamb, sausages, prepared and preserved beef and veal. The Senate bill had provided for suspension of quotas only in time of national emergency or disaster declared by the President while the conference version permitted suspension if the President thought it necessary for overriding national, economic or security interests, including balance of payments and trade considerations.

The conference report on the bill, after overwhelming approval by both houses of Congress,[1] was given Presidential approval on 22 August 1964.[2] Thus, despite the desperate efforts of the Administration to stem cattle industry protectionist pressure, they had failed. Admittedly the Administration had been able to weaken the more stringent provisions of the Senate bill but this was more than they had bargained for.

Continuing 'Battle of the Hamburger'

The provisions of the relatively complicated 1964 legislation can be summarised as follows:

1. Average United States production for the years 1959 to 1963 were calculated; 15,700 million lb (7,008,900 tons).
2. Average imports for the same period were taken. They were 722 million lb (322,300 tons). The Act, however, specifies a minimum base of 725.4 million lb (323,800 tons).

[1] House of Representatives pass the bill by 232 - 149 and the Senate by voice vote.

[2] Public Law 88 - 482.

TABLE 4 - 6 UNITED STATES IMPORTS OF MEAT[a] FROM INDIVIDUAL COUNTRIES, SUBJECT TO THE MEAT IMPORT LAW, 1965 - 1971, INCLUSIVE

(Product Weight Basis)

	1965		1966		1967		1968		1969		1970		1971	
	'000 Tons	%	'000 Tons	%	'000 Tons	%	'000 Tons	%	'000 Tons	%	'000 Tons	%	'000 Tons	%
Australia	149.0	54.4	205.4	55.9	213.3	53.4	225.6	50.5	242.3	50.1	252.5	48.3	236.6	46.8
New Zealand	46.5	17.0	64.8	17.6	76.4	19.1	90.8	20.3	100.0	20.7	108.0	20.7	107.6	21.3
Ireland	3.5	1.3	17.1	4.7	35.8	9.0	25.3	5.7	29.5	6.1	30.8	5.9	28.5	5.6
Canada	31.2	11.4	24.7	6.7	11.4	2.8	20.2	4.5	19.3	4.0	34.7	6.6	34.7	6.9
Mexico	20.6	7.5	25.5	6.9	21.3	5.3	29.3	6.6	29.7	6.1	35.1	6.7	35.3	7.0
Central America[b]	21.7	7.8	27.8	7.6	37.9	9.5	47.5	10.6	53.4	11.0	53.2	10.2	57.0	11.3
Other Countries	1.6	0.6	2.3	0.6	3.4	0.9	8.2	1.8	9.8	2.0	8.3	1.6	6.0	1.1
	274.1	100.0	367.6	100.0	399.5	100.0	446.9	100.0	484.0	100.0	522.6	100.0	505.7	100.0

Source: U.S. Department of Commerce Statistics.

[a]Chilled, fresh and frozen beef, veal, mutton and goat meat.

[b]Includes Nicaragua, Guatemala, Honduras, Costa Rica.

Note: U.S. import figures include imports through third countries and direct imports. New Zealand Meat Producer Board arrival figures exclude meat refused entry.

3. Then, in any year, United States production for that year and the two preceding years is estimated and compared with the base period. In 1965, for example, the years 1963 - 65 were taken for United States production. The figure was 18,400 million lb (8,214,300 tons) or 17 per cent above the 1959 - 63 average.
4. This percentage was applied to the average imports for 1963 - 65 (actually to 725.4 million lb) and resulted in 848.7 million lb (378,900 tons).
5. This figure was increased by 10 per cent which made it 933.6 million lb (416,800 tons).
6. The Secretary of Agriculture made his estimates of likely imports, based on information from supplying countries or U.S.D.A. estimates, and as it was below 933.6 million lb no quotas were applied.
7. Had the estimated imports exceeded 933.6 million lb the quota would have been based on the 848.7 million lb; that is, the 10 per cent tolerance would have been deducted.
8. The President may suspend any proclamation for quotas if he considers it is in the overriding interest of the United States so to do or if the quantity of meat available will be inadequate to meet demand at resonable prices.

Since 1964 the Administration has been anxious to avoid situations in which restrictions would have to be imposed. Prior to 1968 imports of meat covered by the quota legislation, as indicated in Table 4 - 7, were well below the trigger level. More attractive prices in the United Kingdom and Western Europe diverted large quantities of meat away from the American market. However, in the final quarter of 1968 global imports were running at such a level that it appeared likely that were some corrective action not taken, the trigger point would have been exceeded. The four main suppliers, Australia, New Zealand, Ireland and Mexico, after consultations with the Administration, reluctantly agreed to voluntarily restrain their shipments to within the trigger level for the remainder of the year. The voluntary restraint arrangement has continued since that date.

There was considerable disagreement as to whether individual suppliers were receiving fair allocations in relation to past

TABLE 4 - 7 GLOBAL AND NEW ZEALAND RESTRAINT LEVEL OF IMPORTS SUBJECT TO THE MEAT IMPORT LAW

Year	NEW ZEALAND				GLOBAL POSITION					
	Restraint Level		Actual		Quota Position		Restraint Level		Actual[a]	
	'000 Tons	%	'000 Tons	%	Base Quota '000 Tons	Trigger Figure '000 Tons	'000 Tons	%	'000 Tons	%
1965	-	-	46.5	17.0	378.9	416.8	-	-	274.1	100.0
1966	-	-	64.8	17.6	397.3	437.0	-	-	367.6	100.0
1967	-	-	76.4	19.1	403.8	444.2	-	-	399.5	100.0
1968	90.2	20.4	90.8	20.3	424.6	466.6	442.0	100.0	446.8	100.0
1969	Initial 94.2 Revised 97.1	20.4 20.8	100.0	20.7	441.1	485.2	Initial 461.9 Revised 466.7	100.0 100.0	484.0	100.0
1970	Initial 98.3 Revised 102.4 102.4	20.7 20.1 19.8	108.0	20.7	445.9	490.5	Initial 473.9 Revised 508.9 517.9	100.0 100.0 100.0	522.5	100.0
1971	Initial 104.5 Revised[b]	20.2 22.0	107.6	21.3	457.6	503.3	517.9	100.0	505.7	100.0
1972	112.0	20.2					553.6			

Source: U.S. Department of Commerce Statistics.

[a]U.S. import figures include imports through third countries and direct imports (including meats subsequently refused entry).

[b]In 1971 an additional 9,300 tons was allocated to New Zealand as a result of a shortfall in Australian supplies. There was no increase in the global quota figures.

performance. Both Australia and New Zealand had in the previous three years diverted large quantities of beef away from the United States to temporarily more profitable markets. The amount that New Zealand is able to supply under the restraint procedures is less than would have been received under the original voluntary restraint agreement of February 1964 but rather more than would apply had the Meat Import Act been fully enforced.

The voluntary restraint agreements have been reviewed each year since 1968 and New Zealand, along with other suppliers, has naturally pressed its claim for a larger allocation. On 30 June 1970 President Nixon, using the discretionary powers vested in him by the 1964 legislation, took the unprecedented step of invoking quotas and then suspending them to allow overall imports through the voluntary restraint programme to exceed the levels permitted by the Act.[1] In 1971 and 1972 the same device has been used to allow imports to exceed the trigger level imposed by the 1964 legislation.

Eleven of the thirteen supplying countries have bilateral agreements with the United States; each agreeing to restrict their imports of quota meat to a negotiated quantity.[2] In the 30 June Presidential proclamation the Secretary of Agriculture was delegated

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[1] Presidential Proclamation 3993.

[2] Besides Australia, New Zealand, Ireland and Mexico, the United States has voluntary restraint agreements with Nicaragua, Guatemala, Costa Rica, Honduras, Dominican Republic, Panama and Haiti. Of the 1971 global quota the following levels were apportioned to suppliers: Australia 250,100 tons, New Zealand 104,500 tons, Guatemala 12,000 tons, Costa Rica 16,600 tons, Honduras 7,000 tons, Dominican Republic 5,200 tons, Panama 2,500 tons, and Haiti 1,100 tons. The U.S.D.A. estimated that imports from Canada and Northern Ireland would amount to 35,700 tons and 2,200 tons respectively.

authority to issue regulations limiting imports of meat under Section 204 of the Agricultural Act of 1956, which is the basis of the voluntary restraint arrangements. This enables the Secretary of Agriculture, with the concurrence of the Secretary of State and the Special Trade Representative, to issue regulations if necessary to limit imports from any country which reaches its voluntary restraint level. Canada, whose livestock and meat industries are closely related to those of the United States, and the United Kingdom (Northern Ireland) are the only two suppliers exempt from such arrangements.

The activities of a number of Canadian merchants in late 1969 and 1970 in transhipping Australian, New Zealand and Irish meat into the United States, under the disguise of being part of the Canadian allocation, threatened to disrupt the voluntary restraint arrangements. Canadian importers, taking advantage of the higher prices available over the border sent about 3,000 tons of beef imported from New Zealand into the United States in 1969.[1] This meant that some 3,000 tons more meat than the Administration had agreed to was imported. In negotiating the level of the 1970 quotas New Zealand was concerned to ensure that Canadian transhipments were not debited against the quotas of the country of origin. The Nixon Administration, however, was determined to stop this practice and debited the excess shipments of 1969 against the country of origin. Canadian transhipments were continued in 1970 and a group of 17 Republican Senators in March of that year appealed to the White House to

[1] *Press*, 10 January 1970.

prohibit the sale of re-exported meat.[1]

In his 30 June proclamation President Nixon also acted to stop transhipments through a third country. Some 9,800 tons of Australian and New Zealand meat which had entered the United States via Canada between January and July were deducted from the total quota increases. One farm columnist, commenting on the Presidential action described it as 'another round in the battle of the hamburger'.[2] The United States borders have remained closed to indirect shipments of quota meat produced in Australia, New Zealand and Ireland since July 1970.

Prior to 1971 the level of supply for the coming year was normally made known at the end of December or in the first two weeks of January. However, in the last two years the negotiations have been rather lengthy affairs and no official announcement has been made before March. The delays have reflected the diversity of pressures the Administration has been subjected to. Both Australia and New Zealand have not been satisfied with the levels of supply originally suggested by the Administration and have argued that the market can absorb a much higher quantity without suffering an undue drop in prices. American cattlemen representatives, on the other hand, have argued, despite rising prices and growing consumer concern, that they would obtain a better price for their product if imports were reduced.

The political influence of the cattlemen has not waned since

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[1] Press, 13 March 1970.

[2] <u>Meat</u>, No. 184, 30 June 1970.

1964. However, with higher ruling prices for their stock, opposition to imports has generally been on a lower key. The importance of cattle sales to the economy of various American states and the farming industry as a whole was emphasised in recent figures published by the American Farm Bureau. These show that sales of cattle were the major source of farm income in 22 states during 1970. In 11 other states they made up the second largest source of farm income.[1]

At the present time it seems that American cattlemen are prepared to tolerate the existing level of imports but should their prices take a sudden downturn who can predict the sort of pressures they will apply?

II LAMB

Sheepmeats are produced and consumed in large quantities in only a few countries and contribute about 8 per cent of the estimated world output of red meats.[2] The USSR, Australia, New Zealand, the United States, the United Kingdom, Argentina and South Africa, in that order of importance, together account for the great majority of the world's production of lamb and mutton. Two of these countries, Australia and New Zealand, dominate the export trade, which in 1969 represented 17 per cent of the world output of lamb and mutton. The United Kingdom provides the largest market for sheepmeats; accounting for approximately 65 per cent of world gross imports in recent years.

On a weight basis, lamb and mutton exports represented 64 per cent of New Zealand's meat exports in the 1971 marketing season.[3]

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[1] Press, 6 January 1972.

[2] See Appendix V.

[3] Annual Report, New Zealand Meat Producers Board, 1971, p. 45.

Although in recent years mutton exports to the United Kingdom have been less than 20 per cent of the total trade in that product, New Zealand is still very dependent of the British market for the bulk of its lamb exports (Table 4 - 8).

Sheepmeats make up a very small portion of the American meat diet, accounting for less than 2 per cent of total meat consumption. While consumption of red meats have increased by more than 20 lb per head since 1960, lamb and mutton intake has declined from 5 lb in the early 1960s to an average of 3.5 lb for the 3 years ended 1970.[1]

Lamb is the main source of income to the American sheep industry, accounting for two-thirds to three-quarters of farmers' incomes.[2] Mutton production in the United States is very small. In recent years sheep have accounted for only 6 to 7 per cent of total sheep and lambs slaughtered under Federal inspection.[3] Unlike the New Zealand practice, most sheep kept for breeding in the United States die on the farms. Mutton is not sold in retail, except in low income areas and in some Southern States. Most of the mutton is boned and, together with imported supplies, is used in manufacturing low priced sausages, luncheon meats and soup stocks.

Australian exports of mutton to the United States, as Figure 4 - 1 shows, make up the greater proportion of American lamb and mutton imports. New Zealand did ship a total of 9,440 tons in the 4 years

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[1]U.S.D.A., Livestock and Meat Situation (various issues).

[2]Berg, Public Hearings, op.cit., p. 65.

[3]U.S.D.A., Livestock and Meat Situation, May 1971, p. 17.

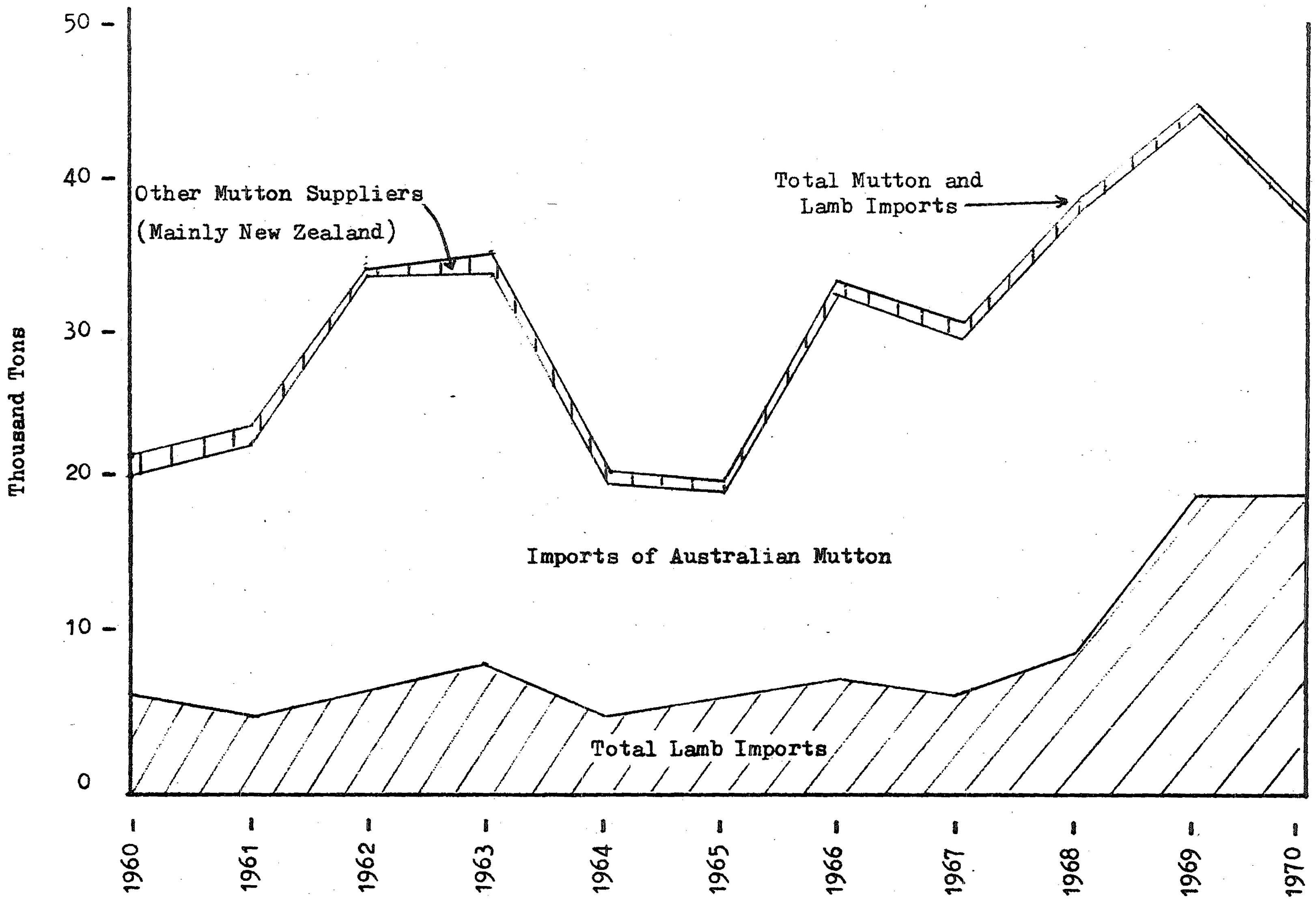
TABLE 4 - 8 DESTINATION OF NEW ZEALAND LAMB EXPORTS, 1953 - 1971, INCLUSIVE

Year Ending 30 September	United Kingdom	Canada	United States	Greece	Total Outside U.K.	Percentage of Total Exports Diverted Outside U.K.	Total to all Destinations
			(Thousand Tons)				
1953/54	187.1	1.7	0.2	-	3.2	1.7	190.3
1954/55	196.9	2.5	0.2	-	3.6	1.8	200.5
1955/56	199.8	1.6	0.1	0.1	2.8	1.4	202.6
1956/57	195.5	2.0	0.1	-	3.3	1.7	198.8
1957/58	214.0	5.4	2.3	-	8.9	4.0	222.9
1958/59	238.0	1.6	1.2	-	4.1	1.7	242.1
1959/60	251.1	3.9	1.9	a	7.5	2.9	258.6
1960/61	253.8	4.8	3.0	0.3	10.7	4.1	264.5
1961/62	255.7	5.1	4.3	a	13.4	5.0	269.1
1962/63	253.9	5.5	5.4	a	16.7	6.2	270.6
1963/64	265.9	5.5	2.4	2.7	17.0	6.0	282.9
1964/65	259.0	6.1	5.7	0.8	19.4	7.0	278.4
1965/66	267.3	7.3	5.9	0.5	22.7	7.8	290.0
1966/67	269.6	4.7	3.6	3.0	24.5	8.3	294.0
1967/68	273.5	8.3	5.6	6.0	36.2	11.7	309.7
1968/69	272.6	0.6	8.9	6.2	32.1	10.6	304.6
1969/70	286.9	2.3	10.7	8.9	43.1	13.1	330.0
1970/71	287.3	2.6	6.1	14.6	44.6	13.4	331.9

Sources: New Zealand Meat Producers Board: The Annual Report (various issues); Meat, a monthly publication (various issues).

[a]Less than 50 tons.

FIGURE 4 - 1 UNITED STATES IMPORTS OF MUTTON AND LAMB, BY SOURCE, 1960 - 1970



prior to the end of the 1961 marketing season but since that date sales have generally been well under 500 tons yearly. This is mainly due to the development of a more lucrative market in Japan and a ban imposed by the Meat Board in 1968 preventing mutton from taking up part of New Zealand's meat quota to the United States when it could get greater returns from beef sales.

As has been noted, there are at present no quantitative restrictions on lamb imports into the United States but mutton was included in the provisions of the 1964 Meat Import legislation and since 1968 has been voluntarily limited by the exporting countries.

While imports of mutton during the last decade have been two to three times the size of domestic production, lamb imports have never been equivalent to more than 8.6 per cent of the estimated United States production (Table 4 - 9). It is only since 1958 that lamb imports have exceeded 1 per cent of domestic production. Yet it is from about that time that American sheep producer organisations began to apply pressures for lamb imports to be restricted. In 1960, when imports were equivalent to less than 2 per cent of domestic production, Tariff Commission hearings were held to examine the effect of both lamb and mutton imports, following applications by the National Wool Growers Association and the National Lamb Feeders Association that such imports be placed under restrictions.[1] In a 4 - 2 majority decision the Commission ruled against the requested

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[1]U.S. Tariff Commission, Lamb, Mutton, Sheep and Lambs. Report on Escape - Clause Investigation No. 7 - 83 under Section 7 of the Trade Agreement Act of 1951, as Amended. (Washington, D.C., June 1960).

TABLE 4 - 9 UNITED STATES LAMB AND MUTTON IMPORTS AS A PERCENTAGE OF DOMESTIC PRODUCTION, 1952 - 1970, INCLUSIVE

Year	U.S. Production[a]		U.S. Imports		Imports as a Percentage of U.S. Production	
	Lamb	Mutton	Lamb	Mutton	Lamb	Mutton
	(million lb)					
1952	609	39	5.4	0.8	0.9	2.1
1953	685	44	1.8	1.3	0.3	2.9
1954	690	44	1.8	0.3	0.3	0.7
1955	713	45	1.4	0.9	0.2	2.0
1956	697	44	0.8	0.6	0.1	1.4
1957	665	42	1.8	1.7	0.3	4.0
1958	647	41	6.8	34.3	1.0	83.6
1959	694	44	9.5	94.6	1.3	215.0
1960	722	46	12.4	74.6	1.9	162.1
1961	782	50	10.9	89.8	1.4	179.6
1962	760	48	13.2	130.0	1.7	270.8
1963	724	46	18.9	125.8	2.6	273.5
1964	672	43	10.4	68.6	1.5	159.5
1965	612	39	12.5	60.6	2.0	153.8
1966	611	39	14.9	121.1	2.4	310.6
1967	607	39	12.3	108.6	2.0	278.5
1968	566	36	22.9	124.0	4.1	354.3
1969	517	33	43.9	108.4	8.6	328.5
1970	518	33	43.5	79.0	8.4	239.4

Source: U.S.D.A., Interim Report on a Study of the Lamb Industry with Special Emphasis on Lamb Imports, (Packers and Stockyards Administration and Economic Research Service of U.S.D.A.).

[a]Includes commercial and farm slaughter. Volume of lamb is calculated at 94 per cent of total lamb and mutton slaughter, mutton 6 per cent.

action. No action was taken by the Administration. Despite this decision and despite a continuous decline in sheep numbers since 1960 (Table 4 - 10 and Figure 4 - 2), these producer organisations have persisted in their efforts to have quotas imposed on lamb imports.

It is against a background of the threat of import restrictions that New Zealand's efforts to develop a market for lamb in the United States should be examined.

The Meat Export Development Company (DEVCO)

It was not until the 1967 - 68 marketing year that more than 10 per cent of New Zealand's lamb exports went to markets other than the United Kingdom. As Table 4 - 8 indicates, there appears to have been a conscious effort to diversify lamb exports to other markets since the late 1950s. The United States, along with Canada, and more recently Greece, have become major alternative destinations for New Zealand lamb.

Unlike the Dairy Board, the New Zealand Meat Producers Board does not market the products of the industry it represents. The private exporter is the operator.

Experimental token shipments of New Zealand lamb were made to the United States in the the three years prior to the termination of the bulk contracts with the United Kingdom, but as J.J. Evans, General Manager of the Meat Board, warned following the rejection of a 3,600 ton shipment of lamb by New York officials in 1952:

> It is obvious ... the standards laid down for foreign meat imported into America are being more strictly interpreted, and any future trading in meat with the United States will

TABLE 4 - 10 UNITED STATES LAMB NUMBERS, 1959 - 1971, INCLUSIVE

Year	Number (million head)	Percentage Change from Preceding Year
1959	21.1	+2.1
1960	21.0	-0.5
1961	20.8	-1.1
1962	19.7	-5.1
1963	18.5	-6.1
1964	17.0	-8.2
1965	16.3	-4.0
1966	15.9	-2.6
1967	15.0	-5.5
1968	14.4	-3.8
1969	13.7	-5.1
1970	13.4	-2.1
1971	12.9	-3.6

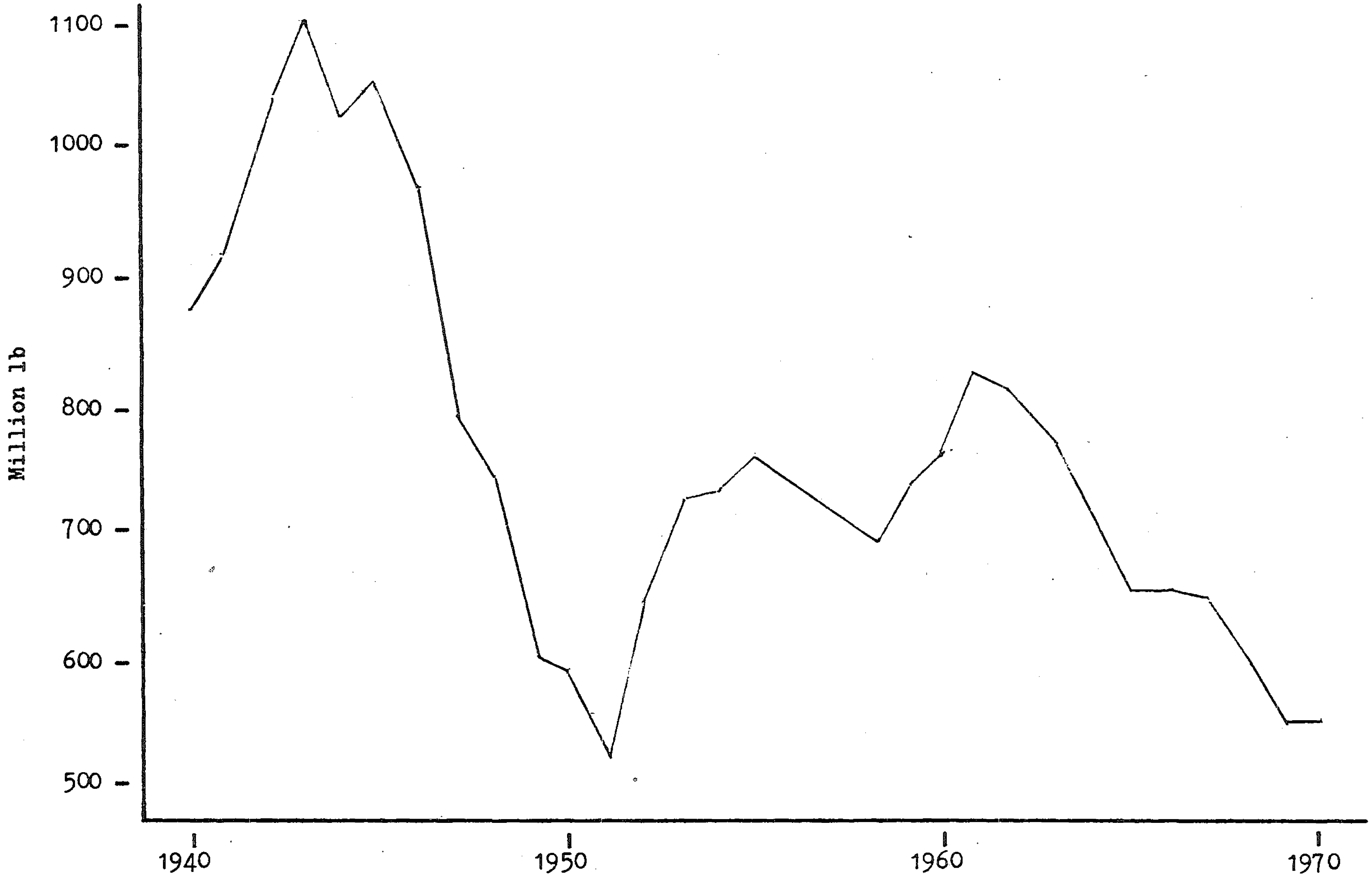
Source: U.S.D.A., Livestock and Meat Situation (various issues).

> necessitate a much higher standard of inspection and packing than is required by the British market.[1]

With the end of the bulk contracts the Meat Board sought a more satisfactory development of the North American market for lamb but found that in the prevailing market conditions there was no certainty of a continuity of supply. The quality, preparation and presentation of lamb offered or sold to North American importers was very much influenced by price and by commitments of suppliers to the British market. In the late 1950s, however, the British government began to exert some pressure on New Zealand to divert more of its meat away from the United Kingdom. This factor, coupled with the obvious necessity of finding outlets for New Zealand's ever increasing

[1] Press, 9 August 1952.

FIGURE 4 - 2 UNITED STATES PRODUCTION OF MUTTON AND LAMB, 1940 - 1970



Source: U.S.D.A., Agricultural Statistics (various issues).

lamb production forced the Meat Board to take steps to rectify the sporadic nature of lamb shipments to destinations outside the United Kingdom. If the Board was going to spend money and time promoting and developing markets there had to be some assurance that there would be a continuity of supply and access to the particular markets.

Both the United States and Canada were looked upon by the Meat Board as markets that offered ready access and a large potential demand. In response, the 1921 - 22 Meat Export Act was amended in 1959 to extend the powers of the Meat Board to buy New Zealand-produced meat and dispose of it anywhere overseas where it wished to promote or maintain a dwindling market. Under this legislation North America was declared an under-developed market for lamb and the responsibility for developing sales in this area was placed with the Meat Export Development Company, otherwise referred as Devco.

Devco was formed in 1960, with an initial capital of $120,000 provided by 11 New Zealand owned freezing companies. The initial capital was boosted to just over $200,000 in 1964 when overseas companies were admitted. The Meat Board and the freezing companies have equal representation on the company's directorate, with any losses incurred in operations being debited against the meat industry reserve account.

Devco is the single instrumentality of the Meat Board and the New Zealand meat industry in exporting lamb to the United States and Canada. It is responsible for making arrangements for the supply and distribution of New Zealand lamb in North America and for the co-ordination of all related activities.[1]

Devco's Operations

Ever since Devco began its operations in 1961, it has had to endure criticism from many quarters; not only from American producers claiming that its activities were having a detrimental effect on the sales of the domestic commodity, but also from a number of New Zealand farmer and exporter groups. What the Meat Board and Devco have described as market development costs, others have bluntly described as losses.

Devco was created to bring about the orderly development of New Zealand's lamb trading with the United States and Canada. Among its objectives was not only to relieve oversupply on the British market, but also to create a major new market in North America.

From the outset Devco could hardly have been described as a model of efficiency but many of its initial problems stemmed directly from a general lack of experience in marketing lamb outside the United Kingdom. It was to take Devco and the Meat Board a number of years, through trial and error, to develop a product more acceptable to the American consumer. Devco found itself trying to sell frozen lamb in a market where domestic fresh lamb was losing ground. Consumers, as well as retailers and wholesalers, in both the United States and Canada were quite unfamiliar with frozen lamb. Technical probllems connected with transportation, cutting and mechandising frozen lamb had to be overcome. The Meat Board found

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[1] The only exception is the supplying of lamb for United States army contracts, which is under the complete jurisdiction of the Meat Board.

that its product was not suitable for the American supermarket society; that its needs were entirely different to those of the British consumer.

One of the major problems that had to be overcome were complaints of the lamb being tough.[1] With the help of the Meat Industry Research Institute a process of 'conditioning and ageing' lamb for the North American market was instituted in 1967 - 68.[2] Although originally intended for the American consumer, this process was extended to include all lambs sent to Canada.

In a market where lamb makes up less than 2 per cent of all red meat consumption there have been numerous difficulties encountered in promoting the product. Sheepmeat consumption in the United States bears little relation to population. The North eastern states region and the Pacific Coast states, together with Chicago, are the three main areas of lamb sales, accounting for 86 per cent of total sales in the United States. However, the timing of sales in these areas have to be closely watched by Devco in order not to provoke protests of market disruption and disorderly marketing. These areas are

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[1] Complaints of New Zealand lamb being tough are less frequent in the United Kingdom, due mainly to the different way in which it is handled. Usually the lamb is thawed out in the butcher's shop and is in a thawed state when the customer eventually cooks it. In North America, however, where supermarkets are a dominant feature of life and where deep-freeze units are a more common household item, the convenience - foods - conscious householder may put the frozen cut into the oven and as a result the lamb is less tender.

[2] This tenderising process involves keeping the carcase initially in a controlled temperature chamber, set at about room temperature, for approximately 16 to 20 hours. The carcase is then transferred into another temperature chamber, set just above freezing point, for a further period until the required tenderness is achieved, after which it is blast frozen.

regarded by American producers as very sensitive to oversupply.[1] Thus Devco has had to attempt to make sales in other regions. This has been difficult. A recent survey, for example, has shown that approximately 90 per cent of the people in the Midwest had never tasted, or had eaten lamb only rarely.[2]

The Meat Board is naturally limited in the resources it can devote to promoting a product in the large American market where it is little known and often regarded with sheer prejudice. It has been the endeavour of Devco, particularly since the decision to sell only conditioned and aged lamb, to have the American consumer identify New Zealand lamb as a uniform, high quality product. This has meant that Devco has had to maintain a quality control on all selected carcases for export and to regulate the trimming and cutting of the lamb into primal cuts. Because of the more stringent American hygiene regulations and Devco's requirements of only prime carcases with little or no surplus fat, only a few lambs of a kill may be selected, depending on the type of lamb being slaughtered.

The American lamb carcase normally weighs between 45 and 55 lb and is sometimes as high as 70 lb. Initially Devco purchased prime lambs with a weight range of 37 to 56 lb carcase weight from the New Zealand meat export companies, but because of the lack of sufficient quantities the company now concentrates on marketing lambs of an average of 33 to 36 lb. Larger lambs in adequate numbers are just not available and the buying done by Devco is too small to have

[1] P.J. Wakelin, Interview, Wellington, 9 June 1971.
[2] Press, 16 June 1971.

any influence on the lamb schedules set by the individual meat companies.[1]

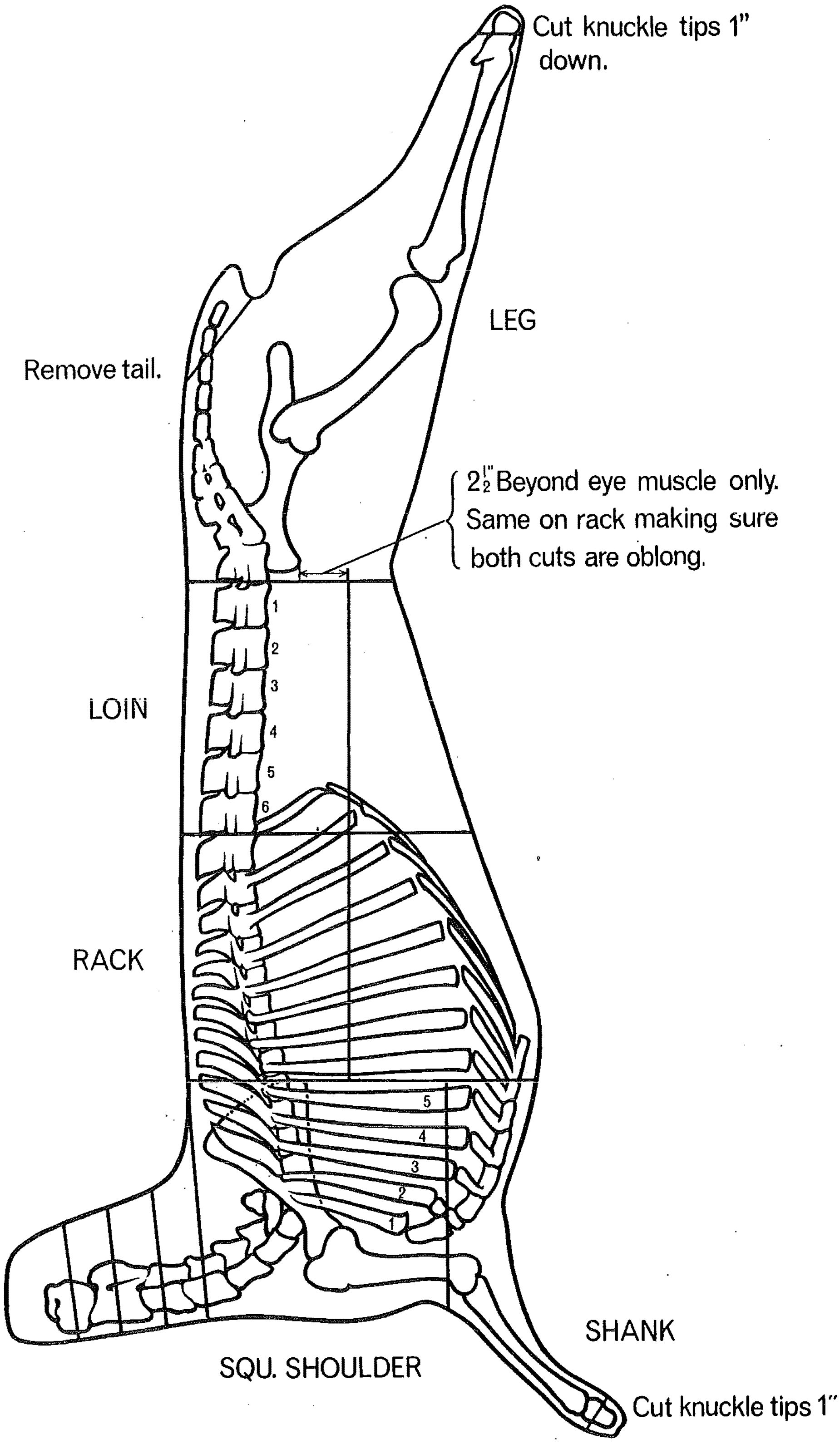
Each carcase is split in half, each half yielding 7 cuts; neck, squared shoulder, shank, rack, loin, leg and breast (Figure 4 - 3). Of these, the neck and breast are sold back to the freezing companies and the remaining 10 cuts are sealed in plastic film and packed in cartons; a very different process to the British market where lamb is still exported in carcase form.

Initially Devco distributed its lamb in North America by way of consignees who placed orders at the company's office in Chicago and shipments were allocated according to orders. The consignees handled and stored the product on arrival, including the customs clearance and inspection procedures, and made actual sales at minimum prices predetermined by Devco. Consignee expenses for handling, storage, transport and all the administrative arrangements associated with distribution were reimbursed on the basis of a commission paid by Devco. However, the consignment system did not permit the company to maintain tight expense controls and made it difficult to formulate a clear policy on seasonal and regional demand and consumer preferred cuts. It was also open to exploitation and it was felt that 'loyal distributors' representing Devco with 'singlemindedness' were needed.[2] Thus in January 1971 a new system of selling the product outright to distributors was adopted in Canada and the same system was introduced in the United States two

[1] Wakelin, Interview, Wellington, 9 June 1971.

[2] The New Zealand Meat Producer, Vol. XV, No. 1, October 1970, p. 9.

FIGURE 4 - 3 CARCASE CUTS OF LAMBS SENT BY DEVCO TO NORTH AMERICA



months later. While this method has entailed higher overhead costs because of the need of more promotional staff, it has been offset by savings in commission payments.[1] In January 1970 Devco had only 5 men in the field in the United States and one in Canada to service 49,000 supermarkets and 4,700 chain stores. There are at present 9 field representatives in the United States and 3 in Canada.[2]

While the marketing of all New Zealand lamb in the United States and Canada is directed from the Chicago headquarters of Devco, market promotion is the responsibility of the Meat Board's New York office. The Board has for a number of years employed the services of promotional and public relations firms in both countries. Initially nearly all the Board's North American promotional activities were carried out in Canada and it was not until the 1965/66 marketing year that the Board did promotional work on any scale in the United States. However, since 1968 the United States has become the Board's prime target.

<u>Australian Competition</u>

When New Zealand began exporting consistently large quantities of lamb to Canada in 1959 - 60 lamb was a vanishing item in Canadian food stores. The domestic sheep flock has declined by almost half since 1960, from 1.6 million to less than 900,000 in 1970. During the same period domestic supplies, as a proportion of consumption, fell from over 50 per cent to less than 20 per cent.[3]

Most of Devco's initial sales were in Canada and until 1968

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[1] <u>Press</u>, 23 March 1972.

[2] <u>Annual Report, New Zealand Meat Producers Board</u>, 1971, p. 21.

[3] <u>The Mutton and Lamb Situation</u>, No. 5 (Canberra, Bureau of Agricultural Economics, 1971), p. 25.

it ranked as New Zealand's second largest lamb market. In the mid-sixties, however, the Australians began moving into the market undercutting New Zealand prices. Eventually, as a consequence, New Zealand sales fell off and it was decided by the board of Devco in 1969 that only conditioned and aged cuts be supplied to this market in the hope that Canadian consumers, like their American counterparts, would identify this as a high quality product and be prepared to pay the extra for it instead of purchasing the lower quality, non-standardised Australian product. While sales have taken an upturn in the last two years they are still below the 1968 figure.

Similar competition in the United States market has been felt by Devco. In this more politically sensitive market Australian selling practices have brought much adverse publicity to imported lamb and has been a source of major concern to New Zealand Meat Board officials.

The Australian and New Zealand meat boards represent two entirely different systems of operation in North America. While product selection, the timing of shipments and the wholesale pricing of lamb are closely controlled by Devco, the Australian Meat Board does not interpose itself on the actual trading of Australian lamb exports. As a recent U.S.D.A. interim report on the selling of imported lamb in the United States has observed:

> The New Zealand lamb in this country handled by MEDCO [Devco] is a standardized high quality spring lamb product which sells at a fairly uniform price to all wholesalers and retailers. ... The Australian product, on the other hand, may come from a

TABLE 4 - 11 AUSTRALIAN AND NEW ZEALAND LAMB SALES, BY TYPE OF PRODUCT, TO THE UNITED STATES, 26 JUNE 1969 AND 4 JULY 1970

Product Type	Australia (Million lb)	Australia (Percentage)	New Zealand (Million lb)	New Zealand (Percentage)
Legs	6.3	35	7.6	41
Loins	1.9	11	2.0	11
Shoulders	3.0	17	6.0	33
Racks	1.6	9	1.7	9
Shanks	-	-	1.0	5
Boneless Manufacturing	4.6	26	0.1	1
Carcases	0.5	3	-	-
	17.9	100	18.4	100

Source: U.S.D.A., Interim Report on a Study of the Lamb Industry with Special Emphasis on Lamb Imports (Packers and Stockyards Administration and Economic Research Service of U.S.D.A.).

variety of weights and qualities of Australian lamb and sells in the wholesale market at a corresponding variation in prices.[1]

The end uses of lamb from the two countries is a fair indicator of difference in quality. Boneless manufacturing lamb accounted for one quarter of Australian sales in the United States between 29 June 1969 and 4 July 1970 while almost all the New Zealand product was primal cuts (Table 4 - 11).

Protectionist Moves

Following the Tariff Commission's findings in 1960, it was not until consideration of the meat import restriction legislation in

[1]U.S.D.A., Interim Report on a Study of the Lamb Industry with Special Emphasis on Lamb Imports (Packers and Stockyards Administration and Economic Research Service of U.S.D.A.), p. 56.

1964 that lamb exporters to the United States were again posed with the threat of quotas being imposed on imports. The original Senate version of the meat quota bill had included lamb in its provisions but during the conference between Senate and House members it had been insisted on by House conferees that lamb quotas be dropped because 'they felt very strongly that lamb did not involve the competitive problems that imported beef, veal and mutton created'.[1] As one sheep producer's spokesman told the National Advisory Commission on Food and Fiber in 1967:

> We found it very difficult to get anyone in Washington excited over the fact that ... lamb imports had increased considerably.[2]

Despite the apparent lack of response in Washington it did not curb interested sheep producer organisations from maintaining their protectionist stance. A resolution passed by the National Wool Growers Association annual convention in 1967 illustrates this point:

> We direct our officers to take whatever action is required to secure the establishment of realistic import quotas on lamb and mutton ...[3]

Judging from the response of the New Zealand government and Meat Board officials, perhaps the greatest threat of New Zealand's lamb exports to the United States being restricted by quotas was

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[1] Chairman of the Senate Finance Committee, H.F. Byrd, quoted in Senate debate on the compromise version of the bill. C.Q. Almanac, 1964, p. 138.

[2] Berg, Public Hearings, op.cit., p. 68.

[3] Part of Resolution 13 of the 102nd Annual Convention of the National Wool Growers Association, Las Vegas, Nevada, 18 January 1967. Published in the National Wool Grower, Vol. LVII, No. 2, February 1967, p. 16.

in mid-1969 when the Senate Finance Committee approved a bill containing such provisions. A 'rider' sponsored by Sen. W. Bennett, a Republican from Utah, was attached to a non-controversial Racehorse Tariff Bill, previously passed by the House of Representatives and approved by the Senate Committee. Bennett, whose state was the sixth largest sheep producer in the United States, claimed that a quota was needed to 'strike a balance' in the lamb situation. The amendment proposed to limit future lamb imports to the average level of the years between 1963 and 1966; some 8,000 tons.[1]

During the months of June and July 1969 the American sheep industry, according to the Sheep Breeder and Sheepman, official publication of 14 American sheep breeding societies, made an all-out effort to control the 'rapidly increasing volume of lamb imports into the United States'.[2] The executive secretary of the National Wool Growers Association had been in Washington since early May lobbying Congress. Complete backing of the Bennett amendment was given by sheep producer organisations and circulars containing 'eight facts' were distributed to members of the Senate Finance Committee and other members of Congress. The 'fact sheet' read as follows:

> 1. Lamb imports in the calendar year 1968 were the HIGHEST in our history ... Lamb imports have jumped from 2.1 per cent of our domestic lamb production in 1967 to 7.7 per cent in the first four months of this year ...

[1] Press, 29 May 1969.

[2] July edition of the journal quoted in The New Zealand Meat Producer, Vol. XIV, No. 1, October 1969, p. 10.

2. With the exception of pork, lamb is the ONLY red meat on which there is no limitation whatsoever on the amount which can be imported. This creates an uncertainty as to the amount that is coming in and gives buyers of domestic lamb an opportunity to try to lower the domestic market by claiming that a heavy volume is about to be imported.
3. Domestic producers are not trying to eliminate imports, or even roll them back to the levels of the early 60's. We only ask for REASONABLE limitations, as there are on all other red meats.
4. This amendment would add lamb to the present meat import law, in line with the Senate action in 1964, only at a higher import level.
5. Importing interests, in an effort to defeat the amendment, are stating that imported lamb is used principally for baby food and does not compete with domestic lamb. THIS IS NOT TRUE. Imported lamb is mostly in primal cut form, going to supermarkets and restaurants, and competing directly with domestic lamb.
6. Due to substantially lower production costs in foreign countries, importers are able to bring lamb in here, freight and duty paid, and undercut our domestic market. For example, when lamb imports increased very substantially this past November, the price of domestic live lambs dropped as much as $3 per 100 lb. There have been additional price breaks since that time, including one in the first week in June.
7. Furthermore, as an example of the effect of the increasing volume of cheaper foreign imports, domestic lamb carcases backed up in one packing plant this spring when two chain stores cancelled their orders and purchased the cheaper imported product.
8. The amendment adopted by the Senate Finance Committee is reasonable in that it would permit yearly imports approximately 80 per cent higher than the average annual imports of lamb for the past 15 years. The amendment also contains a formula to provide for growth in imported volume.[1]

While it is true that lamb imports were increasing, the 'fact sheet' overlooked the continuing decline in American sheep numbers. There also appears to have been no substance in its claim that imports were causing prices to fall and pushing the domestic product out of

[1] Ibid.

TABLE 4 - 12 UNITED STATES IMPORTS OF LAMB, BY COUNTRY OF ORIGIN, 1954 - 1970, INCLUSIVE

Year	New Zealand	Australia	Other Countries	Total
		(Tons)		
1954	392	374	33	799
1955	127	400	110	637
1956	72	271	19	362
1957	164	429	209	802
1958	2,000	145	792	3,037
1959	1,493	1,343	1,385	4,221
1960	2,107	2,762	684	5,553
1961	2,570	2,239	76	4,885
1962	4,588	1,022	251	5,861
1963	5,324	2,807	316	8,447
1964	3,941	675	389	5,005
1965	4,796	711	90	5,597
1966	4,878	1,741	20	6,639
1967	4,074	1,343	54	5,471
1968	5,497	4,701	19	10,217
1969	10,222	9,292	69	19,582
1970				17,623

Source: U.S. Department of Commerce statistics.

its traditional markets. Perhaps the most significant finding of the recent U.S.D.A. report on the selling of lamb imports, as far as New Zealand is concerned, is that the timing of arrivals of imported lamb 'did not affect domestic lamb prices'.[1]

The Bennett amendment was not taken up by Congress but it did highlight the continuing efforts of sheep producer organisations in the United States to have lamb imports restricted and the immense

[1]U.S.D.A., Interim Report on a Study of the Lamb Industry with Special Emphasis on Lamb Imports, op.cit., p. 75.

difficulties the Meat Board and Devco have had to contend with in their efforts to pacify American domestic producers while trying at the same time to prove to the consumer that New Zealand lamb is a comparatively inexpensive, high quality product.

Joint Promotion

The Meat Board, in its efforts to forestall protectionist legislation on lamb imports, has since the early years of Devco's operations in North America attempted to develop closer liaison between it and domestic sheep producer groups. In October 1962 officials of the board met with representatives of the National Wool Growers Association, the National Lamb Feeders Association, the American Sheep Producers Council, as well as the Australian Meat Board, to discuss plans for co-operative efforts in the United States market. A firm of management consultants engaged, prior to the meeting, by the American Sheep Producers Council to investigate ways in which lamb consumption could be increased, recommended that domestic lamb producer organisations discuss the possibility of market co-operation with New Zealand 'with the purpose of arranging supply at the appropriate time and place'. This, they contended, was the only way in which ground lost by lamb to the American consumer could be recovered and was a more logical and desirable policy than one of opposition to imports.[1]

The American Sheep Producers Council, founded in 1955 with the

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1 Press, 1 September 1962.

objective of conducting advertising and sales promotion campaigns for wool and lamb in the United States,[1] has conceded over the years that imports do create a wider demand for lamb, which in turn benefits the domestic industry, but has argued that the marketing of imports should be done in a more 'orderly and controlled manner'. No agreement between the parties on what constitutes 'orderly and controlled marketing', or on joint promotional activities, was reached at the 1962 meeting, nor at subsequent meetings held in November 1963 and April 1964.

The events of 1969, however, made the New Zealand Meat Board more determined than ever to secure a better understanding with American sheep producer groups. Speaking at the annual meeting of the Meat and Wool Board's electoral committee soon after his return from Washington, where he had been actively engaged in talks with a number of persons in a position to help reject the proposed lamb quota bill, Sir John Ormond said that the Meat Board 'will be taking the first opportunity to arrange a meeting with producer organisations in America as we believe that there is scope for greater mutual agreement. We have talked to them before, and we believe it is time we talked again'.[2]

Towards the end of 1969 the American Sheep Producers Council

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[1] The council's promotion funds are derived from a levy on shorn wool and unshorn lambs, which are deducted from wool incentive payments made to producers. Of the $3 million for the 1971 - 72 year beginning 1 July, 55.5 per cent ($1.7 million) was allocated for lamb promotion and the remaining 44.5 per cent ($1.3 million) for wool promotion. National Wool Grower, Vol. LXI, No. 5, May 1971, p. 12.

[2] The New Zealand Meat Producer, Vol. XIII, No. 12, September 1969, p. 12.

was reported to be 'tentatively' interested in joint promotional activities with the New Zealand board and in March 1970 discussions, sponsored by the Foreign Agriculture Service of the U.S.D.A., were held in Washington between the three main American sheep producer organisations and the Australian and New Zealand Meat Boards. Further meetings were held in Wellington and Sydney during the following November and agreement was reached to establish a joint United States-Australia-New Zealand Lamb Promotion Co-ordination Committee. Sir John Ormond hailed this agreement as a 'major breakthrough' and stated that it was his belief that such a 'co-operative approach shows the Americans have accepted our sincerity in this matter'.[1]

The Co-ordination Committee is composed of 9 members, with each country having 3 representatives. Among the assignments entrusted to it was the study of problems in marketing lamb, and the preparation and implementation of a programme of consumer and trade education. The education programme instituted by the Committee in no way inhibits any of the member countries in their own promotional activities. The cost of it is equally shared by the American Sheep Producers Council and the Australian and New Zealand Meat Boards, and is aimed at increasing lamb useage in the United States.[2]

It is hoped that the Joint Committee will eventually determine specifications on the type of lamb offered to the American consumer.[3]

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[1] Sir John Ormond's report to the annual meeting of the Electoral Committee of the New Zealand Meat and Wool Boards, 23 March 1971. The New Zealand Meat Producer, Vol. XV, No. 7, April 1971, p. 9.

[2] Annual Report, New Zealand Meat Producers' Board, 1971, p. 50.

[3] Wakelin, Interview, Wellington, 9 June 1971.

Such action would primarily be aimed at the inferior quality Australian product. As the President of the National Wool Growers Association, J.L. Powell, told reporters while in New Zealand in November 1970:

> We are above all interested in seeing that the United States consumer is presented with a good-quality lamb. Because only 12 per cent of the population has ever tasted lamb, there are many new consumers trying it for the first time. Therefore, the quality of the lamb has to be consistent.[1]

Powell, along with other members of the American delegation, agreed that the quality of the New Zealand conditioned and aged product was a good one, but this was not true of the Australian lamb.[2]

The founding of the Joint Committee is regarded by the Meat Board as an 'insurance' against the implementation of lamb quotas. It had been searching for such an arrangement for a number of years and believes that only by working with the domestic organisations can the danger of quotas be overcome.[3]

Within the American sheep producer organisations there was much opposition to the Joint Committee but the crunch came in January 1971 when the National Wool Growers Association, at its annual convention, passed the following resolution:

> The National Wool Growers Association recognizes the need for the best possible communication among all segments of the lamb industry including our overseas competitors. We approve the action of our officers in furthering a more complete understanding of lamb industry problems, both domestic and world wide, and opening a way for complete exchange of information.[4]

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[1] Press, 2 November 1970.

[2] Press, 2 and 4 November 1970.

[3] H.C.M. Douglas, Interview, Wellington, 8 June 1971.

[4] Resolution 36 of the 106th Annual Convention of the National Wool Growers Association, Las Vegas, Nevada, 21 January 1971. Published in the National Wool Grower, Vol. LVI, No. 2, February 1971, p. 16.

The same convention did, however, pass this resolution:

> The National Wool Growers Association reasserts its long time position of actively seeking adequate tariffs and quotas on all meat and meat products, including lamb; these quotas to be on a quarterly basis and by country of origin.[1]

As to the future, some warning can be taken from the words of R.A. Hansen, President of the National Lamb Feeders Association:

> Please constantly bear in mind that our efforts towards working with Australia and New Zealand are based on necessity. Surely at this stage of the game, we realise the political impossibility of getting lamb import quotas. We have been advised, moreover, that our own Foreign Agricultural Service considers it necessary that we explore all possibilities of cooperation with these countries before even thinking about import quotas. Should these efforts fail, then we will have laid the political groundwork for asking Congress for quotas. So at this time what other choice do we have except cooperating toward mutual goals with the good people from down under?[2]

Success or Failure?

In terms of current account the operations of Devco have not been a success. The 1968 - 69 marketing year has been the only occasion in which the company has made a profit. A total of $9.6 million has been charged against the meat industry reserve account as 'expenditure incurred in the examination and development of the North American market'.[3] On top of this figure the Meat Board has spent over $4 million financing promotional activities in the United States and Canada since 1960.[4] But to judge Devco and the Meat Board's operations in North America purely in terms of these figures

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[1]Resolution 31, Ibid., p. 15.

[2]National Wool Grower, Vol. LXI, No. 3, March 1971, p. 17.

[3]See Appendix VIII.

[4]See Appendix IX.

is misleading.

The 'losses' incurred by Devco are relative to the United Kingdom market and it has been argued that during the years 1961 - 62 and 1968 - 69, rather than involving New Zealand in a loss of $8.2 million, Devco's operations in fact netted the country over $6 million. In a study made by D.R. Edwards, he calculated the marginal revenue obtained by the New Zealand meat industry in diverting lamb exports away from the British market to North America during the said period. His appraisal concluded that such action had increased New Zealand's total revenue by $14.7 million over and above export returns had all the lamb been sent to the United Kingdom.[1] The 'loss' therefore was 'purely a book loss'.[2]

The costs of preparation and distribution of lamb for the North American market are much greater than those for the United Kingdom. There are tariffs on lamb in both the United States and Canada[3] (only since the recent imposition of a lamb levy have duties been part of costs in the British market); higher freight rates on the east coast of North America where the bulk of New Zealand's lamb is shipped;[4] and extra processing charges not encountered in shipments

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[1] D.R. Edwards, An Econometric Study of the North American Lamb Market, Agricultural Economics Research Unit, Technical Paper No. 10, Lincoln College, 1970.

[2] *Ibid.*, p. 244.

[3] Prior to 1968 the United States tariff on imported lamb was US 3.5 cents per lb. During the Kennedy Round tariff negotiations the United States agreed to reduce the tariff progressively to 1.7 cents over a 5 year period to 1972. The Canadian tariff is 0.5 cents (Canadian) per lb.

[4] See Appendix X.

to the United Kingdom.[1]

It has been recently stated that Devco needs to sell 1.5 million lambs to spread its overheads adequately and achieve a balance sheet profit.[2] Its target during the present marketing year (1971 - 72) is 1.3 million lambs.[3] The company believes that by lifting its quality control methods and by raising cutting yields it will progressively defray market development costs. By present cutting methods only 75.2 per cent of the carcase is suitable for shipment to North America.[4] Although the economics of lamb cutting have always been marginal Devco's market demands a fabricated product and future profitability will depend on increased efficiencies in this process, as well as a greater volume of sales and higher prices.

Selling prices for New Zealand lamb are consistently lower than for domestic fresh meat, but higher than Australian lamb. There appears to be a continuing prejudice against frozen red meats, even though American consumers readily buy frozen fish and turkey. The Meat Board is hoping, through consumer education, that the gap in price between domestic fresh and imported frozen lamb will close as consumers become more familiar with the frozen product.[5]

Since January 1969 Devco has been airfreighting chilled lamb to

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[1]A breakdown of individual costs per 100 lb of lamb cuts sent to North America is given in the Confidential Appendix.

[2]Annual Report, New Zealand Meat Producers Board, 1971, p. 21.

[3]Press, 24 March 1972.

[4]Wakelin, Interview, Wellington, 9 June 1971.

[5]Differences in retail price between domestic fresh and imported New Zealand lamb in 3 American cities between June 1969 and July 1970 are given in Appendix XI.

Canada on a commercial basis and although there appears to be a sound market for such lamb in the United States this avenue has not been pursued by the company because of the Meat Board's policy not to compete directly with the domestic producer.[1] As Sir John Ormond told the annual convention of the National Wool Growers Association in Las Vegas in 1971:

> We have acted all along on the basis that with our frozen product and your fresh product we can be complementary to each other.[2]

This approach of trying to pacify American producer reaction, has made the Meat Board's North American lamb operation, to use the words of a report made by a subcommittee of the electoral committee of the Meat and Wool Boards, 'not only a marketing operation but also an exercise in international diplomacy'.[3]

The worth of Devco and the lamb promotional activities of the Meat Board in North America must be evaluated, not as an operation within itself, but as a part of New Zealand's overall lamb trading operations. Whether or not one accepts Edward's analysis in its entirety, evidence does seem to indicate that the diversification of lamb away from the British market to North America has had a strengthening effect on prices in the United Kingdom. Using this criteria alone, Devco has been a success. But further to that, the

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[1]Douglas, Interview, Wellington, 8 June 1971.

[2]National Wool Grower, Vol. LXI, No. 3, March 1971, p. 21.

[3]Report by the subcommittee of the Electoral Committee of the New Zealand Meat and Wool Boards set up to conduct a study of the Meat Export Development Company (Devco). Findings published in The New Zealand Meat Producer, Vol. XIII, No. 4, January 1969, pp. 15 - 20.

process of learning along the way and the knowledge gained by the Meat Board in prospecting this market must have contributed a great deal to the Board's understanding of consumer demands in other markets, rather than attempting to sell a product developed for the British lamb consumer. It could be justifably said that North America was the first market in which the New Zealand meat industry had to adapt itself to become a food manufacturer, rather than a butcher, in order to successfully compete for consumer demand while at the same time trying not to create too much animosity between itself and the American sheep producer groups. To quote an editorial in a national United States sheep industry journal, The Shepherd, following a promotional campaign by the Meat Board in the Long Island area of New York and just a few months before agreement on the Lamb Promotion Co-ordination Committee:

> The New Zealand onslaught on our major market area was heavily financed and skilfully conducted ... We are left with no alternative but to get down to business and do those things we should have been doing ten years ago. Such as: Make a deal with these bright foreigners to work together in lifting the whole framework of lamb consumption in the United States to a plateau of 10 lb per capita by 1980. Use their light-weight lamb to complement our middle and heavy weights instead of competing with them. Share new development areas. Propose to them a programme of co-operative advertising of lamb, per se, without reference to country of origin ... Such co-operation already has a valuable precedent in the harmonious relationship between the American Sheep Producers Council and the Wool Bureau, Inc. ... Yes there is a ray of sunshine behind those dust clouds kicked up by the New Zealand invasion - And if you will excuse our mixing metaphors, it could be the shot in the arm we needed to get us off what one observer has referred to as our 'collective duffs'.[1]

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[1] Quoted in The New Zealand Meat Producer, Vol. XIV, No. 8, May 1970, pp. 7 - 9.

III Evaluation

Although the American policy on meat imports is more liberal than that of a number of other countries, particularly the EEC and Japan, this has not prevented the New Zealand government from voicing its displeasure on many occasions of a system of protection which sets ceilings on market expansion. Unlike the bulk of beef produced in the United States, imported beef is mainly used for manufacturing and as such it has been filling a deficiency in domestic supplies. The cattlemen lobby, however, has persisted in its claims that imported beef, veal and mutton compete directly with it and prevent them from obtaining higher prices for their product.

Lamb is not included in the provisions of the 1964 Meat Import Law. Nevertheless sheep producer organisations, despite a continuous decline in domestic sheep numbers, have made a number of determined efforts to have similar restrictionsimposed on lamb imports.

Since New Zealand began marketing meat in large quantities to the United States a number of significant changes have taken place in its meat industry and in the country's farming pattern. Beef prices have risen substantially and this, together with a relative decline in the profitability of sheep production, in particular, has meant that beef cattle have come to be regarded by many New Zealand farmers as income earners in their own right and not just an implement for pasture and roughage control. Greater interest at the national level has been shown in beef as an earner of overseas exchange and as a result more energy and scientific research is being devoted to increasing beef production.

TABLE 4 - 13 AVERAGE VALUE OF NEW ZEALAND MEAT EXPORTS, BY PRODUCT, 1954 - 1970, INCLUSIVE

(Value f.o.b.)

Year	Beef and Veal	Lamb	Mutton
		($NZ per Ton)	
1954	148	330	118
1955	286	336	146
1956	246	374	146
1957	272	396	166
1958	450	356	150
1959	500	314	134
1960	450	330	118
1961	464	296	138
1962	448	298	134
1963	486	320	138
1964	478	358	180
1965	500	416	190
1966	596	376	196
1967	635	360	205
1968	804	427	205
1969	853	487	204
1970	924	487	277

Source: New Zealand Meat and Wool Board's Economic Service, Annual Review of the Sheep Industry (various issues).

Between the years of 1958 and 1971, with the exception of 1965, the United States has imported, by value, between 22 and 32 per cent of New Zealand's meat exports each year. Sales in this market have been part of the ever increasing diversification of New Zealand meat exports away from the United Kingdom and the almost continuous increase in total meat export earnings (Table 4 - 14).

New methods of preparation and stricter hygiene standards have had to be adopted by the meat industry to meet American market requirements. Precutting, processing, packaging and conditioning of

TABLE 4 - 14 DESTINATIONS OF NEW ZEALAND MEAT EXPORTS, BY VALUE, 1954 - 1971, INCLUSIVE

Year	United Kingdom	United States	Other Destinations	Percentage of Total Exports: United Kingdom	United States	Other Destinations	Total to all Destinations
		($NZ million)					
1954	94.5	0.6	6.6	92.9	0.6	6.5	101.7
1955	102.7	0.9	14.3	87.1	0.8	12.1	117.9
1956	121.8	0.9	18.3	86.4	0.6	13.0	141.0
1957	116.4	9.8	15.4	82.2	6.9	10.9	141.6
1958	105.7	50.0	13.5	62.5	29.5	8.0	169.2
1959	93.0	44.0	10.2	63.2	29.9	7.9	147.2
1960	99.4	41.6	14.0	64.1	26.8	9.0	155.0
1961	100.8	43.2	16.8	62.7	26.9	10.4	160.8
1962	101.4	53.0	19.0	58.5	30.6	10.9	173.4
1963	101.2	63.4	25.0	53.4	33.4	13.2	189.6
1964	127.3	47.3	33.2	61.3	22.8	16.0	207.8
1965	143.8	36.0	37.2	66.3	16.6	17.1	217.0
1966	124.2	48.8	39.2	58.5	23.0	18.5	212.2
1967	116.2	64.8	42.6	52.0	29.0	19.0	223.6
1968	143.0	95.9	58.3	48.1	32.3	19.6	297.2
1969	176.7	101.0	91.6	47.8	27.3	24.8	369.3
1970	178.2	125.7	104.1	43.7	30.8	25.5	408.0
1971	178.4	140.4	117.1	40.9	32.2	26.9	435.9

Source: Reserve Bank of New Zealand, Bulletin (various issues).

Note: Detail may not add due to rounding.

meat have become increasingly important in an industry which has traditionally exported meat in carcase form.

Strict adherence to the required hygiene regulations have been a costly and often reluctantly accepted operation by the individual meat export companies. In international organisations, such as the OECD and the joint FAO/WHO Codex Alimentarius Commission, New Zealand has attempted to obtain international agreement on what constitutes good hygiene practices in meat slaughterhouses.[1] Stringent hygiene requirements can act as a formidable barrier to trade and there have been a number of bills introduced in the United States Congress in recent years with such intentions.[2]

Because of its greater stake in the United States the Meat Board has been more closely concerned with activities in that market than the other producer boards. Besides regular visits by the chairman and members and officials of the board, it has since the

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[1] I.G. Watt, 'The Impact of Overseas Hygiene and Inspection Regulations on the New Zealand Meat Industry with Particular Reference to the U.S.A. and the EEC'. Twelfth Meat Industry Research Conference, Proceedings, 1970. (Hamilton, The Meat Industry Research Institute of New Zealand, Publication No. 199), pp. 26 - 34.

[2] For example a bill was introduced in the House of Representatives in 1970, and reintroduced in 1971 by the Chairman of the House Agriculture Committee, W.R. Poage, that sought to ban the importation of all food products from countries in which restrictions on the use of pesticides and 'economic poisons' did not match those of the United States. Another bill introduced in the Senate during 1970 was interpreted by American legal experts as to require exporting countries to adopt exactly the same standards and inspection requirements as those applying in the United States. The provisions of both these bills had no regard to varying circumstances in exporting countries, different local conditions, or the practical problems of meat handling. The latter bill would have required every single piece of New Zealand frozen meat sent to the United States to be thawed on arrival, inspected and then refrozen. Not only would the costs be prohibitive, but such action would also make the dangers of spoiling and contamination very real. Press, 5 October 1970 and 11 February 1971.

early 1960s maintained an office in New York. New York is not only the main centre of shipping for New Zealand meat, but also the headquarters of the Meat Importers Council, the main domestic lobbying group for increased meat imports and therefore an organisation which the Board keeps very close contact with. The importance the board attaches to this office can be seen by the fact that its North American director of its operations has equal standing with the general manager of the board in New Zealand.[1]

The board regards regular contacts with the various American sheep and cattle producer organisations to be of vital importance, for greater understanding at this level is considered to be the best 'insurance' against the imposition of further protectionist legislation that would curb New Zealand's meat exports to that market. As Sir John Ormond told the 1972 Lincoln College Farmers' Conference:

> ... markets were simply people; that it took people to make problems and people to end them, and that personal communication should be the main marketing weapon.[2]

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[1]The present New Zealand general manager of the Meat Board, G. Anderson, was prior to his appointment the board's North American director, while the present North American director, H.C.M. Douglas, was previously the board's New Zealand general manager.

[2]<u>Press</u>, 19 May 1972.

CHAPTER V

WOOL

The United States continues to be the only major country which imposes a tariff on raw wool imports. New Zealand, as the third largest producer of wool and the second largest exporter of wool, behind Australia, has naturally looked upon the American wool tariff as a hindrance to its trade in this commodity. On a number of occasions in the last three decades the American wool tariff has been the subject of much debate and a central topic in trade negotiations, both successful and unsuccessful from New Zealand's point of view. As Donald Blinken remarks:

> The wool tariffs have traditionally been at the center of American tariff battles. For all practical intents and purposes, the 1929 Smoot-Hawley tariff debates were waged about Schedule 11, that section of the tariff laws dealing with wool and wool manufactures.[1]
>
> When the General Agreement on Tariffs and Trade, concluded by the State Department at Geneva, was released in November, 1947, the comparative calm with which it was greeted was marred only by the backwash of the wool tariff controversy. The New York Times reported that 'there were 3,500 American products listed for tariff reduction in a State Department announcement, November 17, but the western wool growers, members of Congress, and Chamber of Commerce officials had eyes for only one - wool'.[2]

This chapter examines the importance of the American wool market to New Zealand and the nature of political restraints which have inhibited and are inhibiting the further development of this market

[1] Donald M. Blinken, Wool Tariffs and American Policy (Washington, D.C., Public Affairs Press, 1948), p. 9.

[2] Ibid.

TABLE 5 - 1 MAJOR WOOL PRODUCING, EXPORTING AND IMPORTING COUNTRIES, 1969

Producing Countries[a]			Exporting Countries[b]			Importing Countries[b]		
Country	Million lb	%	Country	Million lb	%	Country	Million lb	%
Australia	2,043.4	32.8	Australia	1,622.9	47.8	Japan	696.2	20.8
USSR	860.0	13.8	New Zealand	713.9	21.0	United Kingdom	518.0	15.5
New Zealand	735.0	11.8	South Africa	258.6	7.6	France	355.6	10.6
Argentina	439.2	7.1	Argentina	222.6	6.6	Italy	299.4	8.9
South Africa	352.0	5.7	France	85.4	2.5	United States	249.5	7.4
United States	194.9	3.1	Uruguay	84.3	2.5	West Germany	241.3	7.2
Uruguay	165.3	2.7	Brazil	44.5	1.3	Belgium	213.3	6.4
United Kingdom	114.0	1.8	United Kingdom	39.0	1.1	USSR	167.1	5.0
Turkey	105.8	1.7	Belgium	36.8	1.1	East Germany	48.6	1.5
Other countries	1,218.5	19.6	Other countries	290.2	8.5	Other countries	562.4	16.8
Total	6,228.1	100.0	Total	3,398.2	100.0	Total	3,351.4	100.0

Source: U.S.D.A., Agricultural Statistics, 1971.

[a]Greasy basis. Includes shorn, pulled wool, and wool exported on skins, with the latter two converted to a greasy basis. Wool produced in the spring in the Northern Hemisphere is combined with that produced in the season beginning 1 July or 1 October of the same year in the Southern Hemisphere.

[b]Actual weight. Excludes wool on the skins, and re-exports where possible; imports in most cases refer to gross imports.

as an outlet for New Zealand wool

United States Wool Policy

In the world trade of raw wool and wool products the United States occupies a unique position. Besides being the world's sixth largest wool producer, it also normally needs to supplement its domestic production by importing over two-thirds of its total raw wool requirements. On top of this, the United States is a large importer of wool products. Between 1965 and 1970 almost 30 per cent, on a raw wool equivalent basis, of total American wool consumption consisted of imported wool products (Table 5 - 2). The other major importing and manufacturing countries of Western Europe and Japan are small wool producing countries and unlike the United States, with the exception of West Germany, export a large portion of their manufactured wool products.

Raw wool imports into the United States have usually had a strong competitive advantage over domestic wools, not only price-wise, but also because of their general uniformity and mill desirability, and better preparation.[1] Thus the ability of wool exporting countries like New Zealand to substantially enlarge their markets in the United States by displacing some domestic wools has been 'largely dependent on the American policy of sheltering and fostering the domestic wool industry'.[2]

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[1] U.S.D.A., Economic Research Service, Marketing Economics Division Fibres and Grains Branch, The Domestic Wool Marketing System, by Charles A. O'Dell (Economic Research Service Publication 400, 1969), p. 1.

[2] M. Polasek, 'U.S. Wool Policy and its Effects on Apparel Wool Imports', The Australian Journal of Agricultural Economics, Vol. VI, No. 2, December 1962, p. 9.

TABLE 5 - 2 UNITED STATES RAW WOOL PRODUCTION, IMPORTS AND MILL CONSUMPTION, AND THE RAW WOOL EQUIVALENT OF WOOL PRODUCT IMPORTS, 1960 - 1970, INCLUSIVE

	U.S. Domestic Production of Raw Wool		U.S. Imports of Raw Wool		U.S. Mill Consumption of Raw Wool		U.S. Imports of Wool Products - Raw Wool Equivalent		Total U.S. Wool Consumption[d]
			Apparel (dutiable)	Non-apparel (duty free)	Apparel	Non-apparel	Apparel	Non-apparel	
	Greasy Basis	Clean Basis	Clean Basis	Clean Basis	Clean Basis[a]	Clean Basis	Clean Basis[a] [b]	Clean Basis[a] [c]	Clean Basis
					(million lb)				
1960	298.9	144.6	74.3	153.9	234.1	156.4	52.6	73.5	516.6
1961	293.7	142.5	90.3	157.3	249.9	141.6	43.2	77.9	512.6
1962	276.5	133.4	125.8	143.5	226.2	141.5	62.1	76.3	546.1
1963	261.2	126.2	109.2	168.0	238.7	152.4	68.9	76.0	536.0
1964	237.4	119.6	98.4	113.4	222.2	116.6	58.2	75.9	472.9
1965	224.8	113.1	162.6	108.9	261.0	106.7	78.9	69.4	516.0
1966	219.2	110.6	162.5	114.6	253.3	98.4	79.4	56.3	487.4
1967	211.3	106.4	109.1	78.2	217.3	79.7	70.1	45.6	412.9
1968	198.1	99.7	129.8	119.6	226.4	86.8	90.2	48.4	451.8
1969	182.8	91.5	93.5	95.7	208.0	89.1	82.6	40.6	420.3
1970	176.3	87.9	79.8	73.3	155.6	72.8	74.2	36.5	339.1

Sources: U.S.D.A., Wool Statistics and Related Data, 1930 - 1969; Agricultural Statistics, 1971; and Wool Situation, February 1972.

[a]The 'clean' quantities were obtained by conversion from scoured basis at 95 per cent.

[b]Consists of tops and advanced wool, yarns, woven fabrics, wool blankets, wearing apparel and other manufactures.

[c]Consists of noils, wastes, carpets and rugs.

[d]Sum of U.S. mill consumption of raw wool and U.S. imports of wool products, raw wool equivalent basis.

The basic defensive measure has been the levying of specific tariff duties of varying height on apparel wools. It is this type of wool which is regarded as a potential threat to the finer domestic grades. Some of the coarser wools, on the other hand, which do not compete directly with domestic grades, have been gradually exempted from tariff duties over the last 40 years.

The basis of the current American tariff policy for raw wool and wool products was established in the Smoot-Hawley Tariff Act of 1930. It set rates for raw wool which in general were the highest in the history of the wool tariff since 1816.[1] Three separate tariffs are defined under this Act:

1. a specific tariff on imported raw apparel wool, the effect of which is to protect the domestic producer;
2. a specific tariff on the raw wool content of imported manufactured products. This is designed to compensate the local wool textile industry for the higher price of raw apparel wool which results from tariff 1;
3. an <u>ad valorem</u> tariff on imported wool products, the effect of which is to protect the domestic wool textile industry.

Tariffs 1. and 2. are related and tariff 3. is fixed independently.[2]

The Smoot-Hawley Act fixed a duty of 34 cents per lb clean content[3] on raw wool. Carpet type wools not finer than 40's quality

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[1] U.S. Congress, Report to Subcommittee on Foreign Economic Policy of the Joint Economic Committee, <u>Trade Adjustment in Theory and Practice</u>, by Otto R. Reischer (Washington, D.C., Government Printing Office, 1961), p. 64.

[2] R. Schufft, 'United States Wool Policy and Australia's Wool Export Trade', <u>Quarterly Review of Agricultural Economics</u>, Vol. XXIII, No. 3, July 1970, p. 124.

[3] It takes about 1.4 lb of greasy New Zealand wool to yield 1 lb clean (scoured) content.

were given duty free classification.[1] At the GATT negotiations in 1947 a reduction of 25 per cent was achieved on the raw wool tariff duty. Thus the tariff was lowered to 25.5 cents per lb clean basis and except for the 10 per cent surcharge tax imposed by President Nixon on all American non-quota dutiable imports between August and December 1971,[2] has remained at that level ever since.

The only modifications to the raw wool tariff schedule since 1947 has been the granting of duty-free status to carpet wools not finer than 46's[3] and a 50 per cent duty reduction on raw wool not finer than 44's where they are not used for carpets. The latter, together with a 50 per cent reduction on all grades of sheepskins, was granted during the GATT Kennedy Round negotiations. These reductions were made in five annual stages, the first of which took place on 1 January 1968 (see Table 5 - 3).

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[1]Wool is generally divided into different grades or quality numbers according to spinning or fineness. Expressed in the Bradford count system it ranges from 36's for coarse to 80's for very fine. These numerical counts are regarded officially merely as a measure of wool fineness. Originally they indicated the number of hanks of worsted yarn (each 560 yards long) that could be spun from wool weighing one pound in yarn form. More hanks of yarn generally can be obtained from finer wools. In practice the assignment of numerical grades to a given lot of wool is affected by factors in addition to fineness such as length, crimp, presence of foreign matter and so on. In general the numerical grades used in the United States are one grade coarser than the Bradford or English system. For greater detail on this point see Appendix XII. Where possible, the wool grades indicated throughout this thesis will refer to the United States numerical system.

[2]During this period the tariff was 27.5 cents.

[3]Public Law 85 - 418, 19 May 1958 amended the Tariff Act of 1930 on a two year trial basis in extending the duty-free status to carpet wools not finer than 46's. It was not until Public Law 86 - 557, 30 June 1960 that this was permanently enacted.

TABLE 5 - 3 UNITED STATES TARIFFS ON RAW WOOLS

	40's & Coarser		Finer than 40's Through 44's		Finer than 44's	
	1971	1972	1971	1972	1971	1972
			(per clean lb)			
On the skin	6.5c	5.5c	9.0c	7.5c	14.4c	12.0c
In the grease or washed						
Not sorted	7.5	6.5	10.0	8.5	25.5	25.5
Sorted	8.0	7.0	10.5	9.0	26.25	26.25
Scoured	9.8	8.0	12.0	10.0	27.75	27.75
Carbonised	13.8	11.5	16.2	13.5	33.0	33.0

Source: Tariff Schedules of the United States Annotated, 1971, Schedule 3.

United States Woolgrowing Industry

Sheep producers are found in all 50 states, but the large-scale, range-type sheep production in the West is the principal source of the domestic wool supply.[1] Seventy three per cent of the American stock sheep population are found in the 12 Western States and Texas.[2] At the beginning of 1971 five states, Texas, Wyoming, California, Montana and South Dakota, accounted for 49 per cent of the total stock sheep on farms.[3] There are at present 15.8 million stock sheep in the United States.[4]

On a national basis, the income received from the sale of lambs represents two-thirds to three-quarters of the total income of the sheep industry, with wool sales accounting for one-fourth to one-third of the total.[5] In states where grass and other forage is more abundant, the emphasis is on lamb production. In these areas income from lamb may account for more than three-quarters of the producer's total income. However, in the more mountainous and arid states, where lambs cannot be grown to market condition without further finishing on pastures or in feedlots, there is greater emphasis on wool production. In these areas, wool may account for more than half of the producer's total income.

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[1] 'Range-sheep States' include the 12 Western States (including South Dakota) and Texas.

[2] Edwin E. Marsh, Executive Secretary-Treasurer of National Wool Growers Association in Berg, Public Hearings, op.cit., p. 64.

[3] U.S.D.A., Livestock and Meat Situation, March 1971, p. 14.

[4] U.S.D.A., Wool Situation, February 1972, p. 5.

[5] Berg, Public Hearings, op.cit., p. 65.

Prior to the Second World War the only direct Government protection for the American woolgrower came from the tariff on raw wool. The Government-appointed Commodity Credit Corporation during the 1930s acted as a wool marketing agency. However, although wool prices reached an all-time low in 1932, and were depressed in 1935 and 1938, on the whole they were above parity and showed a much better average than the general level of farm prices in the United States.[1] Thus, although the Commodity Credit Corporation advanced loans to woolgrowers during depressed years, it did not attempt to support or stabilise prices for wool as it had done for a number of other agricultural commodities.

During World War II the entire American wool clip was consigned to the Commodity Credit Corporation, thereby suspending free market operations. In 1943, for the first time, arrangements to stabilise wool prices were introduced. Free market operations were resumed in 1947, but with the retention of price supporting machinery, the National Wool Act of August 1947[2] provided for a direct subsidy payment to growers and was calculated to guarantee them an agreed unit price of 42.3 cents a lb for all the wool they sold.[3] However, it was not until wool prices weakened in 1952 that active price support on a large scale became operative.

Early in 1954, a new approach to the wool problem was proposed by the Administration. Direct payments were to be made to growers

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[1] Benedict and Stine, op.cit., p. 338.

[2] Public Law 80 - 360.

[3] Congress and Nation, I, p. 686.

at the end of the season in amounts sufficient to make up the difference between the average prices received by growers and the specified incentive prices. In other words, direct support was to be given to the woolgrowers by way of a deficiency payments programme which bridged any gap should the American market price be lower than a guaranteed producer support price.

This plan eventually was incorporated in the National Wool Act of 1954,[1] which is the basis of the current grower support policy.[2] One of the aims of this Act was to encourage the expansion of domestic production of wool[3] which, at that time, was regarded as a commodity of strategic importance.[4] Synthetic fibre production was relatively small and not considered a viable substitute. The incentive payments to growers were therefore to be set at a level consistent with the production objective envisaged in the Act.

The support price is announced at the beginning of each marketing year by the U.S.D.A. and is adjusted by the Department to between 90 and 110 per cent of its parity index. The price support is therefore set 'without any reference to the level of international

[1] Title VII of the Agricultural Act of 1954, Public Law 83 - 690.

[2] National Wool Act has been extended in 1958, 1961, 1965 and 1970.

[3] Up until this time American production of wool had been declining. From a peak of 455 million lb, greasy basis, in 1942 production had fallen by nearly 40 per cent in 1954, to 279 million lb. U.S.D.A., Wool Statistics and Related Data, 1930 - 1969, p. 7.

[4] To quote Section 702, Public Law 83 - 690: 'It is hereby recognised that wool is an essential and strategic commodity which is not produced in quantities and grades in the United States to meet the domestic needs ... and it is the policy of Congress as a measure of national security and in promotion of general economic welfare, to encourage the annual domestic production of approximately three hundred million pounds of shorn wool, grease basis, at prices fair to both producers and consumers in a manner which will have the least adverse effects upon foreign trade'.

wool prices or the height of the tariff'.[1]

The Act further provides that support payments be financed from the proceeds of the wool tariffs. Such payments may not exceed 70 per cent of the accumulated totals of specific duties on wool and wool products accumulated after 1 January 1953, under Schedule 11 of the Tarriff Act of 1930, as amended.[2] These provisions of the Wool Act are the only direct link between the price support programme and the tariff policy. As one authority has remarked, 'The connection with customs receipts ... [has] tended to give the incentive payments a permanence they might not otherwise have possessed'.[3]

Unlike other United States agricultural price support legislation, the National Wool Act is unique in that the burden of maintaining a high price support level for American wool production is transferred, in effect, onto the foreign wool producer and manufacturer. The American woolgrower has the dual protection of a tariff and a deficiency payments scheme.

Policy Impact

It can be reasonably assumed that the raw wool tariff has tended to reduce the flow of raw wool imports into the United States. By increasing the market price of wool the tariff makes the manufacturing of wool products less profitable relative to the manufacturing of

[1]Schufft, *op.cit.*, p. 126.

[2]Originally the Act provided that only revenue from the two specific wool tariffs be used for the fund but the Agricultural Act of 1958 (Public Law 85 - 835) changed this limitation to include revenue from the *ad valorem* wool products tariff collected after 1 January 1953.

[3]P.W. Bidwell, *Raw Materials: A Study of American Policy* (New York, Harper Brothers for the Council on Foreign Relations, 1958), p. 237.

synthetic fibres. Textile manufacturers therefore use less wool and more synthetics than otherwise would be the case. Wool use in the United States has declined 15 per cent during the last decade, while the use of all fibres has increased some 53 per cent.[1]

The deficiency payments scheme and the wool product tariffs have not had the desired impact originally intended by legislation on their respective markets. As indicated in Table 5 - 2, domestic output, instead of increasing, has declined. Indeed, between 1955 and 1970 shorn wool output in the United States decreased by over 30 per cent (Table 5 - 4). In the case of wool products, despite having to surmount a high tariff, imports have increased from 77 million lb, on a raw wool equivalent basis, in 1955 to a peak of 148 million lb in 1965. Imports have fallen since 1965 but are still well above the 1955 level (see Table 5 - 2).

In the end the American consumer pays for the raw wool tariff by way of higher prices for wool clothing. A recent paper,[2] investigating the welfare costs of changing the present system of protecting the United States raw wool market, argues that the American consumer and taxpayer, would in 1963 have been better off to the extent of between $US 13 million and $US 26 million, depending on the particular elasticity of demand used, if the raw wool tariff and the compensatory duties on wool products were abolished, and the support price for domestic

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[1] Battelle Memorial Institute, New Zealand Wool Marketing: A Report to the New Zealand Wool Board (Columbus, Ohio, Battelle Memorial Institute, 1971), p. 8. Hereafter cited as the Battelle Report.

[2] Rachel Dardis and Janet Dennisson, 'The Welfare Cost of Alternative Methods of Protecting Raw Wool in the United States', American Journal of Agricultural Economics, Vol. LI, No. 2, May 1969, pp. 303 - 319.

TABLE 5 - 4 UNITED STATES WOOL PRODUCTION AND PRICE SUPPORT OPERATIONS, 1955 - 1972, INCLUSIVE

Marketing Year[a]	Shorn Wool Production[b]	Wool Price per lb Greasy[c]	Wool Incentive Price per lb Greasy	Wool Payment Rate per lb Greasy
	Million lb	Cents	Cents	Cents
1955	260.2	42.8	62.0	19.2
1956	254.3	44.3	62.0	17.7
1957	156.1	53.7	62.0	8.3
1958	300.1	36.4	62.0	25.6
1959	256.3	43.3	62.0	18.7
1960	255.0	42.0	62.0	20.0
1961	259.7	42.9	62.0	19.1
1962	237.3	47.7	62.0	14.3
1963	169.6	48.5	62.0	13.5
1964	198.2	53.2	62.0	8.8
1965	195.0	47.1	62.0	14.9
1966	170.5	52.1	65.0	12.9
1967	188.9	39.8	66.0	26.2
1968	176.5	40.5	67.0	26.5
1969	159.5	41.8	69.0	27.2
1970	148.0	35.5	72.0	36.5
1971	165.0	19.4	72.0	52.6
1972			72.0	

Source: U.S.D.A., Wool Situation, April 1972.

[a]Year beginning 1 April for 1955 - 1962, 9 month period beginning 1 April for 1963, and calendar year for 1964 to date.

[b]Unadjusted for weight of unshorn lambs purchased.

[c]Average price per lb received by growers for wool sold during the marketing year.

wool was maintained by means of a larger deficiency payment.[1]

[1]This study also investigated two other alternative policies and compared them with the existing system. By abolishing the raw wool tariff, but leaving intact the compensatory duties on wool textiles, they estimated that the American economy would suffer a loss of between $US 23 million and $US 73 million arising from the stimulation of domestic production of wool textiles in response to lower input prices. A third alternative examined by Dardis and Dennisson was the abolition of deficiency payments while raising the tariff on raw wool sufficiently to maintain American woolgrowers' incomes. This method of protection, of course, would raise the United States market price of raw wool. Such a move, they calculated, would cost the American economy between $US 21 million and $US 42 million. Ibid.

Crammatlee and Dardis[1] in a more recent study, calculated on protection afforded to the United States wool industry during 1965, found that if all tariff controls on both raw wool and wool products were replaced by a system of deficiency payments which protected both the American woolgrower and the domestic wool textile industry, the United States consumer and taxpayer would have saved between \$US 41 million and \$US 83 million.

There have been only two published studies which attempt to measure the trade impact of changing the American wool policy. R. Schufft, of the Bureau of Agricultural Economics, Canberra, has carried out the most thorough appraisal available on the effects of the wool tariff. He estimates that the cost of the United States wool tariff to Australia alone is between \$A 37 million and \$A 73 million a year in lost export income.[2] Professor Houck, of the University of Minnesota, reaches rather different conclusions.[3] He estimated that the net trade gain to Australia resulting from the removal of the United States tariff on raw apparel wool imports would have been \$A 10 million in 1966, assuming there was no change in the support payments to American woolgrowers. Houck further calculated that if the support scheme was abandoned when the tariff was removed, the net gain to Australia would have been \$A 21 million.

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[1]Edith Crammatlee and Rachel Dardis, 'Cost of Protection of the U.S. Wool Sector', Economic Record, Vol. XLVI, No. 113, March 1970, pp. 96 - 105.

[2]Schufft, op.cit.

[3]James P. Houck, 'Wool Policy in the United States: Its Direct Impact on Australian Exporters', The Australian Journal of Agricultural Economics, Vol. XII, No. 1, June 1968, pp. 16 - 23.

Schufft, in his paper, calculated that if the tariff on raw wool imports was removed an increase of between \$A 28 million and \$A 57 million to Australia's wool export income could have resulted in the 1967 - 68 wool selling season. The removal of both the raw wool and compensatory wool product tariffs, he estimated, could have resulted in a gain in Australia's wool export income in 1967 - 68 of between \$A 37 million and \$A 73 million.

The reason for the difference between Houck and Schufft's analysis is that Houck did not take account of the consequent rise in the world price of raw wool, which would result directly from the abolition of the American tariff, nor did he consider a reduction in the compensatory tariff on apparel wool products.

No such published analysis has been made of the effect of the wool tariff on New Zealand sales of apparel wool. However, if one compares Australian and New Zealand sales of apparel wool to the United States, as indicated in Table 5 - 5, a rough indication, with Schufft's analysis in mind, can be got of the tariff's effect.[1]

The Minister of Overseas Trade, J.R. Marshall, in a press statement after President Nixon's announcement of a surcharge of 10 per cent on dutiable imports, said that the surcharge tax would cost New Zealand another \$425,000 per year if it remained a permanent feature of the American tariff policy. In 1970 New Zealand

[1] For a current estimate of the impact of the U.S. raw wool tariff on the sale of apparel wools to the United States, see Confidential Appendix.

TABLE 5 - 5 UNITED STATES WOOL IMPORTS FOR CONSUMPTION, CLEAN CONTENT, BY COUNTRY OF ORIGIN, 1960 - 1970, INCLUSIVE[a]

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
						(million lb)					
Apparel											
Argentina	7.0	6.0	10.1	12.8	12.0	17.6	21.4	8.4	8.3	3.7	4.1
Australia	26.5	30.0	51.6	44.4	43.6	71.5	65.8	54.8	58.7	50.5	32.2
New Zealand	9.5	10.6	16.0	16.1	15.5	20.6	25.0	18.8	23.1	17.6	16.7
South Africa	17.2	25.7	29.7	19.6	18.0	21.7	21.6	15.0	16.9	10.4	9.1
Uruguay	10.2	13.7	12.7	11.8	2.7	22.4	18.8	5.6	13.5	7.3	11.2
Other	3.9	4.3	5.7	4.5	6.6	9.0	10.0	6.5	9.3	4.0	6.5
Total	74.3	90.3	125.8	109.2	98.4	162.6	162.5	109.1	129.8	93.5	79.8
Non-apparel											
Argentina	45.8	47.6	47.4	41.7	23.2	20.4	33.5	25.9	34.2	20.5	16.0
India	5.0	4.1	1.3	1.4	4.3	0.9	1.3	0.3	-	-	0.1
Iraq	7.5	7.0	5.4	6.6	5.1	3.2	1.8	0.4	0.5	0.1	0.6
New Zealand	45.8	52.1	49.8	66.4	46.2	56.1	52.1	31.0	55.1	52.8	42.0
Pakistan	11.6	14.9	12.0	10.7	6.4	6.2	3.6	3.3	4.3	3.3	0.9
Syria	7.2	5.2	3.3	5.6	4.7	2.5	4.1	1.9	1.8	1.3	0.9
Other	31.0	26.4	24.3	35.6	24.0	19.6	18.2	15.4	23.7	17.7	12.8
Total	153.9	157.3	143.5	168.0	113.9	108.9	114.6	78.2	119.6	95.7	73.3
Grand Total	228.2	247.7	269.2	277.2	212.3	271.6	277.2	187.3	249.4	189.2	153.1

Source: U.S.D.A., Agricultural Statistics, 1970 and 1971.

[a]Wool not advanced in any manner or by a process of manufacture beyond washed, scoured, or carbonised condition.

sold 16.65 million lb of dutiable wool to the United States with a total duty of $4.25 million.[1]

New Zealand and the United States Wool Market

As Figure 5 - 1 indicates, wool was the dominant item earning dollars for New Zealand in the decade immediately after the Second World War. It was only when New Zealand began shipping large quantities of beef to the United States in 1958 that meat superseded wool as New Zealand's most important export, by value, to the United States (compare Table 5 - 6 with Table 4 - 14).

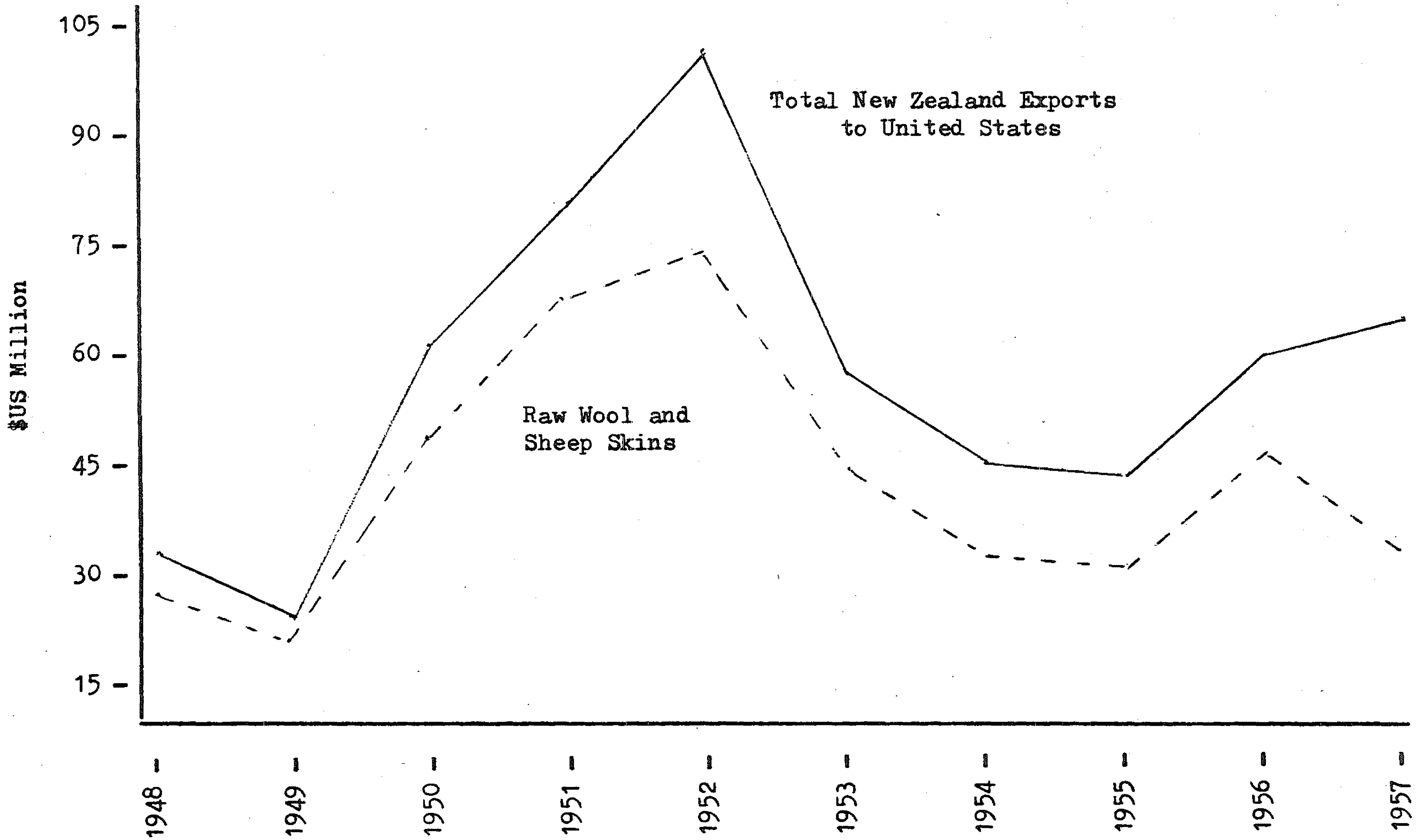
The United States has regularly been among the top three importers of New Zealand wool since 1945 and any change in demand for wool in this market has naturally had major repercussions on the New Zealand wool industry. The tariff on raw wool has been one of those factors which has affected demand. The fact that this duty protects the American sheep industry has not in itself been of major concern. 'It is rather that the American wool-producing industry is not large enough - imports are essential - to warrant a method of protection calculated, since the tariff raises prices, to restrict American users' consumption of raw wool, especially in competition with synthetics'.[2]

The tariffs on wool and the level of protection given to the United States woollen textile industry has been of greater concern to the finer-Merino type wool producers, such as Australia, than to

[1]Press, 17 August 1971.

[2]J.G. Crawford, Australian Trade Policy, 1942 - 1966 (Canberra, Australian National University Press, 1968), p. 390.

FIGURE 5 - 1 RAW WOOL AND SHEEP SKINS AS A PROPORTION OF NEW ZEALAND EXPORTS TO THE UNITED STATES, 1948 - 1957



Source: <u>Commonwealth Trade with the United States, 1948 to 1957</u> (London, Commonwealth Economic Committee, 1959).

TABLE 5 - 6 NEW ZEALAND WOOL EXPORTS TO THE UNITED STATES, BY VALUE, AS A PERCENTAGE OF TOTAL NEW ZEALAND WOOL EXPORTS, 1950 - 1971, INCLUSIVE

Year	Quantity	Percentage
	($NZ million)	
1950	26.4	15.6
1951	40.4	16.2
1952	30.0	20.1
1953	21.3	12.1
1954	14.7	8.2
1955	17.7	9.5
1956	26.1	13.2
1957	16.7	7.7
1958	22.0	13.4
1959	38.8	19.7
1960	30.5	14.6
1961	31.2	15.2
1962	32.4	16.1
1963	42.1	16.9
1964	39.3	14.5
1965	34.4	15.4
1966	38.1	15.4
1967	21.1	15.0
1968	31.0	15.4
1969	31.2	13.0
1970	24.5	11.7
1971	25.0	11.7

Source: Reserve Bank of New Zealand, Bulletin (various issues).

New Zealand, because New Zealand's interests are primarily in coarser wools where American tariff protection is less severe. But New Zealand's concern with the American tariff has only been eroded by reductions negotiated in the wool duty and the exemption from duty of non-competitive coarser wools, of which New Zealand is a producer. Nevertheless the American wool tariff is still applied on the main grades of New Zealand wool and this in recent years has been subject to much debate and negotiation.

The 1947 GATT negotiations, more than any other occasion since World War II, illustrate the political power of the wool pressure groups in the United States.

As has already been noted above, the Smoot-Hawley Act of 1930 imposed a duty of 34 cents a lb clean content on American wool imports of apparel wool. The United States after the Second World War wanted a contraction of the existing preferential system within the Commonwealth and was prepared to negotiate tariff concessions to Commonwealth countries in return. At the Geneva second session of the preparatory committee of the United Nations Conference on Trade Employment in 1947, the United States aimed to remove restrictions and encourage the maximum movement of goods with low-tariff arrangements. For Australia and New Zealand the most important bilateral discussions at Geneva were those conducted with the United States. Both countries wished to gain a substantial reduction on the high duties imposed by the United States on agricultural commodity imports, the most important being wool.

The bulk-purchase arrangements for wool with the United Kingdom ceased with the disposal of the 1945 - 46 clip. The United Kingdom had made arrangements at the beginning of the war to purchase 1,500 million lb of wool annually from New Zealand, Australia and South Africa. Although it was not anticipated, a stockpile of 3,230 million lb had accumulated in Britain,[1] together with large

[1] B.L. Evans, A History of Agricultural Production and Marketing in New Zealand (Palmerston North, Keeling & Mundy, 1969), p. 93.

quantities still being held in the supplying countries. After consultations between the Commonwealth governments a Joint Wool Marketing Organisation was set up to dispose the wool. With domestic wool prices at a high level in the United States, and the fact that most woollen mills in that country preferred foreign wools to domestic grown wool, if the former could be obtained at a comparable price, the United States provided a valuable outlet for Commonwealth wool stocks.

The United States market grew enormously for Commonwealth wool in 1945 - 46. Only 3.1 per cent or 26 million lb of Australian wool exports had gone to the United States between 1934 and 1938, while in 1945 - 46 43.9 per cent or 340 million lb went to that market. The corresponding New Zealand figures were 5.7 per cent or 15 million lb from 1934 to 1938 and 33.3 per cent or 116 million lb in 1945 - 46. South African figures rose from 0.9 per cent (2 million lb) to 33.1 per cent (129 million lb).[1]

As has already been noted, the United States instituted during the Second World War a wool stockpiling programme and it purchased all domestically produced wool at a fixed price. By December 1946 a stockpile of 480 million lb, greasy basis, had emerged.[2] No real reduction in the stockpile could be achieved because the Commodity Credit Corporation was not authorised to sell below the price support level and more attractively priced and prepared wools from New Zealand, Australia and South Africa were being bought by mills. Woolgrowers,

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[1] Press, 27 May 1947.
[2] Benedict and Stine, op.cit., p. 346n.

mainly from the Western states, claimed that despite the difficulty of selling wool stocks the price support of 42.3 cents was not adequate enough to make reasonable profits.[1]

American woolgrowers, led by Sen. Edward Robertson, a Republican from Wyoming, introduced a number of bills into Congress in 1946 which endeavoured to provide price supports at levels at least equivalent to those received in 1946, for the years 1947 and 1948, despite the difficulties of disposing the existing wool stocks. The main bill, known as the Robertson Bill, also proposed that the Commodity Corporation be authorised to sell the present stocks of wool at competitive prices. In this form the Bill was passed by the Senate and sent to the House of Representatives on 10 April 1947. This was the same day as tariff negotiations were opening in Geneva.

In the House of Representatives an amendment to Section 22 of the Agricultural Adjustment Act was added to the Robertson Bill to provide for the imposition of fees on any imported article by the President, after investigation by the Tariff Commission, if it should be found that imports of that article interferred materially with the wool support programme. The purpose of such an increase in the tariff was to raise the price of imported wools to an amount at least equal to the proposed domestic price support level. On 23 May, the House of Representatives passed the Robertson Bill by 151 - 63, authorising the President to impose a 50 per cent *ad valorem* import fee on foreign wool, in addition to the existing duty of 34 cents per lb.[2] *The Times*, commenting on the Robertson Bill,

[1] *Congress and Nation*, I, p. 686.
[2] *Press*, 26 May 1947.

said:

> That it should be before Congress at a time when the United States delegation at Geneva are negotiating a reduction of the United States tariff, is a measure of the political strength of the wool pressure groups.[1]

A more pointed and bitter attack on the bill was made by the Baltimore Sun:

> The wool tariff vote in the House was a cynical grab which the President of Congress after reflection, will be expected to slap down. This bill would pick the pockets of American consumers by boosting the price of woollen clothing. It would yank the rug from under the American bargainers who are seeking tariff concessions from other nations at Geneva in the interest of revived world trade. It would shoot holes in the country's economic and foreign policy ... the House Wool Bill is a screaming example of that kind of economic gouge which its farm-State backers howl at most eloquently when business or labour groups seek to perpetrate them.[2]

As it emerged from a joint conference of the House of Representatives and the Senate, the bill supported wool at the 1946 level of 42.3 cents and authorised both import quotas and fees.[3] It empowered the President to impose quotas as an alternative to import fees. Congress finally passed the bill on 19 June 1947.

A week later, on 26 June, President Truman vetoed the bill saying that it would have an 'adverse effect on our international relations'. He continued:

> The enactment of a law providing for additional barriers to the importation of wool at the very moment when this Government is taking the leading part in a United Nations Conference at Geneva called for the purpose of reducing trade barriers and of drafting a charter for an International Trade Organisation, in an effort to restore the world of economic peace, would be a tragic mistake. It would be a blow to our leadership in world affairs. It would be

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[1]Quoted in Press, 27 May 1947.

[2]Quoted in Press, 28 May 1947.

[3]Congress and Nation, I, p. 686.

> interpreted around the world as a first step on the same road to economic isolationism down which we travelled after the First World War with such disastrous consequences. I cannot approve such action.[1]

Truman asked for the passage of different legislation 'consistent with our international responsibilities'. Soon after Robertson sponsored a new bill providing for supports in 1947 and 1948 at the 1946 level and the federal sale of United States stockpiles at below the parity price. The controversial quota and tariff provisions were omitted. The bill became law on 5 August 1947.

By the beginning of May 1947, it had become clear that little progress could be made at Geneva between the United States and the Commonwealth countries until the United States had clarified its intention on the wool tariff.[2] Towards the end of May heads of the United States and Commonwealth delegations returned to their respective countries for conferences with their governments. W. Nash, head of the New Zealand delegation, made it clear on his return that the United States wool tariff was most important to New Zealand. He regarded the legislation passed by the House of Representatives as very serious to the three wool-exporting Dominions.[3]

Negotiations were only resumed after the Presidential veto. A 25 per cent reduction of the import tariff was agreed to. This was much less than the Australians, in particular, had pressed for but

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[1]Crawford, op.cit., p. 69.

[2]D.F. Nicholson, Australia's Trade Relations (Melbourne, F.W. Cheshire, 1955), pp. 201 - 202.

[3]Press, 5 June 1947.

it nevertheless gave grounds for hopes of greater demand for Commonwealth wool in the United States than had existed prior to 1939.

The Administration in 1947, unlike in 1964 on the occasion of meat quota legislation, had no Presidential or Congressional elections to contend with that year and therefore was able to veto the Robertson Bill without too much discomfort. However, the Administration did concede some ground. There is no doubt that the Congressional actions were very embarrassing for the United States delegation in Geneva. President Truman had indicated well before the final passage of the Robertson Bill that he would veto any such legislation. Probably the support given to the bill would not have been so overwhelming had Congressional members not known that the Presidential veto was imminent. The 25 per cent reduction in the tariff was a valuable concession to the Commonwealth countries, but was probably less than originally intended. But for Congressional pressure it was likely that the full 50 per cent reduction permissible under the existing United States Reciprocal Trade Agreement Act would have been granted.

In the mid-1950s a number of American carpet manufacturers, particularly the Carpet Institute Incorporated, with the support of the New Zealand government,[1] endeavoured to have legislation passed which would exempt coarse wool and hair used in carpets from duties. The existing legislation granted duty-free status to only 40's and coarser.

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[1] Information supplied by the Department of Industries and Commerce.

A bill, known as the Harrison Bill, was presented to the House of Representatives in 1955, but became pigeon-holed in the House Ways and Means Committee in mid-1956. Harrison amended the bill to limit eligible wools to those not finer than 46's and proposed a three year limitation on the period of duty-free access. This bill failed by only 10 votes to gain the two-thirds majority it needed to clear the House. Domestic woolgrowers claimed the bill was a potential threat to their industry.[1]

Continuing pressure to have the bill passed finally resulted in May 1958, the President approving an amended form of the rejected 1956 bill.[2] This bill, unlike that proposed in 1956, extended the duty-free entry of wool for two instead of three years.[3]

The Chairman of the New Zealand Wool Commission, G.A. Duncan, was quoted in the Wool Board's 1959 annual report as saying:

> New Zealand has benefited greatly from the amendment of the United States customs duties ... consumption of wool in the carpet industry ... has shown a marked improvement, and this, with the reduction of duties, has resulted in a very keen demand for medium crossbreds in New Zealand on U.S.A. account.[4]

On the expiring of this legislation a further Act was promulgated[5] extending the earlier provisions permanently. Even the National Wool Growers Association, the main producers organisation representing American woolgrowers, had come to accept such legislation by 1960.

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[1]Congress and Nation, I, p. 200.

[2]Public Law 85 - 418.

[3]Congress and Nation, I, p. 201.

[4]15th Annual Report of the New Zealand Wool Board, year ended 30 June 1959, p. 33.

[5]Public Law 86 - 557.

Coarse wool of that quality did not present a direct threat to the American woolgrower. However, at its Ninety-fifth Annual Convention in 1960, the National Wool Growers Association did advocate that the standards for grading coarse wools, established in 1926, be modernised so that micron tests could be carried out on fibre fineness of doubtful lots of wool imported under the duty-free provisions for carpet wools.[1] This procedure was included in the 1960 legislation.[2]

During the 'Dillon Round' of GATT tariff negotiations (1960 - 61) representations were made by New Zealand to have the original United States offer list extended to include items of greater value to New Zealand. As a result the United States released a supplementary offer list which included an offer to bind the duty-free entry on carpet wools. This offer, at the time, was considered to be worth very little in view of the fact that Congress itself, in 1960, had ordered the indefinite extension of the suspension of duties on this class of wool in the interests of the domestic carpet industry. However, the binding is recorded in the Interim Agreement between the two countries in March 1962, and it took effect on 1 July 1962.[3] The Chairman of the New Zealand Wool Board, J. Acland, said the agreement was a double assurance that an important tariff concession by the United States on carpet wools would be permanent.

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[1]Resolution 20 of the 95th Annual Convention of the National Wool Growers Association, San Antonio, Texas, 25 January 1960. Published in the <u>National Wool Grower</u>, Vol. L, No. 2, February 1960, p. 8.

[2]<u>Press</u>, 13 April 1960.

[3]<u>A.J.H.R.</u>, 1962, Vol. IV, H - 44, p. 43, and information supplied by the Department of Industries and Commerce.
Following the revision of the United States tariff schedules, an agreement signed on 26 February 1964 confirmed the binding already given in respect to carpet wools.

'For some time the Wool Board has been concerned that this duty-free status of our carpet wools should be embodied in an agreement'.[1]

New Zealand Requests for Duty Free Status for all Wools

During the Kennedy Round GATT negotiations another attempt was made by New Zealand to have duty free status extended to cover more grades of wool. In March 1966, the Wool Board asked the Government to make representations to American authorities to have the 1960 exemption extended to cover imports of the types of wool specified in the exemption, regardless of end-use. Because of the possible adverse reactions such an approach could have had on New Zealand's representations in other commodities, particularly dairy products, the request was held in reserve by the Government.[2] It was felt to be more appropriate that Australia handle any negotiations on the wool tariff.[3] Nevertheless, New Zealand did, after a breakdown in negotiations between the United States and Australia, raise the possibility during the Kennedy Round.

The United States initially included all raw wool items[4] in its Kennedy Round offer. However, on 13 November 1966 it notified a list of items which would be withdrawn from the negotiations unless there were substantial improvements in the offers forthcoming from a number of other countries. The withdrawal list included the main

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[1] Press, 10 March 1962.

[2] Information supplied by the Department of Industries and Commerce.

[3] J.P. McFaull, Interview, Wellington, 2 June 1971.

[4] Excluding item 306.00 which was already bound in the Dillon Round.

wool items; that is, those wools finer than 44's. This threat by the United States was clearly directed towards Australia, which, in American eyes, had not made adequate enough offers on agricultural commodities of particular interest to them.

New Zealand was and still is, as Tables 5 - 5 and 5 - 7 show, a substantial supplier to the United States of certain wools finer than 44's and naturally was interested in those wool items which were withdrawn from the Kennedy Round offer. As for those wools remaining in the United States offer, duty-free treatment was already extended to them for carpet end-uses.

Attempts were made to see if the United States would extend its offer to cover certain types of wool finer than 44's, of which New Zealand was a major supplier, but which were of lesser interest to Australia.[1] Indeed, New Zealand wanted the duty on all wool up to 52's abolished.[2]

Australia, as has been noted, is mainly interested in the higher counts of fine grade wool for apparel manufacturing, which compete directly with the American wool producer. The United States, however, was not prepared to give such concessions to New Zealand. They argued that such an arrangement would create the insuperable problem of including some items of interest to New Zealand wools while leaving out related items of interest to Australia. Although Australia's interest in the wool types specified was not as large as that of

[1]Information supplied by the Department of Industries and Commerce.
[2]McFaull, Interview, Wellington, 2 June 1971.

TABLE 5 - 7 UNITED STATES IMPORTS OF APPAREL (DUTIABLE) WOOLS FROM NEW ZEALAND FOR CONSUMPTION, BY CLASSES, 1960 - 1970, INCLUSIVE

(Clean Content, Million lb)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
Not finer than 40's	2.5	1.2	2.3	1.4	1.9	1.9	3.8	3.3	5.5	5.4	5.8
40's up to 44's	1.8	2.6	3.8	3.8	4.2	4.9	6.2	2.5	2.6)		
44's up to 50's	1.0	1.2	1.6	1.3	1.1	0.9	2.1	1.3	1.4)	10.3	9.2
50's up to 56's	2.6	3.3	5.8	7.8	6.8	9.6	9.8	9.3	11.3)		
56's up to 58's[a]	1.5	2.0	1.9	1.5	1.1	2.6	2.6	2.2	1.8	1.5	1.1
58's and finer[a]	0.1	0.3	0.7	0.4	0.4	0.6	0.6	0.3	0.5	0.3	0.6
Total	9.5	10.6	16.0	16.1	15.5	20.6	25.1	18.9	23.1	17.6	16.7
<u>New Zealand Percentage of Total</u>											
Not finer than 40's	27.1	16.5	18.8	12.5	13.9	15.2	27.1	39.3	50.9	67.5	72.3
40's up to 44's	94.4	94.8	85.9	89.6	95.2	86.2	86.0	91.9	78.6)		
44's up to 50's	36.6	50.1	50.9	59.9	52.5	63.7	62.3	59.7	67.8)	65.4	41.2
50's up to 56's	49.8	57.3	54.1	62.3	64.1	40.6	48.5	49.1	51.4)		
56's up to 58's	15.6	19.0	18.0	17.3	28.9	22.3	20.4	27.4	19.6	36.0	34.9
58's and finer	0.2	0.5	0.8	0.6	0.6	0.5	0.5	0.5	0.6	0.5	1.2
	12.8	11.7	12.7	14.8	15.7	12.6	15.4	17.2	17.8	18.8	20.9

Note: Detail may not add due to rounding. 1960 to 1963 detail excludes small amount of carbonised fibre included in totals.

[a]Starting September 1963 58's; earlier up to 60's.

Source: Statistics supplied by New Zealand Wool Board.

New Zealand, there was, nevertheless, some Australian trade and it seems that, given the atmosphere of the time, the Americans were not inclined to grant any concessions on agricultural commodities in which Australia would have an interest.[1] The end result was that the United States concessions on the raw wool tariff were limited in the Kennedy Round to types coarser than 44's.[2]

New Zealand also made a specific request that the duty-free status on carpet wools not finer than 44's be extended to include all wools in this category, regardless of end use. The American response, however, was that domestic legislation would have to be changed to enable the United States to make such an offer.[3]

Since the conclusion of the Kennedy Round negotiations the tariff on raw wool has been included in trade consultations between the two governments. In December 1969 the question of further reductions of the duty on New Zealand wools was taken up by the Wool Board, with New Zealand's Trade Commissioner in Washington. In consultations

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[1]The United States was prepared to reduce her tariff on wool only if similar concessions, on a quid pro quo basis, were made by the Australians in regard to their tobacco imports. The Australians refused. Sir John Crawford commenting on the situation said: 'There is little doubt that the final offer and demands by the United States were "tongue in cheek" in character and yet they succeeded in making the Australian public wonder whether the Australian tobacco industry should stand so heavily in need of high protection as to outweigh the needs of the vastly more significant and depressed wool industry'. op.cit., p. 616.
It should also be noted that New Zealand was sensitive about its tobacco industry. This industry is protected from foreign competition by the imposition of compulsory mixing rates. W.J. Falconer, Interview, Wellington, 10 June 1971.

[2]See above, p. 175.

[3]American negotiators were permitted, by the provisions of the Trade Expansion Act 1962, to negotiate only tariff reductions of up to 50 per cent of the existing tariff until 30 June 1967.

with the United States Department of Commerce New Zealand urged that the duty on apparel use of 44's, 46's and 48's be abolished.[1] The imposition of a temporary surcharge tax by President Nixon in the latter part of 1971 again highlighted the problem and the level of the duty. However, no further progress has been made in reducing the tariff.

Where is the Resistance?

The passage of the Reciprocal Trade Agreement Act of 1934, authorising the President to reduce tariffs by up to 50 per cent through trade agreements with other countries granting reciprocal concessions, shifted the tariff-making function in the United States from Congress to the executive. Until the Act expired in 1962 and was replaced by the Trade Expansion Act, it had been renewed on ten occasions and had given the President varying periods of one to four years to negotiate tariff reductions of varying levels.[2]

In both the 1947 GATT negotiations and the Kennedy Round negotiations, the President was given authority to decrease any rate of duty by not more than 50 per cent of the rate in effect before the beginning of the negotiations. No authority was given to grant duty-free status to certain commodities. Such authority could only be granted by Congress through the passage of legislation.

Since the expiration of the Trade Expansion Act on 30 June 1967, the President has not had authority to grant tariff reductions. Thus

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[1]McFaull, Interview, Wellington, 2 June 1971.

[2]MacKenzie, op.cit., pp. 35 - 36.

any changes in the present raw wool tariff structure would have to be instigated by Congress.

As has been pointed out, the main support of woolgrowers' incomes in the United States at present is the deficiency payments scheme, not the tariff. However, there is still a strong sentiment in favour of even higher tariffs:

> We reaffirm the long standing policy of the National Wool Growers Association that tariffs on raw wool are essential to the national interest. For reasons of national security and our economic welfare, we urge that tariff rates be increased on raw wool and wool textile products.[1]

For this reason and also because funds for the deficiency payments scheme are derived from 70 per cent of the duties collected on imports of wool and wool products, woolgrowers strongly oppose the removal, or even a reduction of the tariff.[2]

It is quite evident that even the existing legislation and protection given to American woolgrowers, in the form of the National Wool Act, was only accepted very reluctantly by the National Wool Growers Association. Edwin W. Marsh, executive secretary-treasurer of that organisation, in cross-examination during a recent Presidential investigation said:

> The sheep producers were the last people who wanted the National Wool Act and only accepted it when the tariffs could not be increased and accepted it because it was tied to and limited to the existing tariff duties ... We have always been for free enterprise and if we could have an adequate tariff

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[1]Resolution 20 of the 106th Annual Convention of the National Wool Growers Association, Las Vegas, Nevada, 21 January 1971. Published in the National Wool Grower, Vol. LXI, No. 2, February 1971, p. 15.

[2]Schufft has shown, however, that in the years of 1966, 1967 and 1968 revenue from the tariff on wool products alone was more than sufficient to finance support payments at the then existing level of guaranteed prices and level of local production in each of the three years. Schufft, op.cit., pp. 141 - 145.

> in this country which would meet differences in production costs here and abroad, I'm sure we would accept that in lieu of the National Wool Act.[1]

By American standards the National Wool Growers Association, made up of 19 affiliated state organisations with a combined membership of approximately 200,000 lamb and wool producers, is a small organisation.[2] However, the resources that such an organisation can mobilise to bring pressure to bear on Congress and the White House are far greater than the mere size would indicate. The journal of the National Wool Growers Association for example, recounts what action the association took when it learned of impending negotiations with Australia over the United States wool tariff, in June 1967:

> The industry was rocked on June 5 when it was reported that Australian Prime Minister Holt had personally requested President Johnson to cut the wool duties. All-out Australian support of the U.S. position in Vietnam, coupled with the entire world situation are believed to be the basis upon which Australia asked these concessions.
>
> It has been reported that Australia was disappointed that no concessions in the wool tariff were granted at Geneva ... Immediately upon learning about Australia's request ... your NWGA officers went to work notifying all state associations and others to immediately contact their senators and congressmen plus the White House, Ambassador Roth [President Johnson's Special Representative for Trade Negotiations] and Secretary Freeman [Secretary of Agriculture] strongly protesting any such action [sic]. The association also sent wires and made telephone calls to various Washington officials.
>
> NWGA Executive Secretary Edwin W. Marsh journeyed to Washington in order to keep on top of this disturbing situation.[3]

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1. Berg, Public Hearings, op.cit., p. 76.
2. Congress and Nation, I, p. 680.
3. National Wool Grower, Vol. LVII, No. 7, July 1967, p. 1.

New Zealand's only hope of more favourable access for its wool lies with the American textile manufacturer. However, the textile manufacturers themselves have in recent years been striving for greater protection against foreign textile imports and have attempted to foster as much support as possible in order to implement the necessary legislation. Traditionally both the American textile manufacturer and the American woolgrower have taken a close stand against foreign competition. Both groups have been behind efforts to impose quantitative restrictions on textile imports and both supported the controversial Mills Trade Bill, sponsored by Wilbur Mills, despite warnings by the Secretary of State, W. Rodgers, that if the bill was to pass in its present form 'there would be grave damage to the sales of hundreds of American firms and to jobs of hundreds of thousands of American workers'.[1] Although the bill lapsed in the Senate during the last session of Congress in 1970,[2] it did lay the groundwork for the securing of 'voluntary' quota agreements on textile imports with Japan, Taiwan, Hong Kong and South Korea in October 1971.

In submissions to the National Advisory Commission on Food and Fiber in 1967, the President of the National Association of Wool Manufacturers, Edwin Wilkinson, said:

> We have seen the tariff rate is not the method of control such as would restore confidence in the industry and we are seeking arrangements ... providing for avoidance of market disruptions

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[1]Commonwealth Secretariat, Wool Intelligence and Fibres Supplement, Vol. XXIII, No. 10, October 1970, p. 636.

[2]House of Represenatatives had passed the Trade Bill on 19 November by 215 votes to 165. For a summary of Congressional action on the Trade Bill, see C.Q. Almanac, 1970, pp. 1051 - 1067.

> through import limitations on goods by category and by source of origin.[1]

The same sentiments were expressed by the representative speaking on behalf of the American Textile Manufacturers Institute.[2] The National Wool Growers Association, in a resolution passed at their 1971 annual convention, said:

> We reaffirm our support of textile trade legislation as passed by the House of Representatives and urge both Houses of Congress to enact this legislation early in the new session; further, we commend the President for his continued efforts to obtain voluntary agreements with all nations involved.[3]

Thus the political environment in which any decision to change the present raw wool tariff structure lies outside any pressures New Zealand can exert. The agreements secured with Japan, Taiwan, Hong Kong and South Korea in October 1971 were the culmination of nearly three years of pressure on President Nixon by American textile groups to find a formula for settlement of the problem of growing imports from these countries.[4] Whether these agreements will

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[1] Berg, Public Hearings, op.cit., p. 90.

[2] Ibid., p. 291.

[3] Resolution 21 of the 106th Annual Convention of the National Wool Growers Association, Las Vegas, Nevada, 21 January 1971. Published in the National Wool Grower, Vol. LXI, No. 2, February 1971, p. 15.

[4] In general terms, specific growth rates for 18 groups of products were agreed to, with only a limited right to shift exports from one group to another. The base period used in calculating growth rates is the year ended 31 March 1971. The Japanese agreement is operative for three years, as compared with five years for the other three countries. The Japanese arrangement relieved the Prime Minister of the necessity of securing approval from a hostile Parliament, an action necessary for a five year agreement. The agreement with Japan provides for an average annual growth of 5 per cent in woollen and man-made textiles to the United States; considerably lower than the overall increase in the previous year. The agreements with Taiwan, Hong Kong and South Korea permit an average annual growth rate of 7.5 per cent. These agreements are much less restrictive than those proposed in the Mills Trade Bill. The provisions of the bill proposed to limit

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be enough to calm the mood of textile manufacturers in future years is difficult to judge at this point in time, but only when such a climate is created can New Zealand hope to gain support from American woollen manufacturers. They themselves have been trying to harness as much support as possible to place restrictions on textile imports and certainly will not be prepared to sacrifice any of that support by way of having the tariff on raw wool lowered unless they can see what they consider to be a sound future for their industry. Admittedly, if the duty was removed on raw wool it would result in lower input costs for American woollen manufacturers, but the gains here are considered not to be near as great as the application of quantitative restrictions on foreign textile imports, thus restricting competition with domestic textiles.

Factors Other Than the Wool Tariff

Of course it would be a gross oversimplification to suggest that the tariff on wool is the only factor inhibiting New Zealand wool sales to the United States. In recent years wool use in that country has declined while consumption of other fibres has increased significantly.[1] Even in the production of carpets wool has become

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imports of textiles (principally wools and synthetics), beginning in 1971 with a quota in each case to be the average of imports in the 1967 - 69 period and increases for subsequent years to be determined by the President but limited to 5 per cent of the previous year's quota. Commonwealth Secretariat, Wool Intelligence and Wool Fibres Supplement, Vol. XXIV, No. 4, April 1971, p. 153 and Vol. XXIV, No. 11, November 1971, p. 735; C.Q. Almanac, 1970, p. 1061.

[1]See above p. 181.

TABLE 5 - 8 PERCENTAGE OF FACE FIBRES CONSUMED IN BROADLOOM CARPET, BY WEIGHT, IN THE UNITED STATES, 1960 - 1970, BY SELECTED YEARS

	1960	1965	1970
Nylon	17	44	43
Acrylic/Modacrylic	6	26	14
Polyster	-	-	19
Wool	64	23	8
Polypropylene	-	-	7
Other	13	8	9

Sources: Carpet and Rug Institute Inc., Basic Facts About the Carpet and Rug Industry (various issues), and the Battelle Report.

a minor fibre during the last decade (Table 5 - 8). As the Battelle Report noted in surveying the United States wool market, 'wool is being used by progressively fewer mills and is being concentrated into a small number of large, integrated multifiber firms'.[1]

Certainly the tariff on raw wool has been a contributing factor to the declining position of wool in relation to other fibres but numerous other factors such as the technical excellence of synthetics, promotion and advertising,[2] the increasing efficiency of synthetic fibre production, as indicated in Table 5 - 9, have all contributed to placing man-made fibres in a much more competitive position than

[1] Battelle Report, op.cit., p. 8.

[2] Chemical companies in the United States spend over $100 million per year on promotion of synthetic fibres, while the allied wool industries of Australia, New Zealand and South Africa, together with the American Wool Council co-operating through the Wool Bureau, spend $6 million per year on promotion and advertising. National Wool Grower, Vol. LXI, No. 5, May 1971, pp. 12 - 13.

TABLE 5 - 9 TYPICAL LIST PRICES FOR SYNTHETIC FIBRES, STAPLE, 1950 - 1970, BY SELECTED YEARS

Year	Acrylic	Nylon	Polyester
		($US per lb)	
1950	1.75	1.80	1.80
1955	1.50	1.55	1.60
1960	1.30	1.30	1.35
1965	1.05	1.00	0.85
1970	0.80	0.80	0.60

Source: Battelle Report.

was the case two decades ago.

Evaluation

Alone among the important wool using countries the United States maintains a high tariff on raw apparel wool. Despite a decline in wool consumption the United States is still one of the world's largest wool consuming nations. Not only is it an important market for raw wool but also for woollen manufactured products. A number of the major raw wool buying countries, particularly Japan and some Western European countries, have developed large woollen textile industries which depend very significantly on the American market for sales. As the Managing Director of the International Wool Secretariat, A.C.B. Maiden, said recently:

> We have always seen wool's prospects as closely dependent on the recovery of the economy in the United States ... which is crucial to the economic prospects of other wool markets,

notably Japan and Western Europe.[1]

However, during the last decade synthetic fibres, in particular, have posed a very real threat to wool. The raw wool tariff appears as a significant factor in the American woollen textile manufacturer's increasing use of synthetic fibres,[2] and to some extent has contributed to wool's diminishing position vis-a-vis man-made fibres on the wool type fibre market of the United States.

Apart from the competition with synthetic fibres, the extent of the tariff on lower grade apparel wools has been disturbing to New Zealand. Some 84 per cent of New Zealand's wool clip for the season 1970 - 71 was below 50's U.S. count.[3] Only a small proportion of this qualified for duty-free entry into the United States. On a clean basis New Zealand produced approximately 450 million lb of these wools[4] so that American consumption for carpet manufacturing represented less than 10 per cent of that available.[5] The balance was used for apparel purposes and in carpet manufacturing in other countries.

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[1]He was addressing the annual congress of the National Wool Growers Association of South Africa. Australian Wool Board, Wool News Digest, Vol. VII, No. 9, September 1971, p. 1.

[2]Tariffs are also imposed on synthetic fibres, but these duties are only about 20 per cent as high as those on crossbred apparel wools at present. The tariff on the highest quality Australian wools is more than 3 times greater than that on synthetics. Following the Kennedy Round negotiations the tariff on synthetic fibres has been reduced to 7.5 per cent ad valorem.

[3]New Zealand Wool Commission, Statistical Analysis of New Zealand Wool Production and Disposal, 1970/71, p. 3.

[4]This figure was arrived at by using the average clean basis of greasy wool for the 1969/70 season; 72.4 per cent.

[5]In 1970 (calendar year) the United States imported 42.0 million lb of carpet wool from New Zealand.

TABLE 5 - 10 APPROXIMATE IMPORTANCE OF END USES FOR NEW ZEALAND WOOL

	Percentage
Carpets	37
Womens wear	20
Mens wear	11
Blankets	8
Handknitting yarns	7
Other	17
	100

Source: Battelle Report.

The extent of the tariff on New Zealand crossbred wools is quite staggering (Table 5 - 11). The lowering of world prices for raw wool in recent years has made the impact of the tariff even greater. On the figures shown in Table 5 - 11 the duty was equivalent to 28.4 per cent of the value of New Zealand crossbred wools in 1964; in 1968 it was 52.6 per cent. In July 1971, just before President Nixon's temporary 10 per cent surcharge tax, the quoted average price in Boston for 48's U.S. count, the predominant class of New Zealand wool, was U.S. 56 cents per lb, clean basis.[1] Thus the tariff of 25.5 cents was equivalent to 46 per cent ad valorem. Even the duty on wools not finer than 44's has been higher than the 7.5 per cent ad valorem duty on synthetic fibres.[2]

[1]On average weekly prices provided by Marriner and Co., Lawrence, Massachusetts, International Wool Secretariat, World Wool Digest, Vol. XXII, No. 8, August 1971, p. 128.

[2]See Appendix XIII for average prices quoted for New Zealand wools in January to March 1972, at a time when wool prices started showing an upward turn.

TABLE 5 - 11 COMPARISON OF NEW ZEALAND AND UNITED STATES CROSSBRED WOOL PRICES, 1962 - 1968, INCLUSIVE

Year	New Zealand Crossbreds: Average Declared Value Before Duty	New Zealand Crossbreds: Value Plus 25.5c Duty	Graded U.S. Territory Shorn Wool, Average French Combing: 56's - 58's (3/8 Blood)	Graded U.S. Territory Shorn Wool, Average French Combing: 48's - 54's (1/4 Blood)	Graded U.S. Territory Shorn Wool, Average French Combing: 46's (Low 1/4 Blood)
			($US per clean lb)		
1962	.696	.951	1.049	1.022	1.008
1963	.747	1.002	1.083	1.098	1.103
1964	.893	1.148	1.184	1.186	1.214
1965	.718	.973	1.056	1.041	1.112
1966	.720	.975	1.126	1.086	1.159
1967	.589	.844	.924	.883	.860
1968	.485	.740	.885	.835	.797

Source: Statistics supplied by New Zealand Wool Board.

On an equivalent to cost basis the tariff has had a greater impact on crossbred apparel wools than it has on the finer wools. The tariff on these wools in recent years has increased the price of crossbred apparel wools by more than 50 per cent to the American textile manufacturer as compared with about 10 per cent for synthetic fibres.[1] This probably accounts for the comparatively low useage of crossbred wools for apparel use in the United States as compared with other wool consuming countries.

Attempts have been made by the New Zealand government and Wool Board representatives to rectify this situation but they have been met with very little success. The great majority of the New Zealand wool clip does not compete directly with the American wool producer and yet a heavy tariff is imposed on these wools. The aims of the United States National Wool Act of 1954 have not been achieved and yet this agricultural industry has been able to exert enough political pressure to maintain its highly protected position. As the price of wool has fallen in recent years, the deficiency payment to American woolgrowers has increased. In 1970 and 1971 the price support was equivalent to 102.8 and 271.1 per cent, respectively, of the returns to growers from sales.[2] While woolgrowers in other countries have had to live in recent years with decreasing returns for their clip, the American woolgrower has had his price support

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[1]The tariff on wool-type synthetics was 15 per cent _ad valorem_ prior to the Kennedy Round agreements. Between 1968 and 1972 it was lowered in five equal stages to its present level of 7.5 per cent _ad valorem_.

[2]See above, p. 182.

increased. It seems that there is almost unqualified support for the scheme in both Republican and Democrate administrations, as well as from major segments of the American wool industry.[1]

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[1] C.Q. Almanac, 1970, p. 639.

CHAPTER VI

MULTILATERAL NEGOTIATIONS

New Zealand, in its efforts to secure greater access to export markets, and deal with economic matters, has sought a common understanding in a number of international forums with an imposing array of initials: UNCTAD (United Nations Conference on Trade and Development), GATT, ECOSOC (Economic and Social Council), ECAFE (Economic Commission for Asia and the Far East), UNDP (United Nations Development Programme), ADB (Asian Development Bank), ASPAC (Asian and Pacific Council), FAO (Food and Agriculture Organisation), OECD (Organisation for Economic Cooperation and Development), and a variety of study groups, sub-committees and working groups.

This situation is markedly different from New Zealand's official foreign economic policy thinking in the early 1950s. It had shown some interest prior to this period in international economic problems and multilateral trading relationships, as expressed through its membership of the United Nations and GATT, but this was derived more from the principle that small countries had an interest in supporting collective security in not only defence matters, but also in economic affairs. As an article in the External Affairs Review states:

> New Zealand, a country for whom external trade had been of great importance, had recognised only too well the limitations which its size imposed on its bargaining power in overseas markets and in international negotiations generally. It had begun to see the need to develop its trade with areas outside the United Kingdom, had started to move into the wider field of competitive trading, and therefore welcomed the emergence of the various international agreements which were created

> under the auspices of the United Nations and which carried with them the promise of greater bargaining power for the smaller nations and increased economic security.[1]

Most of New Zealand's efforts to secure greater access for its agricultural exports have been channelled through GATT. Although the rules of GATT do not distinguish between trade in industrial and agricultural products, the attitudes of industrialised countries, including the United States, have imposed their own distinctions. On most manufactured goods quite impressive reductions in tariffs have been negotiated through GATT. For the most part, the prohibition of quantitative restrictions, other than for balance of payments purposes, has been observed on industrial goods. In the field of agricultural trade, the record is very different. There has been no overall easing of quantitative restrictions on agricultural commodities. Indeed, some of the reductions and bindings of tariffs negotiated on agricultural products have become ineffective because of the subsequent imposition of quantitative restrictions.

In this chapter an attempt will be made to examine New Zealand's efforts through multilateral negotiations to secure better access for its agricultural commodities. Most attention will be focussed on GATT, with particular emphasis on the role of the United States and its attitude to agricultural protectionism.

GATT and Agriculture

Ever since the General Agreement on Tariffs and Trade was provisionally applied by New Zealand in 1948, the Agreement has

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[1] 'Government and International Trade: A New Zealand Viewpoint', External Affairs Review, Vol. XVIII, No. 5, May 1968, p. 4.

provided the principal international framework for New Zealand trade policy in relation to most other countries with which it trades. To both the United States and New Zealand the terms of the Agreement represent the point of reference against which decisions taken by either government affecting their trade relations are likely to be judged by the two countries.

The General Agreement grew up as part of an attempt to prevent a resurgence of the crippling restrictions on trade that were so prevalent during the 1930s. Before the end of the Second World War the major wartime allies had begun to discuss the establishment of international organisations to grapple with the problems of currency, investment and trade. The International Monetary Fund and the International Bank for Reconstruction and Development were soon to emerge but the establishment of an International Trade Organisation (ITO) was to flounder, even after a charter had been agreed to in March 1948, with the failure of the United States Congress to approve the organisation.

While negotiations on the ITO Charter were still in progress the General Agreement on Tariffs and Trade was concluded. When it came into force on 1 January 1948, it was intended only as a temporary expedient for the regulation of trade, to continue only until more comprehensive rules for international economic relations, in the form of the ITO Charter, had been agreed to. However, with the failure of the United States Congress to approve the Charter, GATT has remained a 'residuary legatee'. It deals only with commercial aspects of international trade.

When one surveys the performance of GATT, especially in relation to New Zealand trade, it seems surprising that its rules prohibit the use of quantitative restrictions as a means of regulating a country's international trade and make no distinction between trade in agricultural and industrial products.[1] This can probably be explained if one considers the interests of the main protagonists at the time the Agreement was negotiated.

The use of quotas as a means of restricting imports first came into widespread use during the 1930s as a part of the general breakdown in international trade. In the GATT and ITO initiatives a major policy goal of the United States was to eliminate the use of quantitative restrictions as a protectionist device. Indeed, the drafting of the four articles relating to quota obligations were the most difficult, longest and most detailed set of rules for any single subject in GATT.[2]

At the first preparatory session for the ITO and GATT, in London, the United States delegation, outlining their views, noted:

> Of all the forms of restrictionism ever devised by the mind of man, Quantitative Restriction is the worst.
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> ... the charter should prohibit the use of quantitative restrictions except under specified conditions. In special cases where quantitative restrictions were permitted, they should be administered in a non-discriminatory manner. Exceptions from the rule of non-discrimination should be provided with respect to problems caused by scarce or inconvertible currencies.[3]

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[1]Except for the limited provisions of Article XVI which try to regulate the granting of subsidies on exports when these have harmful effects for other contracting parties.

[2]John H. Jackson, World Trade and the Law of GATT (Indianapolis, The Bobbs-Merrill Company, Inc., 1969), pp. 306 - 307.

[3]Quoted in Jackson, op.cit., p. 309.

The reasons given for these views were as follows:

> In the case of a tariff the total volume of imports can expand with the expansion of trade. There is flexibility in the volume of trade. Under a quota system the volume of trade is rigidly restricted, and no matter how much more people may wish to buy or consume, not one single more unit will be admitted than the controlling authority thinks fit.
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> In the case of tariffs, the direction of trade and the sources of import can shift with changes in quality and cost and price. Under a quota system the direction of trade and the sources of imports is [sic] rigidly fixed by public authority without regard to quality, cost or price. Under a tariff, equality of treatment of all other states can be assured. Under a quota system, no matter how detailed our rules, no matter how carefully we police them, there must almost inevitably be discrimination as amongst other states. If these rules were further to be relaxed, we should emerge from this meeting with nothing more than a multilateral agreement to fasten bilateralism on world trade.
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> Finally, Q.R. [quantitative restriction] makes all international commerce a matter of political negotiation - goods move, not on the basis of quality, service and trade, but on the basis of deals completed country by country, product by product, and day by day between public officials. All economic relation[s] between nations are moved into the area of political conflict. If Q.R. is to be fastened on the commerce of the world without let or hindrance, the restrictionism of the Fifties and the Sixties will make the restrictionism of the Thirties look like absolute free trade.[1]

While an absolute ban on quotas was unacceptable to most nations at the 1946 - 47 preparatory conferences, it is interesting to note the attitude of the United States in the light of later action. However, the framers of GATT, under the leadership of the United States, did agree that, apart from exceptions of foreign exchange difficulties and for special situations in relation to agricultural production, quantitative restrictions be prohibited. Article XI, paragraph 1 states:

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[1] Ibid., pp. 309 - 310.

> No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Article XI, paragraph 2c[1] specifies the circumstances under which exceptions to total prohibitions of quantitative restrictions on agricultural products can be allowed. The limitations of this paragraph have been summarised as follows:

> [Restrictions] shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period and to any special factors which may have affected or may be affecting the trade in the product concerned.[2]

The restrictions permissible under Article XI are thus limited to those implemented in conjunction with controls upon domestic production or marketing and must not unduly disrupt the relationship between imports and domestic production which would exist under normal circumstances.

The special exception of agricultural goods was, at the time, particularly resented by the less-developed and primary producing countries. They saw themselves being prohibited from using quotas to protect their fledging industries while industrial countries,

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[1]This is the only article of the GATT in which agriculture is specifically mentioned and given separate regulations.

[2]The General Agreement on Tariffs and Trade, Vol. III, Basic Instruments and Selected Documents (Geneva, GATT, 1958), p. 20. Hereafter cited as GATT, B.I.S.D.

through the use of this device, were able to protect their domestic producers from the type of product most likely to be produced in less-developed and primary producing countries for export. This exception clause had been included at the insistence of United States. The Americans attempted to justify the exception on the grounds that what was sought was not agricultural protection, but a safeguard against imports that might upset restrictions on domestic production or programmes for the disposal of surpluses. But as William A. Brown has commented:

> The conflict between the general foreign trade policy of the United States and its desire to give special treatment to trade in agricultural products weakened the bargaining power of the United States in the Geneva negotiations ... it weakened the power of the American delegation to oppose special exceptions desired by other countries in the interest of their own national economic programs. It was frankly recognized within the United States government itself as a major handicap to the development of a consistent policy.[1]

Brown quotes from the Congressional testimony of a U.S.D.A. representative, given in 1948:

> We know the great effort which our government has devoted to breaking down the barriers to trade throughout the world. We also know that price supports for farm commodities here in the United States also require a certain degree of protection through tariffs or other trade barriers. Without them foreign producers might flood our domestic market, with our government buying the domestic production. In addition, it tends to become difficult to export farm products without an export subsidy. These trade barriers are in conflict - although not wholly irreconcilably - with our repeated declarations of a national policy which seeks international cooperation in reducing trade barriers.[2]

As the bargaining ability of the United States was limited by

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[1]William A. Brown, _The United States and the Restoration of World Trade: An Analysis and Appraisal of the ITO Charter and the General Agreement on Tariffs and Trade_ (Washington, D.C., The Brookings Institution, 1950), p. 27.

[2]_Ibid._

domestic agricultural legislation it may seem rather ironic that the rules of GATT, apart from Article XI, paragraph 2c, make no distinctions between trade in agricultural and industrial goods. However, the two senior parties to the Agreement, Britain and the United States, both represented the interests of exporters. During the drafting of the Agreement Britain was well aware of the desires of Canada, Australia, New Zealand and South Africa, all major agricultural exporting countries, and all seeking liberalisation in agricultural trade. Besides not wishing to take up a position which would be unfavourable to Commonwealth countries, Britain had little to lose in adopting such a policy, for even during the worst periods of trade restriction in the 1930s it had kept its market open to the importation of agricultural commodities.

Likewise, equal status to agriculture was regarded by the United States as vital to its trading interests. American agricultural production, in response to favourable market conditions and higher price supports, had expanded rapidly during the war and the early post-war period and as the world's largest exporter of agricultural products it wanted all trade barriers put in the way of its exports to be removed. This stance was taken, despite a desire to impose restrictions on agricultural commodities when it felt it was necessary.

The only group of countries that might have objected to the granting of equal status to trade in agricultural and industrial products were those of Western Europe.[1] This region had long been

[1]One could add Eastern Europe. These countries, however, did not respond to the United Nation's invitation to draft a world trade charter.

a stronghold of agricultural protectionism[1] but at the time of the GATT negotiations the bargaining ability of these countries was limited.

GATT and Section 22

The apparent ambivalent attitude of the United States *vis-a-vis* agricultural protection while GATT was being drafted was to become more prominent during the 1950s. The Americans were caught between two irreconcilable wishes of on the one hand wanting to promote more liberal international trade, while on the other desiring provisions for protecting their own agriculture.

At the time of the preparatory negotiations of GATT the United States administration thought it would be able to cut down domestic production, in the event of surpluses, without much difficulty. This did not prove to be the case. High domestic support prices continued and these were not only an incentive to domestic surplus, but also an attraction to imports. It was found that GATT provisions for the restrictions of imports to enforce restrictions on the like domestic product were no longer sufficient (Article XI, paragraph 2c). This was particularly so with dairy products. Domestic dairy groups were not prepared to tolerate any restrictions on their production.

The United States negotiators in 1947 - 48 had done their best to prevent the provisions of GATT from being inconsistent with

[1] See Gerald and Victoria Curzon, 'Options After the Kennedy Round', in Harry G. Johnson (ed.), *New Trade Strategy for the World Economy* (London, George Allen and Unwin, 1969), pp. 24 - 26.

domestic agricultural policy. Existing quantitative restrictions imposed on imports of cotton and wheat under the provisions of Section 22 of the Agricultural Adjustment Act were exempted from the provisions of GATT because they predated the Agreement.[1]

In 1948, just after GATT came into force (provisionally), Congress extended the provisions of Section 22 to include all programmes of price support carried out by the U.S.D.A. The Administration realised that if the Section 22 action of supporting agricultural programmes was not accompanied by restrictions on domestic production, it would be a breach of Article XI of GATT. The Administration therefore pressed and had included a provision to preserve the consistency between the Act and GATT. This provision read as follows:

> No proclamation under this section shall be enforced in contravention of any treaty or other international agreement to which the United States is or hereafter becomes a party.[2]

But for a temporary outlet for excess production provided by the outbreak of war in Korea, demand for American agricultural commodities in export markets waned between 1948 and 1951, while surpluses mounted. Agricultural groups in the United States demanded greater protection and pressure increased to reverse the provisions of the 1948 directive on Section 22. In both 1949 and 1950 amendments designed to that effect were passed by the Senate, despite pleas from the State Department that such legislation might destroy GATT.

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[1]The Protocol of Provisional Application requires compliance with Part II of GATT, which includes Article XI, only 'to the fullest extent not inconsistent with existing legislation', as of 30 October 1947.

[2]As found, for example, in Jackson, op.cit., p. 733.

The 1950 amendment proposed:

> No international agreement hereafter shall be entered into by the United States, or renewed, extended or allowed to extend beyond its permissible termination date in contravention of this section.[1]

On each occasion the amendments were rejected by conference committees.

In 1951, however, enough support was mobilised and the 1948 provision was substituted by the following directive:

> No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section.[2]

The passage of this directive ensured the precedence of United States legislation over international agreements, including GATT. In the words of one authority:

> This remarkable statement, still in force, flatly dictates the violation of international commitments of the United States. Its enactment domonstrates the frailty of an allegiance to a liberal trade policy when it collides with a broadly based and well entrenched agricultural interest.[3]

In the same year Congress amended the Defence Production Act of 1950 by adding a section (Section 104) which authorised import controls on fats, oils, rice, peanuts and certain dairy products. Congress did recognise that the adoption of this amendment, along with the Section 22 amendment, might cause the United States to breach GATT. Certainly a number of the contracting parties, including New Zealand, believed that the embargoes and quotas imposed on dairy products under the authority of Section 104 were contrary to

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[1]*Ibid.*, p. 734.

[2]*Ibid.*

[3]Mackenzie, *op.cit.*, p. 187.

the trading rules of GATT. A formal complaint to that effect was lodged at the Sixth Session of GATT in 1951 by New Zealand and 7 other countries.[1] At the same session a resolution was passed declaring these restrictions to be an infringement of Article XI. Similar resolutions were passed at the Seventh and Eighth Sessions and although the Netherlands did take retaliatory action under the provisions of Article XXIII in reducing its annual import quota of wheat flour from the United States by 12,000 metric tons, there was very little the offended parties could do. The United States administration argued that it had taken no actions which were contrary to the rules of GATT and maintained this position right up to the time it was granted a waiver of GATT obligations.[2]

When compensatory action by the Netherlands was first authorised by the contracting parties in October 1952, The New York Times wrote:

> Whether American farm interests, as requested in Congress, and Department of Agriculture officials can be influenced by the retaliation to recognise the connection between American agricultural policy and American international trade policy is something none of the delegates here (Geneva) is prepared to bet much on. It is clear, however, that a strong effort to make clear to American farmers beyond any doubt that 'trade is a two-way street' has been formally launched today by countries all of which would prefer not to be in the role of teachers of this rather ancient principle.[3]

The controversial amendment to the Defence Production Act was

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[1]The other countries were the Netherlands, Denmark, Australia, Canada, France, Italy and Norway.

[2]Jackson, op.cit., p. 735n.

[3]Quoted in Alan Rau, Agricultural Policy and Trade Liberalisation in the United States, 1934 - 1956 (Librairie E. Droz, Geneva, 1957), p. 15.

allowed to lapse in June 1953, but not before President Eisenhower had agreed to continue import restrictions on dairy products, along with some other commodities, by the imposing of quantitative restrictions under Section 22 of the Agricultural Adjustment Act, as amended.

At the Ninth Session of GATT in 1954 - 55 the United States requested a waiver of its commitments under the Agreement, insofar as such commitments might be regarded as inconsistent with recent action taken under Section 22. It was quite clear to the contracting parties that the United States would, whether or not GATT granted the waiver, carry out the Congressional enactment.[1] Indeed, there was a very real possibility of the United States forsaking GATT if the waiver was refused. Without the United States there was little doubt in most parties' minds that GATT would flounder. New Zealand, however, voted against the granting of the waiver. It considered that such action was a real threat to the future liberalisation of trade and has maintained since that the granting of the waiver has been a principal reason for the lack of progress achieved in GATT with the problems of trade in agricultural products.

By their vote the contracting parties granted the United States a waiver of its obligations under Article II and XI to the extent 'necessary to prevent a conflict' with action taken under Section 22. The waiver not only permits import quotas which are inconsistent with the trading rules of GATT, but also permits increased tariffs on agricultural commodities on which the United States tariff had been

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[1]Jackson, op.cit., p. 735.

bound. The waiver, while open-ended, does, however, require the United States to present an annual report to GATT regarding the actions taken under Section 22 and to consider representations made by a contracting party during the course of a Section 22 investigation. In granting the waiver, the contracting parties declared:

> ... they regret that circumstances made it necessary for the United States to continue to apply import restrictions which, in certain cases, adversely affect the trade of a number of contracting parties, impair concessions granted by the United States and thus impede the attainment of the objectives of the General Agreement.[1]

The contracting parties have continued since 1955 to review the United States waiver and various actions taken under Section 22. New Zealand, together with a number of other countries, has continually pointed out the unfairness of the waiver but that is about all it can do. The right of injured countries to take retaliatory action, with the approval of GATT, under the provision of Article XXIII was preserved at the time of the waiver but the difficulty in using this form of redress is to find action which is likely to hurt the offender without hurting the complainant.

New Zealand's attitude to the United States waiver could be summed up in the words of an American writer:

> In effect, the waiver was a unilateral privilege granted the United States, that violated the balance of rights and obligations negotiated under the GATT and jeopardised future efforts to free agricultural trade from governmental restrictions.[2]

Certainly New Zealand could get no satisfaction, as Professor G.E. Britnell has put it in reference to the implications of the waiver

[1]Contracting Parties to the GATT, B.I.S.D., Third Supplement, (Geneva, GATT, 1955), p. 35.

[2]Boris C. Swerling, 'Current Issues in Commodity Policy', Essays in International Finance, No. 38, June 1962, p. 9.

on Canadian wheat exports to the United States:

> Presumably Canadians may take comfort from the thought that if they get hurt henceforth the injury will not have been illegally inflicted.[1]

Indeed, as New Zealand's Minister of Finance, A.H. Nordmeyer, told the Plenary meeting of the Thirteenth Session of GATT in 1958:

> The fact that some of these restrictions are imposed by virtue of a waiver does not make them any easier for us to bear. We are being damaged. That is the simple fact, whether it is legal under GATT or otherwise. It is no help to be told that we might withdraw concessions previously given. This does not help to sell our exports, nor does it contribute to the objective of GATT to expand international trade.[2]

Haberler Report

The United States waiver did focus the attention of agricultural exporting countries on the limited ability of GATT to deal with agricultural trade problems. The growth of large surpluses in the mid-fifties and the accompanying difficulties New Zealand and others had in persuading the United States to deal with its domestic agricultural problems and thereby prevent disrupting the world market by its dumping surplus stocks, demonstrated still further the intractibility of the problems of agricultural trade. As Gerald Curzon comments:

> The United States obviously found the agricultural surplus discussions in Gatt embarassing. On the one hand, given the domestic political situation, surplus production could not be stopped and, on the other, to give these surpluses to hungry nations was obviously only a second-best solution ...

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[1]G.E. Britnell, 'The Implications of United States Policy for the Canadian Wheat Economy', The Canadian Journal of Economics and Political Science, Vol. XXII, No. 1, February 1956, p. 10.

[2]External Affairs Review, Vol. VIII, No. 10, October 1958, p. 25.

> the United States was by this process just exporting her surplus stock problem to such countries as Australia, Canada, New Zealand, etc., and the under-developed countries who accepted these non-commerical consignments mainly for balance-of-payment reasons exported their deficits to the aforementioned countries. Nothing was solved; problems were only geographically displaced.[1]

GATT increasingly concerned itself with the effects of agricultural policies. The contracting parties agreed in 1957 to appoint a panel of experts to enquire into trends and prospects in international trade with particular reference to 'the future of the trade of less developed countries to develop as rapidly as that of industrialised countries, excessive short-term fluctuations in prices for primary products, and widespread resort to agricultural protection'.[2]

The panel's report, usually referred to as the Haberler Report, was the beginning of a series of detailed examinations carried out by GATT on the nature and extent of agricultural protectionism in major countries of the world. The agricultural section of the report focussed on measures which protect agriculture. It noted that practically all schemes of agricultural protection can be analysed into some combination of three possible elements. Firstly, those measures which directly discourage imports. These include import duties, quantitative restrictions, multiple exchange rates, compulsory mixing ratios and bilateral agreements between foreign

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[1] Gerald Curzon, Multilateral Commercial Diplomacy: The General Agreement on Tariffs and Trade and Its Impact on National Commercial Policies and Techniques (London, Michael Joseph, 1965), pp. 176 - 177.

[2] Trends in International Trade (Geneva, GATT, 1958), p. 1. The panel consisted of four eminent economists, headed by Gottfried Haberler, Professor of Economics at Harvard University.

exporters to limit their exports to the country in question as an indirect means of restricting foreign supplies on the domestic market. Secondly, measures which directly encourage exports; that is, those measures which distort the price mechanism to the disadvantage of the foreign producer. These include export subsidies, multiple exchange rates and state-trading operations. Thirdly, those measures which directly encourage domestic production. Such measures as the straight-forward subsidies, or indirect subsidies to farmer's incomes by subsidising his costs of production or by the use of tax privileges, were included in this category. These measures reward the farmer at a level above the rate corresponding to the price at which he could sell his product.[1]

While the panel could not determine to what extent the relatively slow growth in agricultural trade since the Second World War was due to protectionism, or changes in comparative advantage, it did point to 'two incontrovertible facts': first, agricultural protectionism existed at a high level in most of the highly industrialised countries and, secondly, that development of production and consumption of agricultural commodities in these countries had been such as to make net agricultural imports more and more marginal in relation to their total domestic production and consumption of such products. 'These two facts together suggest that agricultural protectionism in the highly industrialized countries is now a major factor restricting the world trade in such products'.[2]

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[1] _Ibid._, pp. 81 - 82.
[2] _Ibid._, p. 87.

The panel observed that:

> Many of the primary producing countries are of the opinion that the rules and conventions which are at present applied to commercial policy and international trade show a lack of balance unfavourable to their interest. The main development which has brought this feeling to a head is the continued application of quantitative restrictions against imports of agricultural products by a number of highly industrialized countries, who are no longer in balance-of-payments difficulties. The GATT rules permit quantitative import restrictions on balance-of-payments grounds, but not on agricultural grounds, and so long as this situation persists, the exporters of competing agricultural products can legitimately claim that they are not getting the treatment for which they bargained when they first became contracting parties to GATT. This feeling is reinforced by the prospect that in the European Economic Community one set of rules may be applied to industry, but another to agriculture. Combined with this is the feeling that subsidies to production are in fact much more easily used by rich countries to promote their agriculture ... thus work[ing] unfairly to the advantage of the rich, highly industrialized countries.[1]

These comments seem to sum up very concisely New Zealand's attitude to the problems of agricultural trade and the inability of GATT to deal with it. The report goes on to say:

> ... we believe that there is substance behind this feeling of disquiet on the part of exporters of primary products. If it is not met in negotiation by the importers of primary products, the general system of clearing the channels of trade by a general all-round negotiated reduction of trade barriers (a system which is typified by the GATT) may suffer a serious setback; and this would certainly be to the disadvantage of the highly industrialized as well as of the primary producing countries.[2]

Committee II

When the trade minister of the contracting parties met to consider the findings of the Haberler Report each, however protectionist or free trading, found justifications in the report for his country's

[1] Ibid., pp. 123 - 124.

[2] Ibid., p. 124.

adopted policy.[1] Despite this disappointing initial reaction there was agreement that three committees be set up to deal with particular problems. One of them, Committee II, was charged with assembling 'data regarding the use by contracting parties of non-tariff measures for the protection of agricultural producers, and the agricultural policies from which these measures derive'. The Committee was also to examine the effect of these measures on international trade, to consider the extent to which the existing rules of GATT and their application were inadequate to promote international trade and appropriate steps that might be taken in the circumstances. It was also requested to suggest procedures for further consultations on agricultural policies as they affected international trade.[2]

After investigating the policies of 34 countries the Committee published its conclusions. Many points brought up in the Haberler Report were reiterated. The Committee found that the adoption of protective devices in traditional importing countries had placed a heavy burden of adjustment on exporting countries, and the benefits which the latter countries had expected to receive under the General Agreement had been impaired or nullified by non-tariff barriers. It noted:

> These developments are of such a character that either they have weakened or threatened to weaken the operation of the General Agreement as an instrument for the promotion of

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[1]See Curzon, op.cit., pp. 182 - 185.

[2]GATT Programme for Expansion of International Trade, Trade in Agricultural Products, Second and Third Reports of Committee II (Geneva, GATT, 1962), p. 7.

mutually advantageous trade.[1]

Of the countries examined, the Committee estimated that non-tariff measures covered the trade of 84 per cent of all butter production, 59 per cent of cheese production, 52 per cent of sugar production and 87 per cent of wheat production.[2]

Looking towards a solution, the Committee suggested two ways to deal with these problems. One was to limit production in those countries where it was unnaturally stimulated by high domestic prices and the other was to draw up a price agreement. Prices, it said, should not be such that (a) production ceased to be renumerative for efficient producers; (b) producers would be induced to increase production beyond existing outlets; or (c) expansion of consumption would be inhibited.[3]

The work of the panel of experts and of Committee II did lead to an attempt within GATT to find new procedures to deal with agricultural protectionism. In a statement to the Council of GATT in September 1961, the Executive Secretary, Mr Wyndham White, said he was sceptical as to the usefulness of further attempts to persuade the countries concerned to take remedial action. Like Committee II, he believed that moderation of agricultural protection in both importing and exporting countries was desirable and that it would be more beneficial to examine prospects for negotiating terms of access to agricultural markets. He referred to the problem of surpluses

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[1] _Ibid._, p. 25.
[2] _Ibid._, p. 18.
[3] _Ibid._, p. 24.

and to the possibility of some link between trade in agricultural products and the disposal of surpluses through non-commercial channels.

A similar suggestion was made by the French Minister of Finance, M. Baumgartner, at a ministerial meeting of GATT in November 1961. The New Zealand delegation at this same meeting showed a good deal of interest in these suggestions. As J.R. Marshall told the meeting:

> We ourselves are sufficiently realistic not to expect a sudden elimination of all forms of agricultural protectionism, but a reasonable and moderate beginning should be made. From reasonable and moderate beginnings there should be provision for further expansion of access.[1]

It was agreed by the Ministers that procedures be adopted for negotiating 'acceptable conditions of access to world markets for agricultural commodities'.[2] GATT groups on cereals and meat and, later, on dairy products, were established for this purpose.

The Kennedy Round

The development of the European Economic Community, as promoted by the Treaty of Rome, was, for political reasons, a move encouraged by the United States. However, as the seriousness of the threat of the EEC adopting a Common Agricultural Policy (CAP) became more apparent, that support was to become more reserved.

The early 1960s found the United States in a rather ironic situation. Whereas during the preceding decade it had shown an

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[1] GATT Press Release, No. 647, 29 November 1961.

[2] Contracting Parties to the GATT, B.I.S.D., Tenth Supplement (Geneva, GATT, 1962), p. 27.

apparent disregard to the protests of other countries for its adopted agricultural protectionist practices, in the sixties it was to find itself becoming increasingly aggravated by the protectionist policies of other countries, particularly the EEC. The importance of exports to the American farmer had increased. Whereas in 1951 exports as a proportion of farm receipts totalled 10 per cent, in 1961 they had increased to 14 per cent and by 1968 had reached the level of 16 per cent.[1] More than ever the United States wanted to ensure a continuation of export market growth.

The setting up of a CAP was dealt with only in a general way in the Treaty of Rome, leaving the details to be filled in as the Community progressed. Nevertheless the Treaty did cite several objectives that a CAP should be designed to accomplish. These were to increase agricultural productivity, to ensure fair standards of living for the agricultural population, to stabilise markets, to guarantee regular supplies, and to ensure reasonable prices to consumers.[2] Further important decisions on the framework of the CAP were not announced until 1962 when the Common Market countries agreed to initiate a system of variable levies, which would, in effect, insulate the member country's markets from world price influences, thereby having the desired effect of stimulating production and increasing self-sufficiency.

The adoption of such a system of protection was soon perceived

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[1]Luther Tweeten, Foundations of Farm Policy (Lincoln, University of Nebraska Press, 1970), p. 462.

[2]Article 39 of the Treaty of Rome.

by the United States as a threat to its largest agricultural market. As the Secretary of Agriculture, O.L. Freeman, noted:

> Protective devices adopted or proposed by the Common Market centre around the use of a variable levy fee. To some people these levies appear as a gate on a dam which can be raised or lowered depending on the amount of water needed on the other side. To others, these levies appear to be more like a moving high-jump bar which rises to disqualify even the most proficient competitor.[1]

As Table 6 - 1 indicates, in the early 1960s the EEC countries accounted for over 20 per cent of American agricultural exports. Still more importantly, they accounted for nearly 30 per cent of United States commercial farm exports (Table 6 - 2). There were fears that this trade, especially in grains, would be drastically cut by the adoption of a CAP. These fears became even more acute when the Macmillan Government announced its intention to take Britain into the EEC. Forty per cent of American commercial agricultural exports went to the 'Six' and the United Kingdom in 1962.

Before the CAP became operational in June 1962 there had been, as part of the overall settlement of the Dillon Round of tariff negotiations (1960 - 61), an undertaking by the EEC to negotiate trade with the United States at a future date. The passage of the Trade Expansion Act of 1962 gave the President authority to undertake such negotiations. However, it was soon made clear by the United States that there was no possibility of it agreeing to a tariff bargaining conference unless it was given prior assurances concerning

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[1]Address to the National Council of Farmer Co-operatives, Miami Beach, Florida, 8 June 1962, as quoted by Michael Tracy, <u>Agriculture in Western Europe: Crisis and Adaptation Since 1880</u> (London, Jonathan Cape, 1964), p. 353.

TABLE 6 - 1 UNITED STATES AGRICULTURAL EXPORTS TO THE EUROPEAN ECONOMIC COMMUNITY AND THE UNITED KINGDOM, YEARS ENDING 30 JUNE 1955 - 1970, BY SELECTED YEARS

	Average 1955 - 59	1962	1964	1966	1968	1970
	($US million)					
Total U.S. Agricultural Exports	4,093	5,078	6,068	6,677	6,315	6,646
Exports to EEC	980[a]	1,184	1,333	1,594	1,403	1,383
Exports to U.K.	441	367	448	435	397	406
EEC Percentage	23.9[a]	23.3	22.0	23.9	22.2	20.8
U.K. Percentage	10.8	7.2	7.4	6.5	6.3	6.1

Source: U.S.D.A., Agricultural Statistics (various issues).

[a] Excludes Luxemburg.

TABLE 6 - 2 UNITED STATES COMMERCIAL AGRICULTURAL EXPORTS TO THE EUROPEAN ECONOMIC COMMUNITY AND THE UNITED KINGDOM, YEARS ENDING 30 JUNE 1955 - 1970, BY SELECTED YEARS[a]

	Average 1955 - 59	1962	1964	1966	1968	1970
			($US million)			
Total U.S. Commercial Agricultural Exports	2,663	3,543	4,550	5,061	4,713	5,633
Sales to EEC	743[b]	1,173	1,321	1,580	1,378	1,383
Sales to U.K.	362	359	446	417	397	406
EEC Percentage	27.9[b]	33.1	29.0	31.2	29.2	24.6
U.K. Percentage	13.6	10.1	9.8	8.2	8.4	7.2

Source: U.S.D.A., Agricultural Statistics (various issues).

[a]United States agricultural commercial transactions include, in addition to unassisted commercial transactions, shipments of some commodities with governmental assistance in the form of (1) barter for overseas procurement for U.S. agencies, (2) extension of credit and credit guarantees for relatively short periods, (3) sales of Government-owned commodities at less than domestic market prices, and (4) export payments in cash or in kind.

[b]Excludes Luxemburg.

freer trade in agricultural commodities. A prominent theme in the campaign for the Trade Expansion Act had been the need to maintain and expand American agricultural exports to the EEC. The powerful American Farm Bureau Federation had given its reluctant support to the bill only after it had been amended to provide a firmer commitment on agriculture.[1] The inclusion of the provisions of Section 252 of the Act which directed the President to take appropriate steps to eliminate restrictions on United States agricultural exports, including if necessary, withholding concessions from the countries concerned, ensured at least that agriculture would be given greater emphasis in the coming tariff negotiating conference than it had in the past.

There was agreement at the Ministerial meeting of GATT in May 1963 that specific actions should be taken to help trade in agricultural products and a call was made for comprehensive negotiations (the Kennedy Round) to begin in May 1964. The section of the ministerial resolution dealing with agriculture stated that the negotiation should 'cover all classes of products ... including agriculture' and 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 ... in furtherance of a significant development and expansion of world trade.[2]

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[1] Congressional Quarterly Service, Legislators and the Lobbyists (Washington, D.C., 1965), p. 63.

[2] Contracting Parties to the GATT, B.I.S.D., Twelfth Supplement (Geneva, GATT, 1964), pp. 47 - 48.

This resolution, together with the expressed desires of the United States, gave New Zealand some hope of negotiating more favourable access to various markets, particularly for dairy products, lamb, mutton, beef and veal.[1]

Despite the United States repeatedly and unequivocally stating that concessions in agriculture were a sine qua non for its acceptance of any final Kennedy Round results, only limited success was achieved in agricultural trade, and that only in respect to trade in wheat, where a common fund for food aid to poorer countries was the new feature included in a reformed International Wheat Agreement. The Trade Negotiations Committee for the Kennedy Round had soon become bogged down in trying to formulate agreed rules to govern and methods to be employed in negotiating agricultural agreements.[2] Although a number of tariff concessions, primarily on a bilateral basis, were agreed to for some agricultural commodities, including wool, lamb and meat by-products, these were mainly from countries where access already existed for these products. The problems of access to other markets, particularly for dairy products, still remained.

The Kennedy Round was the first occasion in which consideration of non-tariff barriers and provisions of acceptable conditions of access to world markets for agricultural products were included in the bargaining. Few of the contracting parties could, however,

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[1] A.J.H.R., 1968, Vol. IV, H - 44, p. 47.

[2] See A.H.M. Albregts and A.J.W. van de Gevel, 'Negotiating Techniques and Issues in the Kennedy Round', in Frans A.M. Alting von Geusau, (ed.), Economic Relations After the Kennedy Round (Leyden, A.W. Sijthoff for the John F. Kennedy Institute, 1969), pp. 36 - 45.

be responsive to the United States arguments for liberalising agricultural protection schemes of others, whether or not consistent with GATT, so long as the United States retained an open-ended waiver for agricultural protection. As Under-Secretary of Agriculture, J.A. Schnittker, was to comment in 1969:

> One of the United States long-run objectives in agriculture must be expansion of world trade on the basis of efficiency and comparative advantage. And if we want to apply this principle to our exports, we will be expected to apply it also to those products we import.[1]

Post-Kennedy Round

At the Twenty-fourth Session of GATT, in November 1967, the first to be held after the conclusion of the Kennedy Round, the contracting parties reviewed their work of the past twenty years. New Zealand was represented at this session by the Deputy Prime Minister, J.R. Marshall, who, in a speech to the contracting parties, highlighted the disparity of benefits gained in GATT between agricultural and industrial goods. Referring to the Kennedy Round he stated that for most of New Zealand's major products, especially where non-tariff barriers were involved, 'the declared objectives of the Kennedy Round turned out to be illusory'. He went on to quote a speech made by the Director-General of GATT, at Heidelberg on 12 September 1967:

> Once again the negotiations fell far short of anything like full success in relation to agriculture and this despite a determined effort to integrate agriculture fully into the negotiations for the first time in the history of post-war trade relations ...

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[1]John A. Schnittker, 'Effects of Agricultural Trade Obstacles', Foreign Agriculture, Vol. VII, No. 1, 6 January 1969, p. 5.

He further quoted the Director-General:

> It is easy to understand the mounting exasperation of the traditional producers and exporters, for whom agriculture is not an adjunct to a powerful industrial economy, but the main basis of their economic well-being. Is it possible to construct a viable international economic and trading system which in effect leaves agriculture completely outside the rules of the game? Clearly not indefinitely - and yet we have still to find the answers and techniques for reconciling the political and social necessities of domestic agricultural policies with a viable and acceptable basis for trade in agricultural products.[1]

Of particular urgency to New Zealand was the need for an agreement on dairy products. The Kennedy Round had shown that there was no possibility in the immediate future of negotiating better terms of access for dairy products. The EEC dairy surplus was mounting and it, along with a number of other countries, was using price-cutting methods on overseas markets in order to dispose of its large surplus stocks. Such actions were having extremely detrimental effects on markets where New Zealand was trying to develop an expanding trade (see Table 6 - 3 for examples).

New Zealand had been criticised by the United States Congressional delegate for Trade Negotiations, T.B. Curtis, in a report to Congress on 13 April 1967, for the tactics it had used in negotiations in the Dairy Group during the Kennedy Round.

> There has been little progress to speak of in the dairy negotiations in part because there are but a few participants who want to change the international status quo, and New Zealand has not concentrated its fire on the EEC which clearly is a stumbling block because of its huge surpluses. Instead, it seems that increased access to the U.S. market has been the main objective, and U.S. section 22 quotas on dairy products, clearly a minimal form of protection in comparison with the dairy policies of the EEC, have become the whipping boy.[2]

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[1] External Affairs Review, Vol. XVII, No. 11, November 1967, p. 29.

[2] Quoted in G. Palmer, 'Peasant Power: GATT and Dairy Products', New Zealand Economist and Taxpayer, Vol. XXIX, No. 8, November 1967, p. 13.

TABLE 6 - 3 PRICES QUOTED FOR DAIRY PRODUCTS IN SELECTED PACIFIC MARKETS, 1968 - 69

	1 Jan. - 30 June 1968	1 July - 31 Dec. 1968	1 Jan. - 31 May 1969
		($US per Ton c.i.f.)	
<u>Skim Milk Powder</u>			
Philippines			
New Zealand	270 - 210	210 - 200	200
EEC	..	154 (Netherlands)	154 (Netherlands)
Chile			
New Zealand	266	235	181
EEC	225 (Netherlands)	173 (Belgium)	180 (Belgium)
<u>Butter</u>			
Malaysia-Singapore			
New Zealand	803	726	584
EEC	665 - 518 (Netherlands)	518	518
Peru			
New Zealand	664	644 - 556	533
EEC	450 (France)	485 - 415 (Netherlands-Belgium)	440 (France)
<u>Anhydrous Milk Fat</u>			
Malaysia			
New Zealand	685	638	638 - 590
EEC	646 (Netherlands)	590	590
Peru			
New Zealand	685 - 638	638	590
EEC	610 (Netherlands)	..	485 (Belgium)

Source: F.W. Holmes, et.al., <u>New Zealand and an enlarged EEC</u>, (Wellington, New Zealand Monetary and Economic Council, Report No. 19, 1970).

Perhaps New Zealand did concentrate its attack too much on the United States, but the comments of Curtis can to some extent be discounted when one recalls that at this time intense pressure was being applied by the American dairy lobby to have even greater restrictions imposed on dairy imports.[1] Granted, Section 22 quotas do allow some dairy imports, while the EEC variable levy can be manoeuvred to prevent imports, but it could hardly be accurately described as a 'minimal form of protection'.

New Zealand at the Twenty-fourth Session of GATT proposed and won agreement to the setting up of a Working Party on Dairy Products. The Working Party was to seek an interim agreement on measures to reduce or remove distortions in commercial trade caused by the unlimited use of export subsidies in disposing dairy surpluses. In taking this initiative New Zealand's main objective was to achieve a minimum pricing agreement for butter and milk powder and, possibly later, the negotiation of international agreement for dairy products similar in nature to that achieved in GATT for grains.[2]

Since then arrangements establishing a minimum import price on skim milk powder have been agreed to by all the major dairy exporting countries, except Ireland.[3] It appears likely that this arrangement will be extended in the near future to include anhydrous milk fat, but in the case of butter, the most important item, no

[1]See above, pp. 83 - 84.

[2]A.J.H.R., 1969, Vol. IV, H - 44, p. 50.

[3]FAO Commodity Review and Outlook, 1969 - 1970 (FAO, Rome, 1970), p. 156.

progress has yet been made.[1] While these arrangements set a minimum price in the world market the problem of access still remains and is just as formidible as ever.

The Working Party on Dairy Products was one of several groups set up after the Kennedy Round to continue study into particular trade problems. At the Twenty-fourth Session of GATT the contracting parties agreed to undertake a co-ordinated programme for further work, including the setting up of an Agriculture Committee to examine agricultural problems in the context of GATT objectives to cover relevant agricultural trade and production policies for all products important to international trade. It was hoped that such examination would prepare the way for subsequent consideration of 'positive solutions which could be mutually accepted by all the contracting parties concerned'. As in the case of the Haberler Report and the Committee II reports, the problems have been identified but unwillingness still persists on the part of the industrial countries to do something positive about them.

Other Multilateral Organisations

Besides GATT, New Zealand has pursued understandings in agricultural trade in several other international organisations. It has attempted through its membership of these organisations to support and complement initiatives taken in GATT.

One such organisation is the FAO. The services of this agency of the United Nations, although predominantly concerned with the

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[1] A.J.H.R., 1972, Vol. IV, H - 44, p. 60.

problems of increasing agricultural production in developing countries, are very useful in focusing international attention on agricultural commodity problems. Its annually compiled detailed analyses of production of and trade in primary products on a commodity by commodity basis provide much valuable information. This information is useful in identifying both regional and national imbalances and pointing to areas where progress might be made.

Of particular interest to New Zealand is the Organisation's Committee on Commodity Problems. The Committee is not a negotiating forum and as such it is a group in which issues can be advanced and considered with some objectivity. Where the Committee considers that the problems of a particular commodity require international consultation and study, it establishes specific study groups for that purpose. Recently, for example, an inter-governmental study group on meat was established to examine, among other things, veterinary and marketing specifications of major meat markets as well as other problems of access exporters have to contend with.[1]

New Zealand has also been a member of the FAO Consultative Subcommittee on Surplus Disposal since its formation in 1954. This is a subcommittee of the Committee on Commodity Problems and was established following the accumulation of large surpluses, particularly of dairy products, in the mid-fifties.[2] The aim of the subcommittee has been to have member governments cooperate in the disposal of

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[1]FAO Commodity Review and Outlook, 1970 - 1971 (FAO, Rome, 1971), p. 58.

[2]See above, p. 73.

surplus agricultural commodities in such a way as to cause least possible damage to normal commerical trade of other countries. Some success, particularly with the United States, has been achieved during the last decade and more, in its disposal of surplus dairy products.

UNCTAD, which was established in response to pressure from developing countries, reflecting their dissatisfaction with the scope for progress within GATT, provides New Zealand with another opportunity to contribute international pressure in the hope that some rationalisation in trade in agriculture may result. As B.E. Talboys, then Minister of Agriculture, told the first meeting of UNCTAD in 1964:

> My country has continually urged the improvement of access for trade in agricultural products, for example, in the GATT where there has been some, though regrettably little, progress. The majority of countries with centrally planned economies are, however, not represented within GATT and we therefore welcome the opportunity to meet them in this international forum and to urge them also to improve conditions of access to their domestic markets. Too often in the past their trade has been conducted on the basis of meeting sporadic shortfalls in their domestic requirements. What is needed is access on an assured and continuing basis for a wide range of goods which can be produced on terms competitive to their own production.[1]

On the question of market access for temperate zone agricultural commodities, there was no progress at the 1964 conference, nor does it appear, at the subsequent two meetings held in 1968 and 1972.

In June 1970 New Zealand took up associate status with the OECD which allows it to sit on the Organisation's agriculture committee.

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[1] External Affairs Review, Vol. XIV, No. 3, March 1964, p. 32.

Prior to formal membership New Zealand did attend occasional OECD discussions on agriculture and was especially active in the Organisation's moves towards standards for seed certification on an informal basis and had become a party to the 'Gentlemen's Agreement on Wholemilk Powder' established under the auspices of the organisation to regulate world trade in wholemilk powder.[1] As all the temperate zone countries of Western Europe, North America and Japan are members of OECD, this forum provides another means of participating in, and having access to, a wide range of discussions on standards, commodities and trade.

Evaluation

The above examination has attempted to highlight the ambivalent nature of American trade policy and the inability of New Zealand to gain any redress for its grievances in multilateral forums, particularly GATT. New Zealand has regarded the granting of a waiver to the United States of its GATT obligations as a principal reason for the lack of progress in liberalising agricultural trade. There seems no doubt that restrictions imposed under Section 22 of the Agricultural Adjustment Act have impeded American efforts to bargain down EEC restrictions on agricultural commodities and have forced United States delegates at GATT conferences to fight for more liberal international trade with their hands tied. As one American observer has commented:

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[1] A.J.H.R., 1971, Vol. IV, H - 44, pp. 64 - 65, and Press, 27 June 1970.

> We in the United States bear some responsibility for its adoption [that is, the CAP], in part because its conception owes much to our own legislation of the 1940's and 1950's and in part because during the Dillon Round of tariff negotiations (1960 - 1961) we acquiesced in the variable levy ...[1]

While quite substantial reductions have been achieved in the protection of industrial goods since the end of the Second World War, trade in temperate-zone agricultural products has come to be recognised as 'the nastiest and most intractable problem confronting the world trading community'.[2] The problems and effects of agricultural protectionism have been identified by a number of study groups in different international forums but as yet there appears to be a lack of willingness on the part of the industrial countries to do anything positive to rectify this alarming situation. The most that New Zealand and other affected countries have been able to do is to continue to register their protests in the hope that eventually some magnanimous attitude on the part of the industrial countries may emerge. Any agreements that have been achieved have been limited in their scope to mainly pricing arrangements and have only surfaced after a long process of study and persuasion.

It was only as recently as the Kennedy Round that non-tariff barriers and agricultural trade were included in the bargaining process of a GATT negotiation. Although little was achieved, at

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[1]Houthakker, op.cit., p. 764.

[2]Gerald and Victoria Curzon, Hidden Barriers to International Trade (London, Trade Policy Research Centre, 1970), p. 1. See also the address, 'International Trade in the 1970s: Some Immediate Problems', by Olivier Long, the Director-General of GATT, to representatives of German Industry and Commerce, 26 January 1970, in Journal of World Trade Law, Vol. IV, No. 3 (May 1970), pp. 499 - 505.

least it was a tentative beginning. However, there appears to be no possibility of a major relaxation in barriers to agricultural trade so long as the industrial countries are not prepared to come to grips with the problem and negotiate realistically. The United States has indicated in recent years that it is no longer prepared to humour indefinitely the restrictions imposed on its agricultural exports by the EEC and other countries. Only the United States appears to have the bargaining ability to change the present chaotic international agricultural trading situation but it seems likely that if it is to be able to achieve this it too must be prepared to put its own house in order and not have its negotiating position blunted by its own agricultural policies.

CHAPTER VII

CONCLUSION

During the last two decades there can have been very few occasions when a New Zealand Minister visiting Washington, or a member of the United States administration visiting New Zealand, has not discussed trade matters affecting the two countries. New Zealand has sought, particularly since the threat of British entry into the EEC loomed so ominously on its horizon in the early 1960s, greater opportunities to diversify its markets for its agricultural commodities.

While the United States has been among the strongest advocates of multilateral, non-discriminatory world trade, it, like most other highly industrialised countries, pursues internal price support schemes for some agricultural commodities which, because of significant differentials between domestic and prevailing world prices, require some form of protection to prevent an influx of imports. Such support policies often promote unduly high prices which can discourage consumption and can in turn lead to dumping of surpluses in third markets. The application of trade barriers in these countries and competition from subsidised surplus disposals in other markets have frustrated and severely limited New Zealand's diversification drive in some agricultural commodities.

As we have seen in examining the United States market, only in those commodities where New Zealand does not compete directly with the domestic producer has it been able to make substantial sales in that market. This has been particularly the experience in beef and carpet wools. Although ceilings are imposed on beef imports by what the Administration continues to euphemistically describe as a system of 'voluntary restraints' it has nevertheless allowed New Zealand to increase its sales of this commodity in the world's most attractive market. The bulk of the imported beef is used for manufacturing and as such has been filling a deficiency in domestic supplies.

Despite a number of determined efforts by the lamb lobby there are no quantitative restrictions on lamb imports in the United States. New Zealand has developed a sizeable market for lamb in that country, but unlike other red meats, wool and dairy products the main problems of further penetration appear to be a lack of consumer knowledge and demand for the product, as well as some inadequacies in New Zealand's marketing operations.

For those commodities which compete directly with the domestic producer the situation has been far from satisfactory from New Zealand's point of view. No concessions, other than a 50 per cent duty reduction on grades finer than 44's have been negotiated since 1947 on raw wool used for apparel purposes. The American tariff on raw wools has been an extra burden the New Zealand wool industry has had to contend with at a time when wool's position <u>vis-a-vis</u> the use of man-made fibres has been diminishing.

The greatest frustrations, however, have been experienced in the trade of dairy products. Not only have American actions severely curtailed New Zealand's potential sales to the United States but they also have made it difficult to discourage other countries to be no less protectionist.

Particularly in trying to negotiate better terms of access for its dairy products has New Zealand found that appeals to economic logic fail to make much headway so long as powerful agricultural groupings in highly industrialised countries are able to exert enough pressure against basic changes in their price support programmes. In such situations comparative efficiency arguments appear to be seldom politically adequate for men who depend for their power on votes from such groups.

In the American political system there is an inherent rural bias and the pressures agricultural protectionist groups have been able to exert because of this have been partly responsible for the frequently observed credibility gap in American trade policy and the uncertainty which has surrounded continuing access for some agricultural commodities. New Zealand, because of its lack of bargaining power and because some of its most important exports compete directly with sensitive American agricultural industries, has not been able to offer significant enough gains to the United States in any negotiations which would persuade the government of that country to face up to the internal political problems open access in the commodities of interest to New Zealand would entail.[1]

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[1]Those defending American trade actions as they affect New Zealand seem to be quite fond of pointing to New Zealand's substantial trading surplus in its dealings with the United States. See, for example, Bruce Brown, 'N.Z. Lobbies America: A Comment', Political Science, Vol. XXII, No. 1, July 1970, pp. 26 - 30. One cannot deny that New Zealand's exports to the United States for the 5 years between 1967 and 1971 did average $165 million while imports from

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Perhaps of more general interest to a political scientist is the relationship between New Zealand's trade and its political and security commitments with the United States. Officials have expressed the view that New Zealand has been accorded trading advantages because of its support for American actions, particularly in Vietnam. There appears, however, to be little or no concrete evidence to substantiate this belief.[1]

Political-Security Relationship

Regular consultations between the ANZUS partners since 1952 on security and political matters have ensured greater contact between high level representatives of the three countries. Over much of the same period economic relations between the countries have strengthened. While the reasons for these occurrences are much different in character, it has nevertheless been assumed by New Zealand on occasions

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that country over the same period averaged $103 million (Department of Statistics). However, whether or not New Zealand has a surplus or a deficit in its bilateral trade balance with that country, its protests against American restrictive trading practices are no less valid. As we have seen in all the commodities examined Australia, like New Zealand, has attempted to secure better access for its products. Indeed, there has been a great deal of co-operation between the two countries in such negotiations. Unlike New Zealand, Australia has a substantial deficit in its trade balance with the United States. In the years between 1965 - 66 and 1969 - 70 Australian exports to the United States averaged $427 million while imports averaged $835 million. (Official Year Books of the Commonwealth of Australia) However, this favourable trade balance has not made the United States any more disposed to removing quantitative restrictions on dairy products, for example, or lowering the tariff on apparel wools.

[1]There has been a recent debate on this subject between Ray F. Goldstein, 'New Zealand "Lobbies" America: A Case Study', Political Science, Vol. XXI, No. 2, December 1969, pp. 18 - 35; 'N.Z. Lobbies America : A Rejoinder', Political Science, Vol. XXII, No. 1, July 1970, pp. 30 - 37; and Bruce Brown, 'N.Z. Lobbies America: A Comment', op.cit.

that the existing political and security relationship with the United States, not only through ANZUS but also SEATO, provides a greater base for the resolution of trade policy differences between the two countries.

As has been noted, greater emphasis has been placed by New Zealand during the last decade or so on the discussion of economic and trading matters affecting the two countries. The American money market has become increasingly important as a source of borrowing for New Zealand. New Zealand has been hopeful that its close political association with the United States might bring, if not in the same proportion, similar commercial-economic advantages that existed with the United Kingdom before the Second World War. But there is, as Sir John Crawford has noted, a difference of substance in the way in which political and economic relations develop:

> The former normally come about by inter-governmental agreement ... Trade, however, while much influenced by the 'climate' created by the governments, occurs ... part ... by government decisions (e.g. defence orders or purchase of equipment for public enterprises); but the greater part takes place because of decisions made by private entrepreneurs, exercising economic judgements in relation to profitability.[1]

While trade between New Zealand and the great majority of its trading partners is largely promoted by individual producers, companies and organised marketing boards, government policies provide the political framework which can encourage or stifle trade relations.

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[1]J.G. Crawford, 'Partnership in Trade', in Norman Harper (ed.), Pacific Orbit: Australian - American Relations Since 1942 (Melbourne, F.W. Cheshire, 1968), pp. 43 - 44.

In the production of dairy products, wool and red meats New Zealand farmers and related industries can, for the most part, produce these commodities far more efficiently than their American counterparts. However, political restrictions on trade in these commodities by the United States naturally work against that competitive position. The goal of the New Zealand government and related producer boards therefore has been to prevent the imposition of such restrictions, and where they exist, to effect some relaxation.

Given the asymmetries of the relationship between the two countries it has been obviously difficult for the New Zealand government to have any impact on the Administration's thinking. One way it has attempted to overcome this problem has been by trying to stress its existing political-security relationship with the United States.

Documented evidence of this approach goes back to as early as 1953, less than two years after the signing of the ANZUS Treaty. The then Minister of Agriculture, K.J. Holyoake, in a statement in March of that year revealing the contents of a Note to the Administration concerning restrictions on the entry of New Zealand dairy products, said:

> ... the note drew attention to the fact that the actions of the United States in introducing import restrictions had not only caused harm to the economic prosperity of New Zealand, but also, by their nature, had been difficult to understand by the people of New Zealand in view of their lack of harmony with the mutual accord between the two countries in political and security spheres ...[1]

[1] External Affairs Review, Vol. III, No. 3, March 1953, p. 7.

It has been argued by one American authority that a primary reason for the position taken by the Administration and Congress on the use of deficiency payments in the National Wool Act, 1954, rather than increasing the existing tariff or imposing quotas under Section 22 of the Agricultural Adjustment Act:

> ... was the need for building closer economic and security ties with Australia and New Zealand ... Wool is so important to the Australian economy that an increase in tariffs or even the imposition of quotas under Section 22 would have been disturbing to the Pacific area security efforts.[1]

However, it appears that this was a very minor consideration, indeed if at all considered in that light.

In an _Aide-memoire_ to Secretary of State Dulles in January 1955, the New Zealand government, protesting at the intention of the United States to dispose of its surplus butter stocks by offering it on a 'bid basis' noted:

> Markets of any consequence for butter are confined to a very few countries. So far as the United Kingdom is concerned, any sales under the proposed bid system would have direct and even more serious effects for New Zealand since the United Kingdom market is the customary market for the bulk of New Zealand production. There is no scarcity of butter in the United Kingdom market; consequently such sales could not do otherwise than reduce our export income. This, in turn, would prejudice our ability to promote the development of our country and our own security, which is of mutual concern to both the United States and New Zealand under the ANZUS treaty.[2]

Although the United States did not sell butter by this method in the United Kingdom, its sales elsewhere caused a heavy concentration of supplies in that market from other exporting countries, resulting in

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[1]Benedict and Stine, _op.cit._, p. 352n.

[2]_External Affairs Review_, Vol. V, Nos. 1 and 2, January and February 1955, p. 35.

a decline in prices. Indeed, the United States in 1955 was the third largest exporter of butter in the world, in contrast with the position before the Second World War, when it was a net butter importer.[1]

New Zealand's ambassador to the United States, Sir Leslie Munro, when addressing the Dallas World Affairs Council in May 1956, was reported as saying that the economic position of New Zealand as an ally of the United States was being threatened by American trade restrictive and surplus disposal policies.[2] A similar argument was used in an *Aide-memoire* to the State Department in February 1957, protesting against the possibility of quotas being imposed on New Zealand butter-oil exports.[3]

Between the *Aide-memoire* of January 1955 and a letter sent by the Prime Minister to President Nixon in June 1969 there appears to have been no publication of government-to-government exchanges between the two countries in which New Zealand has used its close political association with the United States as a persuasive argument for greater trading opportunities.[4] However, this did not prevent public comments along these lines by members of government. In 1967, for example, when further severe limitations were imposed on dairy products by the Administration, and Congress was very much in a protectionist mood, the Minister of Overseas Trade, J.R. Marshall,

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[1] See above, pp. 72 - 74.
[2] *Press*, 21 May 1956.
[3] Confidential Appendix.
[4] *Ibid.*

was reported as saying:

> The action taken by American authorities in restricting entry of New Zealand's primary products had been severe and harmful ... it was not a course of action which New Zealand, as a close ally of the United States, expected or appreciated.[1]

Similar feelings were echoed by the Minister of Finance, R.D. Muldoon, later in the same year, while addressing an Auckland meeting. He said that the Americans had to be constantly reminded of the effects trade restrictions were having on a loyal ally; 'the message has got home that we in New Zealand are getting fed up'. He further stated that the United States needs to be reminded that New Zealand was friend and ally in Vietnam:

> We are among a relatively small number of flags raised in Vietnam in defence of what we think is right.[2]

Producer board officials have expressed similar views. The Chairman of the Meat Board, J.D. Ormond, returning from talks in London and Washington was reported as saying that he believed 'it was right that in the context of trade discussions the United States should be reminded of New Zealand's support for its policies and actions in Vietnam'.[3] The Chairman of the Dairy Board, A. Linton, following the announcement of newly imposed restrictions on dairy imports by the United States in July 1967 commented:

> The action of the United States should bring home to our leaders the fundamental importance of reaching a new understanding with the United States which will enable us to develop trade with

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[1] Dominion, 13 September 1967, as quoted in W.B. Sutch, Poverty and Progress in New Zealand (Wellington, A.H. & A.W. Reed, 1969), p. 262n.

[2] Press, 28 October 1967.

[3] Press, 26 October 1967.

> that market in a reasonable and rational way.
> New Zealand is at present spending large sums in the United States on aircraft and defence materials to maintain a mutual defence programme.[1]

The most publicised example of the New Zealand government linking trade with its capacity and willingness to participate in security arrangements was Prime Minister Holyoake's letter to President Nixon in June 1969 when it appeared imminent to the New Zealand government that Congress would pass legislation imposing quotas on lamb imports. Portions of the letter illustrating this point were as follows:

> I want you to know that the New Zealand Government, which is attempting to strengthen its overall relations with the United States, would regard with the utmost concern any additional restrictions on its exports to your country. As I pointed out during my visit to Washington last year, New Zealand cannot be expected to play its full part in areas of international co-operation, including regional security arrangements to which the United States attaches importance, unless it has the trading opportunities which provide it with the economic means. There is a direct relationship between New Zealand's capacity to play its part as a good ally and its ability to earn from fair trading opportunities overseas. Restrictive action on New Zealand's exports to the United States makes it difficult for the New Zealand Government to justify to our people its alliance with the United States in other areas. To provide a further underpinning of this relationship, I stressed that New Zealand - a country which has never received or asked aid from any other country - sought, not privileged treatment, but merely greater freedom to apply its competitive advantage in pastoral products.
> ... Such a measure could, in my view, result in irreparable damage to the United States/New Zealand relationship.[2]

The Prime Minister closed the letter by citing the Nixon Administration's declared policy of trade liberalisation, and the ANZUS treaty.

A Wellington newspaper, the Evening Post, queried the letter

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[1] Press, 24 July 1967.

[2] New Zealand External Affairs Review, Vol. XIX, No. 6, June 1969, p. 52.

and called on the Prime Minister to explain what he meant by 'Restrictive action on New Zealand's exports to the United States makes it difficult for the New Zealand Government to justify to our people its alliance with the United States in other areas'. It is interesting to note the reply Holyoake gave:

> The point of this remark - and, indeed, of the entire message - is that our relationship with the United States is viewed as a whole by New Zealanders. It is in New Zealand's own interests as a small power to participate with the United States and others in ensuring the security and stability of the whole Asian and Pacific area ... Our ability to contribute to these objectives depends basically on our economic strength, which in turn depends on our ability to export. If this is weakened by limits imposed on one of our major export opportunities, the alliance is worth correspondingly less to both parties. There is thus an essential link between our economic relationship with the United States and other aspects of our association and similar objectives.[1]

On the basis of the material available it is difficult to substantiate claims, such as that made by one member of the Ministry of Foreign Affairs that:

> ... the Administration has seen our point of view and has used its influence with Congress to neutralise the protectionist forces. Its attitude has clearly owed something to the help New Zealand has given to the United States, particularly in Vietnam. Because we are its partner in undertakings like this to which it attaches importance, New Zealand's economic health is of some significance to the United States.[2]

Certainly such undertakings may have given the New Zealand government greater access to members of the Administration than otherwise might have been the case but whether they have used their influence,

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[1] Ibid., p. 53.

[2] W.B. Harland, New Zealand's Relations with the U.S.A. (Paper delivered at the University of Otago's Fifth Residential School on New Zealand Foreign Policy, May 1970), p. 12. For a similar argument, see Bruce Brown, 'N.Z. Lobbies America: A Comment', op.cit., p. 27.

or have been able to use such influence in New Zealand's favour is a matter for debate.

It is often impossible to work backwards from a decision to be sure just what made it go the way it did. Without complete access to the appropriate confidential files and interviewing all the participants in such negotiations one cannot be sure whether New Zealand's support for American policy has in itself influenced the Administration on any occasion to adopt trading policies more careful of New Zealand's interests than otherwise might have been the case. There do not appear to be any decisions, however, which cannot be quite well explained on other grounds.

It is easier to document occasions when New Zealand's protests have been rejected and when New Zealand has not been granted any more favourable trading arrangements than other countries, whether or not they support American political actions. In the allocation of both meat and dairy product quotas, with the possible exception of the 'other cheeses' quota allotted to New Zealand in January 1969, this has been the experience. Indeed, the only two countries which do not have ceilings on meat imports subject to the 1964 Meat Import Control legislation, are Canada and Northern Ireland (United Kingdom); neither directly supporting American action in Vietnam.[1] Note for example the reaction of American woolgrowers when they learned of impending negotiations with Australia over the United States wool tariff in June 1967.[2]

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[1]See above, p. 132.
[2]*Ibid.*, p. 203.

The granting of a 3,348 ton 'other cheeses' quota to New Zealand in January 1969 and prevention of lamb quota legislation being passed by Congress in mid-1969 are the only two occasions that New Zealand's political-security relationship with the United States seems to have been of some significance in the Administration's thinking. However, as regards the lamb quota legislation, there appears to be no existing evidence that the Administration played a decisive role in preventing the imposition of the threatened quotas. In respect to the 'other cheeses' quota it is difficult to come to any definite conclusion. It seems likely that it was nothing more than a contributing factor, and not the reason in itself for the quota.

In the allocation of quotas for Colby cheese and Cheddar cheese in 1967, the President's proclamation limited dairy imports to the average level of the years 1961 - 65. During this period New Zealand had supplied over 80 per cent of American imports of Cheddar and 67 per cent of Colby and yet was granted only 55 per cent of the new quotas.[1] It appears that there were a number of fairly heated exchanges between the two governments over the allocations, with New Zealand expressing the view that it had not been given an equitable share of the quotas and had been unfairly treated as a non-subsidising exporter. It further appears that the New Zealand government made strong representations to the Administration to have this situation rectified in any future allocation of cheese quotas.[2]

Temporary restrictions were imposed by the Administration in

[1] Ibid., p. 86.
[2] Confidential Appendix.

September 1968 on imports of processed Italian-type cheeses, processed Edam and Gouda, and a category of 'other cheeses' with a value of US 47 cents per lb or less f.o.b. in the country of origin. This was the first occasion since the 1967 restrictions that an opportunity had presented itself to the Administration to allocate New Zealand an increase in its cheese exports to the United States.

Normally American dairy import quota allocations are made on the basis of historical supply. New Zealand had no record of supply in any of these cheeses and yet was issued with an 'other cheeses' quota. It has been suggested this allocation was made because President Johnson was pleased that New Zealand had committed troops to fight alongside American and Australian forces in Vietnam.[1] However, it seems equally likely that New Zealand obtained the quota at least in part because of the unequitable distribution of the 1967 quotas and the difficulties New Zealand was facing at that time in a depressed world dairy market.[2]

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[1] Press, 12 June 1972.

[2] Besides being subjected to attacks by the American dairy lobby in 1970, (see above, pp. 88 - 91) it seems that the issuing of this quota has had a recent sequel. The Administration has recently decided that in future only those cheeses not specified in existing quotas with a 'pricebreak' of US 62 cents or more per lb f.o.b. in the country of origin will be exempt from quotas. In making this decision it has further decided that as from January 1973, those cheese quotas at present in the 47 cents or less per lb f.o.b. category will be increased in size. Among these is the 'other cheeses' quota. However, instead of allocating the new quotas in relation to the levels set in 1969 the Administration has decided to use 1970 as the base year, a year in which the cheese supplied by New Zealand under this quota was involved in controversy and a year in which there was a shortfall in New Zealand's supply. While other suppliers have been granted large increases in their allocations in relation to the original quota New Zealand's annual quota is to increase by only 25 tons. Denmark, the largest supplier in this category, is to have its entitlement increased from less than

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While it is difficult to prove either way that New Zealand's political security relationship with the United States has afforded it any trade advantage over other suppliers the remarks of an Australian study on relations between that country and the United States seem to fit just as appropriately to New Zealand:

> ... it might be difficult to support an assertion that the political alliance between Australia and the U.S., or even the general friendship between them, had induced America to adopt trading policies notably more careful of Australia's concerns than they would otherwise have been. Australian complaints about various aspects of U.S. tariff politics and policies, in particular, have been persistent and seem likely to continue. In very general terms, Australia often lacks the weight to bargain successfully for American acceptance of her interests as she sees them. The Americans, on the other hand, have often felt that, if it is a matter of good-will instead of bargaining, Australia's wealth and stability place her fairly low on the list of those who need major concessions. In sum, Australia is too small to compel such concessions and too rich to plead for them.[1]

Future Prospects

Undoubtedly among the most significant developments in the world economy and in the international trading situation in recent years has been the growth of the EEC and associated States into the world's largest trading bloc, and the decline in American economic pre-eminence. These developments, together with the emergence of Japan as an economic super-power, have caused the United States to reassess its attitude to trade and trade policies. It has become increasingly frustrated by what it considers to be 'the unwillingness of other

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4,000 tons to 7,500 tons; France from 416 tons to 1,250 tons; West Germany from 441 tons to over 930 tons; the Netherlands from 25 tons to 188 tons; and the United Kingdom from 122 tons to 421 tons.

[1]H.G. Gelber, The Australian - American Alliance : Costs and Benefits, (Hammondsworth, Penguin, 1968), p. 58.

countries to take actions commensurate with their increasing power'.[1] The announcement in August 1971 by President Nixon of new economic measures without consulting the multilateral machinery the United States has been so instrumental in promoting since the end of the Second World War was an indication of a changing American attitude.

Many of these frustrations for the United States are being experienced in the field of agricultural trade. Export opportunities are of major concern to the American agricultural industry which grosses $55,000 million a year. The produce of one in every four cropland acres in the United States is sent overseas.[2] However, only since the implementation of a CAP by the EEC countries have the effects of restrictive practices in agricultural trade assumed alarming proportions for the United States. The application of such restrictions has come at a time when the importance of exports to total American farm receipts has been increasing.[3]

For world temperate agricultural trade as a whole, so long as Western European countries acted separately to protect their farming interests, there was room for flexibility in their approach to

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[1] Harald B. Malmgren, 'The New Posture in U.S. Trade Policy', World Today, Vol. XXVII, No. 12, December 1971, p. 504.

[2] Clarence D. Palmby, United States Assistant Secretary of Agriculture for International Affairs and Commodity Progress, 'Crucial Times Ahead for World Agricultural Trade', Foreign Agriculture, Vol. VIII, No. 24, 15 June 1970, p. 2.

[3] For a full discussion of recent restrictions on agricultural trade see Harald B. Malmgren and David L. Schlecty, 'Technology and Neo-Mercantilism in International Agricultural Trade', American Journal of Agricultural Economics, Vol. Ll, No. 4, December 1969, pp. 1325 - 1337. This paper has been extended and revised by the authors in a paper entitled 'Rationalizing World Agricultural Trade', Journal of World Trade Law, Vol. IV, No. 4, July 1970, pp. 515 - 537.

agricultural trade. Since the adoption of a CAP by the EEC countries the negotiating manoeuvrability of a major part of Western Europe has been 'frozen' and:

> ... as the world's largest industrial nation, the United States, is also the most important producer and trader of agricultural goods, Western Europe's incapacity to negotiate freer trade in agriculture will compromise its ability to negotiate freer trade in industrial goods.[1]

Curzon believes the point has been reached where 'the problem of agriculture is likely to short-circuit any industrial trade negotiations between the United States and the EEC unless it is taken into account'.[2]

Only as recently as 1967 and 1968, when the transitional period ended for most of the commodities on which variable levies are applied, has it been possible to gauge the impact of the EEC's agricultural policy on world trade. For the United States, while exports of non-variable levy commodities have increased, those subject to the variable levy[3] have declined significantly (Table 7 - 1). American exports of the same products had been increasing to EEC countries in the period from the mid-1950s to the mid-1960s.[4]

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[1]Curzon and Curzon, Hidden Barriers, op.cit., p. 2.

[2]Ibid.

[3]The variable levies have applied to grains, and grain products, poultry and eggs, pigs and pigmeat, milk and dairy products, beef and veal, sugar and sugar beets and olive oil. Converted into ad valorem equivalents protection for meat rose from 19 per cent prior to the implementation of the CAP to 52 per cent, for dairy products from 19 per cent to 137 per cent and cereals from 14 per cent to 72 per cent. Malmgren and Schlecty, 'Rationalizing World Agricultural Trade', op.cit., pp. 517 - 518.

[4]U.S.D.A., Implications of the European Community. Talk by John Ferris, Department of Agricultural Economics, Michigan State University at the 50th Annual Agricultural Outlook Conference, Washington, D.C., 23 February 1972, p. 3.

TABLE 7 - 1 EXTENT OF UNITED STATES AGRICULTURAL EXPORTS TO THE EUROPEAN ECONOMIC COMMUNITY FOR VARIABLE LEVY AND NON-VARIABLE LEVY COMMODITIES, YEARS ENDING 30 JUNE 1960 - 1971, INCLUSIVE

Year	Variable Levy Commodities	Non-Variable Levy Commodities	Total Exports
		($US million)	
1960	332	788	1,121
1961	373	728	1,101
1962	496	688	1,184
1963	414	656	1,070
1964	499	834	1,333
1965	519	852	1,371
1966	716	878	1,594
1967	522	988	1,510
1968	531	872	1,403
1969	402	898	1,300
1970	351	1,060	1,411
1971	479	1,286	1,766

Source: U.S.D.A., Foreign Agricultural Trade of the United States, September 1971.

The decline in export sales of commodities subject to the EEC variable levy has led the United States to believe that its export opportunities are being damaged. The entry of Britain, along with Ireland, Denmark and Norway into the EEC in January 1973 has made the problem more acute with the prospect of the Community's agricultural policy, with its higher producer prices and variable levy protection, being extended to four more countries where the United States exported $US 640 million of agricultural commodities in the year ended 30 June 1971 (Table 7 - 2). These countries accounted for nearly 10 per cent of American commercial agricultural export

TABLE 7 - 2 UNITED STATES AGRICULTURAL EXPORTS TO THE UNITED KINGDOM, IRELAND, DENMARK, NORWAY, THE EEC 'SIX' AND THE EEC 'TEN', YEAR ENDED 30 JUNE 1971

	Exports	Imports
	($US million)	
United Kingdom	470	50
Ireland	29	56
Denmark	98	158
Norway	43	7
Total 4 applicant countries	640	271
EEC - 6	1,766	439
EEC - 10	2,406	710
World	7,759	5,773
(Commercial Sales)	(6,696)	

Source: U.S.D.A., Foreign Agricultural Trade of the United States, August 1971 and October 1971.

sales during the same period.

Besides the threat of greater restrictions on American farm exports the recent dollar crisis has made the United States administration even more sensitive to any threats on its export opportunities. For the year ended 30 June 1971, agricultural exports made a net positive contribution of over $US 900 million to the American balance of payments.

In agricultural sales between the United States and the EEC 'Ten' the United States had a net balance of almost $US 1,700 million. On top of this there is concern of the possibility of the EEC extending some form of preferential association to Austria, Finland, Iceland, Portugal, Sweden and Switzerland, as well as the repercussions of a wider Community on third country markets. Already the Community has special trading arrangements with most of the Mediterranean and Africa.

As Commonwealth countries are progressively squeezed out of the British market they can be expected to intensify their competition against the United States in other world markets. But perhaps more important, there is also the distinct possibility of the EEC itself, faced with expanded production in the new member countries, becoming a more aggressive exporter, as it has already shown in disposing surplus dairy stocks, in commodities competing directly with the United States.

The development of an enormous preferential West European bloc with all its associated States is seen by the United States as breaking down the whole basis of multilateral trade. Only by engaging Europe in multilateral discussions does the United States see itself being able to resolve an isolationist trend, not only in Europe, but also in the United States itself.[1]

Agreement to have such discussions was reached earlier this year (1972), following the announcement of President Nixon's economic measures in August 1971 and subsequent consultations. In

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[1] Malmgren, op.cit., p. 508.

a joint declaration the United States and the EEC agreed to:

> ... undertake to initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 (subject to such internal authorization as may be required) with a view to the expansion and the ever greater liberalization of world trade and improvement in the standard of living of the people of the world, aims which can be achieved inter alia through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade. The Community states that in appropriate cases the conclusion of international commodity agreements are also one of the means to achieve these aims. The United States states that such agreements do not offer a useful approach to the achievement of these aims.
>
> ... The negotiations shall be conducted on the basis of mutual advantage and mutual commitment with overall reciprocity, and shall cover agricultural as well as industrial trade. The negotiations should involve active participation of as many countries as possible.[1]

A similar agreement was concluded with Japan.

Thus agriculture is to be included in future multilateral trade negotiations. However, a deep gulf separates the United States and the EEC, as indicated in the declaration, on how to go about it. The EEC advocates organising world markets in agriculture through a system of commodity agreements by raising prices to a level at somewhere near those for protected commodities in Europe at present. This is the same stand as it took during the Kennedy Round negotiations. The United States believes that price should determine the pattern of production and the flow of trade both domestically and internationally, a policy, as has been stressed on many occasions in this study, that New Zealand wishes it would put into practice. To

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[1]As quoted in Howard L. Worthington, The World Trade Environment. A talk at the 1972 National Agricultural Outlook Conference, Washington, D.C., 22 February 1972, p. 2.

quote a statement made on 15 November 1968, at the Twenty-fifth session of GATT by the United States delegate, Henry Brodie:

> ... We can see growing around the world the destructive pattern of high production stimulated by price supports leading to subsidies which in turn lead to trade distortions and new and increased import protection. This in turn gives still further impetus to the expansion of production in importing countries. Some way must soon be found to reverse the worsening trend. The problems are growing in number, scope and intensity. The European CAP, to cite but one example, has developed an extremely costly and highly protective system, the application of which has seriously exacerbated the problems of both importing and exporting countries ...[1]

The United States is now taking the initiative in trying to liberalise agricultural trade. Only it has the bargaining ability to bring about change. New Zealand and other similarly affected countries can support such initiatives but as they have found in the past, where trade barriers are concerned, only the large industrial countries can bring about change. Such countries have tended to work out solutions among themselves while smaller countries have been left out of the bargaining process. Now that the United States is striving for greater liberalisation in agricultural trade there is a greater possibility of change in the coming years. However, the American case is weakened by its own restrictions on agricultural imports. If the United States is to be afforded greater opportunities in agricultural trade it too will have to be willing to lift its own import restrictions. In dairy products, for example, the European countries are particularly interested in the United States as a market for specialty cheeses and have often complained of

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[1]Quoted in U.S.T.C. Publication 274, op.cit., p. 50.

American restrictions. Thus, if there is to be any major liberalisation in agricultural trade the United States would have to be prepared to overhaul its dairy quota system. Only in a situation such as this can New Zealand expect better market opportunities in these industrial countries, particularly the United States.

Even if there is a spirit of co-operation, such negotiations can be expected to be long, protracted affairs. As yet the United States administration has still to get Congressional approval to take part in next years trade talks. Only concessions obtained from an enlarged EEC and Japan appear to be significant enough for a United States government to face up to the internal political problems major readjustments in the support programmes of some agricultural commodities would almost certainly entail.

APPENDIX I

ESTIMATED PRODUCTION OF COW'S MILK IN IMPORTANT PRODUCING COUNTRIES, 1969

	'000 Million lb	Percentage
USSR	163.5	22.93
United States	116.2	16.30
France	69.0	9.68
West Germany	48.7	6.83
Poland	32.8	4.60
United Kingdom	25.5	3.57
Italy	20.1	2.81
Canada	18.6	2.60
Netherlands	17.2	2.41
East Germany	16.1	2.25
Australia	16.0	2.24
Brazil	15.0	2.10
New Zealand	13.0	1.82
Argentina	11.2	1.57
Denmark	11.1	1.55
Czechoslovakia	10.3	1.44
Mexico	10.1	1.41
Japan	9.8	1.37
Belgium	9.0	1.26
Ireland	8.4	1.17
Others	70.8	9.93
Total	712.8	

Source: U.S.D.A., Dairy Situation, March 1970.

Note: There are discrepancies in these figures due to rounding of totals.

APPENDIX II

UNITED STATES IMPORT DUTIES ON DAIRY PRODUCTS

Product	Cents per lb	Per Cent *ad valorem*
Butter:		
Not exceeding 50 million lb, entered 1 November - 31 March	7	
Not exceeding 5 million lb, entered 1 April - 15 July	7	
Not exceeding 5 million lb, entered 16 July - 31 October	7	
Other	14	
Condensed Milk:		
In airtight containers: sweetened	1.75	
unsweetened	1	
Other	1.5	
Milk Powder:		
Buttermilk containing not more than 6 per cent butterfat	1.5	
Other: containing not more than 3 per cent butterfat	1.5	
containing more than 3 per cent but not more than 35 per cent butterfat	3.1	
containing more than 35 per cent butterfat	6.2	
Dried whey	1.5	
Yoghurt and other fermented milk		20
Chocolate milk drink		20
Ice cream		20
Malted milk and articles not specially provided for, of milk or cream		17.5
Cheese:		
Blue mould: in original loaves		15
other		20
Bryndza		8.5

Product	Cents per lb	Per Cent *ad valorem*
Cheddar: processed		20
other		15
Edam and Gouda		15
Gjetost: containing not more than 20 per cent cow's milk		6.5
other		10
Goya and Sbrinz		25
Roquefort: in original loaves		6
other		10
Romano from cow's milk, Reggiano, Parmesano, Provolone and Provolette		20
Swiss or Emmenthaler with eye-formation, Gruyere, Grammelost and Nokkelost		8
Other: value not exceeding 25 cents per lb	5	
value exceeding 25 cents per lb: Colby		20
Other		10
Casein	Free	
Lactose		10

Sources: U.S.D.A., U.S. Import Duties on Agricultural Products 1968 and Commonwealth Secretariat, Dairy Produce: A Review, (London, 1972).

APPENDIX III DESTINATION OF NEW ZEALAND CASEIN EXPORTS, 1953 - 1970, INCLUSIVE

Year	United Kingdom	United States	Japan	Percentage of Total Exports: U.K.	U.S.	Japan	Total to all Destinations
		($NZ million)					
1953	0.96	1.03	na	36.9	39.6	na	2.60
1954	1.43	0.83	na	51.6	30.0	na	2.77
1955	1.58	1.00	na	43.2	27.3	na	3.66
1956	2.17	0.97	na	44.2	19.8	na	4.91
1957	1.57	1.31	na	32.9	27.5	na	4.77
1958	1.88	1.96	na	30.2	31.0	na	6.32
1959	1.81	2.97	na	20.6	33.8	na	8.78
1960	2.51	2.39	na	30.5	29.0	na	8.23
1961	2.46	2.66	na	27.8	30.1	na	8.84
1962	2.28	1.65	na	25.1	18.2	na	9.08
1963	2.03	1.29	na	20.6	13.1	na	9.85
1964	2.62	3.96	na	17.0	25.7	na	15.43
1965	3.11	5.13	2.83	16.8	27.7	15.7	18.54
1966	2.96	3.76	4.10	15.1	19.2	21.0	19.55
1967	1.60	7.06	3.88	9.8	43.3	23.8	16.31
1968	2.24	9.80	6.31	9.4	41.2	26.5	23.77
1969	2.73	7.72	6.12	10.8	30.4	24.1	25.38
1970	3.18	11.75	5.97	9.5	35.1	17.8	33.55

Source: Reserve Bank of New Zealand, Bulletin (various issues).

na = not available.

APPENDIX IV SALES TO THE UNITED KINGDOM AND THE UNITED STATES, BY VALUE, AS A PERCENTAGE OF NEW ZEALAND CHEESE EXPORTS, 1953 - 1971, INCLUSIVE

Year	United Kingdom	United States	U.K. Percentage of Total	U.S. Percentage of Total	Total to all Destinations
	($NZ million)				
1953	33.1	1.3	87.4	3.2	44.3
1954	23.1	0.4	92.8	1.7	24.7[a]
1955	32.2	0.3	92.6	0.9	34.7
1956	40.3	0.4	96.5	0.9	41.8
1957	27.8	0.3	94.5	0.8	29.5
1958	32.8	0.7	92.9	1.9	35.3
1959	41.5	0.6	94.7	1.3	43.8
1960	34.9	1.3	93.2	3.5	37.4
1961	35.1	3.0	88.3	7.7	39.7
1962	33.8	2.1	88.5	5.5	38.3
1963	33.7	1.7	83.8	4.3	40.2
1964	39.8	1.8	86.5	4.0	46.0
1965	38.5	2.5	83.8	5.5	45.9
1966	37.2	5.4	73.7	10.7	50.7
1967	37.3	9.2	70.3	17.3	53.1
1968	35.8	1.8	83.9	4.4	42.6
1969	34.2	5.6	75.8	12.5	45.1
1970	35.7	4.5	74.5	9.4	47.9
1971	46.6	4.9	76.3	8.0	61.0

Source: Reserve Bank of New Zealand, Bulletin (various issues).

[a]The reduction was caused mainly by a change from sales to the United Kingdom on an f.o.b. basis to ex-store marketing.

APPENDIX V

WORLD MEAT TRADE RELATED TO PRODUCTION, 1969[a]

	Beef/Veal	Mutton/Lamb	Pigmeat	Total
		(Thousand Tons)		
Production of meat in selected countries including all countries listed as exporting or importing countries	32,442	4,455	22,383	59,280
Meat entering world trade as a percentage approx. world production	8	17	6	8

Source: U.S. Department of Agriculture, Foreign Agricultural Service FLM 11 - 70.

[a]Carcase weight equivalent.

APPENDIX VI

MEAT PRODUCTION AND CONSUMPTION IN NEW ZEALAND, YEAR ENDING 30 SEPTEMBER 1970[a]

Class of Meat	Production		Local Consumption	
	Thousand Tons	Percent of Total	Thousand Tons	lb per Head
Beef	360.9	34.9	120.9	96
Veal	25.6	2.5	9.1	7
Mutton	196.8	19.0	85.5	68
Lamb	356.9	34.5	26.3	21
Pigmeats	38.6	3.7	38.0	30
Offal	56.0	5.4	14.4	12
Total	1,034.8	100.0	294.2	234

Source: New Zealand Meat and Wool Boards' Economic Service, Annual Review of the Sheep Industry, 1970 - 71.

[a]Carcase weight equivalent.

APPENDIX VII

TEXT OF THE AGREEMENT ON BEEF AND VEAL EXPORTS TO THE UNITED STATES, 1964

The following is the operative portion of the letter, dated 17 February 1964, which records the agreement between the United States and New Zealand:

'The Governments of New Zealand and the United States have agreed to the following measures in the interest of promoting the orderly development of trade in beef and veal between New Zealand and the United States. In assuming the following obligations, the Governments of New Zealand and the United States have agreed on the desirability of preserving approximately the present pattern of trade in these products between the two countries.

(1) Accordingly, the New Zealand Government agrees to limit exports from New Zealand to the United States of beef and veal (in all forms except canned, cured, and cooked meat and live cattle) in accordance with the following:

(a) Exports shall be limited to a total of 103,000 long tons in calendar year 1964, 107,000 long tons in calendar year 1965, and 111,000 long tons in calendar year 1966, all in terms of product weight.

(b) In each succeeding calendar year there shall be an increase, corresponding to the estimated rate of increase in the total United States market for these meats. This increase in the total United States market is presently estimated to be 3.7 per cent. annually.

(c) The purpose of the annual increases established in paragraphs 1 (a) and 1 (b) is to secure to New Zealand a fair and reasonable share in the growth of the United States market. There shall be a triennial review and, as appropriate, an adjustment of this estimated rate of increase in consumption to apply to the succeeding three year period. The first such review shall take place no later than October 1, 1966.

(d) The New Zealand Government shall use its best endeavours to limit exports from New Zealand to the United States of America of better-quality primal cuts of beef and veal, such as steaks and roasts, approximately to the percentage these cuts currently constitute of total annual exports of beef and veal from New Zealand to the United States.

(2) The New Zealand Government shall limit exports from New Zealand to the United States upon the understanding that New Zealand will not be adversely affected by such limitations in relation to the position of other substantial suppliers in the United States market and so long as New Zealand's access to the United States market for beef and veal is not limited by an increase in the duties on these products.

(3) The United States Government shall continue to permit access each year into the United States for beef and veal exported from New Zealand up to the maximum quantity determined for that year in accordance with the provisions of paras. 1 (a) and 1 (b) of this agreement.

(4) The Governments shall continue to take an active and leading role in negotiating in the GATT, in harmony with the objectives agreed at the ministerial meeting of the GATT in May, 1963, arrangements leading to expanding access in meat-importing countries.

(5) Should such a wider international arrangement be reached, it could subsume this agreement.

(6) The Governments agree to consult, at the request of either Government, on any question arising on the implementation of this agreement.

(7) Either Government may terminate this agreement, effective at the end of a calendar year, by written notice given at least 180 days prior to the end of the calendar year.'[1]

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[1] Reserve Bank of New Zealand, Bulletin, March 1964, p. 25.

APPENDIX VIII

EXPENDITURE INCURRED BY THE NEW ZEALAND MEAT INDUSTRY RESERVE ACCOUNT IN FINANCING THE MEAT EXPORT DEVELOPMENT COMPANY, 1961 - 1971, INCLUSIVE

Year Ending 30 September	Expenditure
	($NZ million)
1961/62	0.80
1962/63	1.00
1963/64	1.60
1964/65	1.80
1965/66	1.00
1966/67	1.50
1967/68	0.50
1968/69	0.90
1970/71	1.00
	10.10
Less a reimbursement made by the company in 1969/70 due to profit in that years operations	
	0.50
Total Expenditure	9.60

Source: Annual Reports of the New Zealand Department of Agriculture.

APPENDIX IX

MARKET PROMOTION EXPENSES INCURRED BY THE NEW ZEALAND MEAT PRODUCERS BOARD IN NORTH AMERICA, 1960 - 1971, INCLUSIVE

Year Ending 30 June	Canada	United States
	($NZ 000)	
1960/61	44.2	a
1961/62	51.1	a
1962/63	63.7	a
1963/64	113.7	6.5
1964/65	162.3	25.8
1965/66	104.8	150.5
1966/67	208.6	76.1
1967/68	411.6	143.7
1968/69	249.4	339.5
1969/70	261.6	470.5
1970/71	503.5	647.4
	2,174.5	1,860.0

Source: New Zealand Meat Producers Board, Annual Reports.

[a]No specified promotion expenses.

APPENDIX X SHIPPING FREIGHT RATES FOR FROZEN MEAT FROM NEW ZEALAND TO NORTH AMERICA AND THE UNITED KINGDOM, 1965 - 71, BY SELECTED YEARS

As at 1 October	Currency	Lamb Carcases per lb Net	Lamb Cartons per lb Gross	Beef Cartons per lb Gross
			(per lb)	
<u>United Kingdom</u>				
1965	STGd	3.71	2.94	2.32
1967		4.10	3.24	2.56
1969		4.36	3.44	2.72
1971	STGp	2.56	2.02	1.60
<u>East Coast North America</u>				
1965	STGd	4.50	3.68	3.19
1967		5.24	4.25	3.69
1969		5.57	4.52	3.93
1971[a]	USc	6.96	5.64	4.92
<u>West Coast North America</u>				
1965	USc	5.56	6.09	6.54
1967		6.09	4.15	4.21
1969		6.54	4.46	4.52
1971		8.18	5.58	5.65

Source: Information supplied by the New Zealand Meat Producers Board.

[a]Includes a 25 per cent increase, effective 1 November 1971.

Note: These figures are for conventional vessels.

APPENDIX XI WEEKLY AVERAGE WHOLESALE PRICES PER HUNDRED POUND FOR SELECTED DOMESTIC, AUSTRALIAN AND NEW ZEALAND PRIMAL LAMB CUTS IN NEW YORK AND BOSTON, 29 JUNE 1969 - 4 JULY 1970

		Price Ranges		
	Average weekly prices	Lowest weekly prices	Highest weekly prices	Difference
		($US)		
Primal legs				
Domestic, USDA Choice, New York	71.46	67.50	77.50	10.00
New Zealand, New York	65.32	62.75	67.12	4.37
Australian, Boston	58.73	52.00	64.00	12.00
Primal loins				
Domestic, USDA Choice, New York	69.62	59.00	76.00	17.00
New Zealand, New York	72.83	72.75	73.50	.75
Australian, Boston	56.61	49.50	61.25	11.75
Racks[a]				
Domestic, USDA Choice, New York	89.40	59.00	112.50	53.50
New Zealand, New York	47.30	43.75	48.00	4.25
Australian, Boston	37.41	27.00	57.00	30.00

Source: U.S.D.A., Interim Report on a Study of the Lamb Industry with Special Emphasis on Lamb Imports, (Packers and Stockyards Administration and Economic Research Service of U.S.D.A.).

[a]43 weeks. No information was available on Australian racks for 10 weeks out of 53 week period.

APPENDIX XII

WOOL GRADING PRACTICES IN THE UNITED STATES

Wool has been graded in the United States at the producer level according to the indicated proportion of Merino blood. Originally in the blood system, the fine wool of the Merino sheep was used as the standard and the coarser grades were considered as the result of crossing Merino with English sheep. While this method is still used to indicate wool fineness it does not give any indication of the true strain of breeding.

The traditional blood grades are: fine (Merino), 1/2 blood (medium fine), 3/8 blood (medium), 1/4 blood (medium coarse), and low 1/4 blood, common and braid (all coarse).

The following table relates the United States blood system to the United States and English numerical systems of wool grades:

	Numerical Grades	
U.S. Blood System	U.S. System	Bradford or English System
Very Fine	70's and finer	74's and finer
Fine	64's	70's
1/2 blood	60's - 62's	64's - 70's
3/8 blood	56's - 58's	58's - 60's
1/4 blood	48's - 54's	50's - 56's
Low 1/4 blood	46's	48's - 50's
Common and braid	44's and coarser	46's and coarser

APPENDIX XIII

EXTENT OF THE UNITED STATES RAW TARIFF ON NEW ZEALAND WOOL USED FOR APPAREL PURPOSES, BY CLASSES, ON AVERAGE PRICES QUOTED IN BOSTON, JANUARY - MARCH, 1972[a]

(US cents per clean lb, c.i.f.)

Class	Average Quoted Value Before Duty	Plus Duty	Duty as a Percentage of Value
58's up to 60's	82.2	25.5	31.0
56's	74.2	25.5	34.4
50's	66.2	25.5	38.5
44's	60.7	8.5	14.0
40's	56.7	6.5	11.5

Source: International Wool Secretariat, World Wool Digest (various issues).

[a]Prices quoted are the average of weekly prices provided by Marriner and Co., Lawrence, Massachusetts, for the various New Zealand wool grades.

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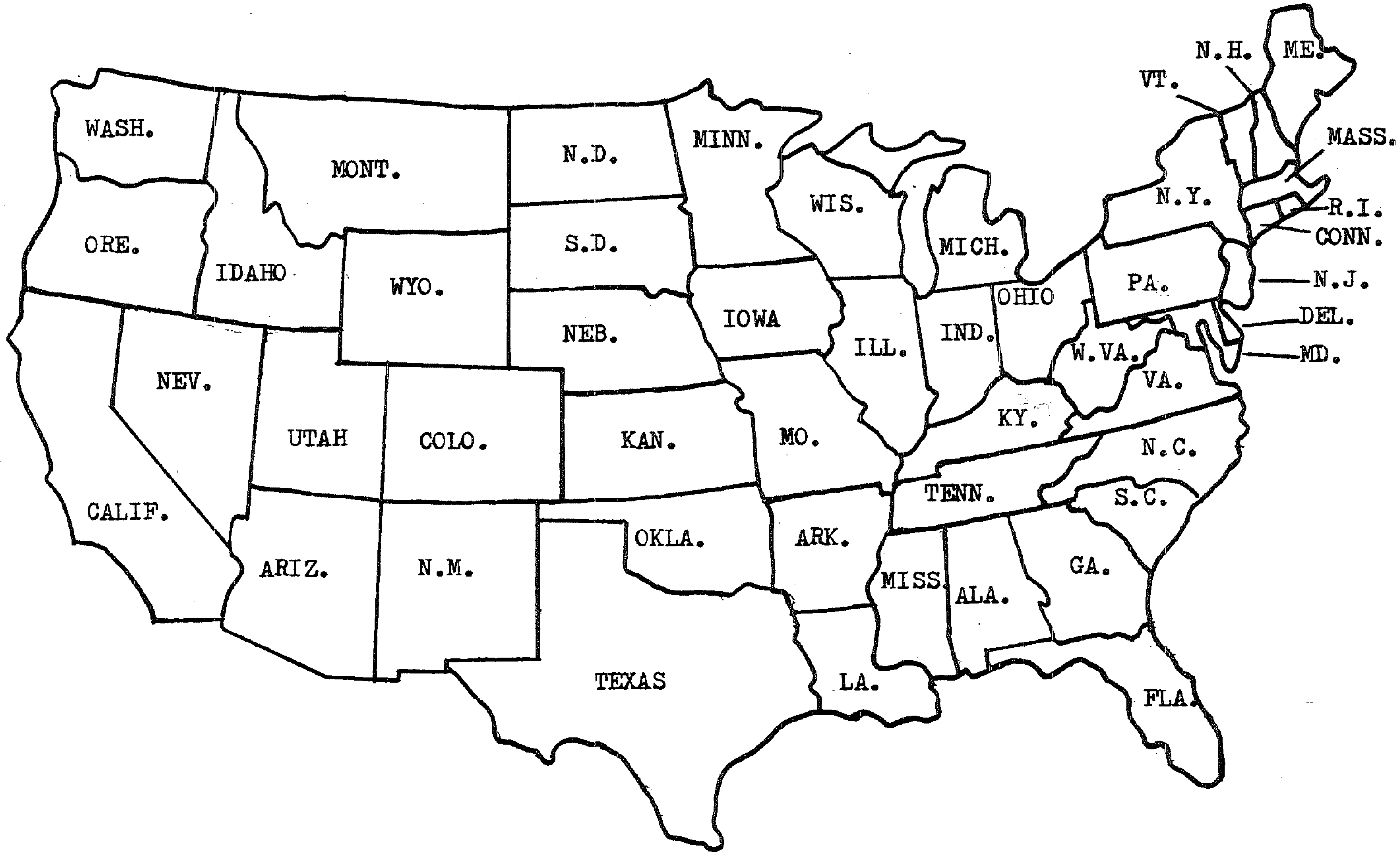
MAP OF THE UNITED STATES



UNITED STATES : REGIONS AND AREAS

North East

Maine	Connecticut
New Hampshire	New York
Vermont	New Jersey
Massachusetts	Pennsylvania
Rhode Island	

North Central

Northern Plains	Lake States	Corn Belt
North Dakota	Minnesota	Iowa
South Dakota	Wisconsin	Missouri
Nebraska	Michigan	Illinois
Kansas		Indiana
		Ohio

South

Southern Plains	Other	
Oklahoma	Arkansas	Tennesee
Texas	Mississippi	North Carolina
	Louisana	Kentucky
	Alahama	West Virginia
	Georgia	Virginia
	Florida	Maryland
		Delaware
	South Carolina	

West

Pacific	Mountain
Washington	Montana
Oregon	Idaho
California	Wyoming
	Nevada
	Utah
	Colorado
	Arizona
	New Mexico