RESTRICTED
L/5102/Add.15
26 February 1982
Limited Distribution

GENERAL AGREEMENT ON
TARIFFS AND TRADE

Original: English

SUBSIDIES

Notifications Pursuant to Article XVI:1

UNITED STATES

The following notification concerning subsidies has been received from the Delegation of the United States.

I. MARITIME CONSTRUCTION-DIFFERENTIAL SUBSIDIES

1. Nature and Extent of the Subsidy

(a) Background and Authority

Under the Merchant Marine Act of 1936, as amended, (Merchant Marine Act) construction-differential subsidies (CDS) are paid to American shipbuilders for the construction of certain ships 1/. CDS can be defined as the difference in costs between having a ship constructed in a foreign shipyard and having the same ship constructed in a U.S. shipyard. Due to the cost differential, subsidization is necessary to place the construction costs of ships built in the United States on a parity with foreign construction costs. The subsidy is intended to encourage the growth and maintenance of both the U.S. merchant marine and the U.S. shipbuilding industry. National defense is a prominent motive for CDS.

(b) Incidence

Under title V of the Merchant Marine Act, CDS may be paid to either the purchaser of the ship or to a United States shipyard. The amount of the subsidy is calculated as the difference between the shipbuilding costs in a U.S. shipyard and a reasonable estimate of costs in a foreign shipyard. By law, the subsidy may not exceed 50 percent of the domestic shipbuilding costs.

(c) Amount of Subsidy

CDS PAID OUT 1978 - 1980

Year 2/	Subsidy Outlays
1978	$148,690,842
1979	$198,518,437
1980	$262,727,122

(d) Estimated Amount per Unit

It is not possible to make a reasonable generalized estimate of the amount of subsidy per ship constructed because of the wide range of vessels constructed under the program. However, the combined cost of vessels which were under CDS contracts as of 30 September 1980 totaled almost $1,000,000,000 of which $482,000,000 was to be paid by the U.S. government.

2. Effect of Subsidy

(a) Estimated Quantitative Trade Effects

The Merchant Marine Act's CDS is one element of a comprehensive program designed to ensure the maintenance of the shipbuilding industry in the United States through incentives to U.S. citizens to purchase American-built vessels. As such, CDS serves to reduce the number of foreign-built vessels which might otherwise be purchased by American citizens for use in U.S. foreign commerce. However, an estimation of the effects of CDS alone is complicated by the presence of operating-differential subsidies (ODS). ODS has probably also operated to reduce the number of foreign-built ships purchased by U.S. citizens for use in U.S. foreign commerce as, until recently, only U.S.-built vessels were eligible for ODS.

The overall effect of CDS and ODS on purchases of foreign-built ships should lessen with the 1981 amendment to the Merchant Marine Act which provides that the Secretary of Transportation may, until 30 September 1983, authorize an operator receiving or applying for ODS to acquire foreign-built vessels when no funds are available in the CDS account. The Secretary's authorization for fiscal year 1983, is subject to certain statutory requirements.

It is worthwhile to note that of 16 new U.S.-built ships delivered in iscal year 1980, only 8 were built with the aid of CDS.

Finally, because a ship constructed in the U.S. with CDS must be documented under the laws of the United States for 25 years (20 years for tankers and other liquid bulk carriers), CDS is believed to have no practical impact on U.S. exports of vessels.

(b) Statistics on Production, Consumption, Imports and Exports

(i) For the Three Most Recent Years

Number of ships:	Year 1978	1979	1980
Produced 3/	20	20	16
Consumed 4/			551
Imported 5/	N.A.	N.A.	N.A.
Exported 6/	45	25	58

(ii) For a Previous Representative Year

No meaningful statistics are available for the latest period preceding the introduction of the subsidy (which has existed since the enactment of the Merchant Marine Act of 1936).

II. EXPORT CREDIT SUBSIDIES

1. Nature and Extent of the Subsidies

(a) Background and Authority

The U.S. Export-Import bank is authorized by the Export-Import Bank Act of 1945 to provide credits, guarantees and insurance to promote exports of U.S. goods and services. The financial support is to be at rates and on terms which are competitive with the government-supported rates and terms available from other countries whose exports compete with U.S. exports. The Eximbank, in concert with the Foreign Credit Insurance Association (FCIA), also provides insurance. The private insurance industry, through the FCIA, underwrites the commercial credit risks; Eximbank covers the political risks and reinsures certain excess commercial risks. Inasmuch as several foreign governments offer extensive subsidies in support of exports from their countries, the U.S. Eximbank has perforce offered similar subsidies.

(b) Incidence

The amount of the subsidy is calculated as the difference in financing costs between what a foreign purchaser might have paid for the U.S. export in the absence of any official support and what the U.S. Eximbank actually offered. The financial rate that an individual foreign purchaser is able to obtain will vary according to the risk of the particular project or purchasing agent. This makes it difficult to assess an aggregate financial market rate that can be used to guage the extent of the U.S. Eximbank subsidy. In cases where the foreign borrower would not have been able to obtain any commercial financing whatsoever, the subsidy can be considered to be the entire cost of the U.S. export being financed.

For the purposes of this exercise, however, we may consider an appropriate commercial rate to be the secondary market yields on commercial bonds. It would clearly not be appropriate to use the yields on long term government instruments of the exporting country inasmuch as these are likely to be risk-free or nearly risk-free rates, completely unrelated to the creditworthiness of the importing purchaser or country. 7/

Guarantees and insurance extended by governments should also be considered export subsidies if they lower the total cost of financing below what private markets would otherwise charge. In such instances, the guarantees and insurance have the same distorting effect as direct credits on the allocation of resources. This observation is expecially true when some form of government guarantee is required for the export to go forward at all.

(c) Amount of the Subsidy

One means of calculating direct export credit subsidies is to take the present value of the difference between a loan extended at commercial rates and a loan extended at official export credit rates. As a proxy for commercial rates, we have used the Morgan Guaranty average yields on long term corporate bonds at the end of 1978, 1979, and 1980. Discounting Eximbank's direct credit authorizations for FY 1979, FY 1980, and FY 1981 by the corporate bond yields, and assuming the average Eximbank repayment period, we have the following direct credit subsidies:

Year	Est. Present Value Subsidy 8/
FY 1979	$151.77 Million
FY 1980	$641.02 Million
FY 1981	$1,130.72 Million

Eximbank also offered discounted loans at rates very close to, and sometimes higher than, commercial rates, with no apparent subsidy.

While official export guarantees and insurance may also have a subsidy effect, the calculation of such subsidies is not as straightforward as with direct loans. There are a variety of methods which could be explored to calculate the distortions caused by guarantees and insurance. One measure would be based on the difference between the rates on comparable unguaranteed loans and the rates on the guaranteed loans, and the cost of money to governments, as a proxy for the rates offered on the guaranteed loan. A third method would look at the incidence of default on guaranteed loans. (This assumes that the risk premium, i.e., the difference between the rate of a guaranteed loan and that of an unguaranteed loan, would reflect the probability of default.) These alternative methods may need to be further evaluated and refined before a specific estimate of the subsidy effect of guarantees and insurance can be made.

2. Effect of Subsidy

(a) It is impossible to estimate the quantitative trade effect of these subsidies without also examining the export credit subsidies offered by other countries. In most cases the U.S. Eximbank offered a direct credit subsidy only when a major export competitor had offered, or was about to offer, an export credit subsidy. Thus, the effect of the Eximbank subsidy was frequently to prevent the loss of exports that would otherwise have come from the United States. U.S. Eximbank direct credit authorizations supported the following export values:

Year	Export Value
FY 1979	$6,199 Million
FY 1980	$7,736 Million
FY 1981	$8,303 Million

Appendix A

The following example demonstrates how the subsidies were derived. In FY 1979, the U.S. Eximbank authorized $3,723 Million in direct credits. The approximate average lending rate on these direct credits was about 8.31 percent. In FY 1979, the average yield on U.S. commercial bonds, as reported by Morgan Guaranty, was 9.3 percent. Assuming annual payments and an average 8.3 year loan maturity, the periodic payment of the "loan" of $3,723 (the present value) at 8.31 percent would be $638.59 million. At 9.3 percent, it would be $663.33 million. The $24.74 million difference represents an annual subsidy. When discounted over 8.3 years at 9.3 percent, the annual subsidy has a present value of $151.77 million.

Direct Credits	FY 1979	FY 1980	FY 1981
Eximbank authorization	$3,723 M	$4,920 M	$5,008 M
Loan Maturity (average)	8.3 years	8.5 years	8.9 years
Eximbank rate	8.312 %	8.44 %	8.73 %
Discount rate	9.3 %	11.7 %	14.5 %
Guarantees (Long Term)			
Eximbank authorization	$908 M	$1,190 M	$1,507 M
Loan maturity estimate	8 years	8 years	8 years
Guarantees and Insurance			
Eximbank authorization	$4,180 M	$5,521 M	$5,945 M
Loan maturity estimate	3 years	3 years	3 years
Discount Loans			
Discount Loan Authorization	$340 M	$365 M	$350 M
Loan maturity	4 years	4 years	4 years
Effective Eximbank rate	9.5 %	12.0 %	14.0 %
Discount rate	9.3 %	11.7 %	14.5 %

III. AGRICULTURAL PRICE SUPPORT PROGRAMS

The United States Department of Agriculture administers various domestic price support programs for its farm commodities. Support programs for the following major commodities are included in this notification: wheat, feedgrains, upland cotton, rice, soybeans, dairy products, sugar, peanuts, and tobacco.

1. Wheat, feedgrains, upland cotton and rice. The support programs for these commodities have common features. They provide for a (1) loan rate, (2) target price, (3) deficiency payment, and (4) supply management.

The loan rates for those commodities are established annually by the Secretary of Agriculture at levels which allow the commodities to be priced competitively in domestic and foreign markets. For the 1982-1985 crops, the Agriculture and Food Act of 1981 provides that the loan rate shall not be less than the following levels:

Wheat	$3.55/bu
Corn	$2.55/bu 9/
Cotton	$0.55/lb
Rice	$8.00/cwt

Loans mature on a certain date (usually within a year) but producers may repay the loan plus interest (at the government borrowing rate) at any time up to maturity. If the loan is not repaid by the final maturity date, the Commodity Credit Corporation takes title to the commodity in full payment of the loan and interest charges.

The Target price for each commodity is established annually by the Secretary of Agriculture. The Agriculture and Food Act of 1981 provides that target prices for the crops 1982-1985 shall not be less than the following:

	Wheat $7/bu	Corn $/bu	Upland Cotton $/lb	Rice $/cwt
1982	$4.05	$2.70	$0.71*	$10.85
1983	$4.30	$2.86	$0.76*	$11.40
1984	$4.45	$3.03	$0.81*	$11.90
1985	$4.65	$3.18	$0.86*	$12.40

(* or 120 percent of the loan rate, whichever is higher)

The deficiency payment rate represents the difference by which the established target price exceeds the higher of the national average market price received by farmers (usually over the early months of the marketing year) or the national loan

rate. The deficiency payment to a farmer is determined by multiplying this payment rate times the progam acreage times the yield established for farm. The amount of combined deficiency payment a farmer may receive under the wheat, feedgrains, upland cotton, and rice programs is limited to $50,000 a year.

Under supply management authority in the Agriculture and Food Act of 1981, the Secretary of Agriculture may impose acreage limitations for wheat, feedgrains, upland cotton, and rice when he determines that without such acreage limitations there would be excess supply. Limitations have been announced for the 1982 crops. A land diversion program whereby producers are paid to leave acreage idle may also be established to assist in obtaining the necessary acreage adjustments. Producers who knowingly exceed their permitted acreage under the limitation program lose their eligibility for government loans, purchases and payments.

For wheat and feedgrains the U.S. government sponsors a farmer-owned reserve program intended to promote market and price stabilization by assisting farmers who withhold supplies from the market in periods of surplus for release in periods of shortage. By the end of the current marketing year, it is expected that the reserve will contian 500 million bushels of wheat (20% of annual production) and 1 billion bushels of corn (12% of annual production).

2. Soybeans. The support program for soybeans consists only of government loans and purchases on farm and warehouse stored soybeans. The loan rate is 75 percent of the adjusted 5-year natinal average price received by farmers, but not below $5.02 a bushel. There are no production restrictions for soybeans, and no farmer-owned reserve program.

In recent years market prices have consistently been above loan rates, and there has been limited loan activity for soybeans.

3. Dairy. The Agriculture and Food Act of 1981 sets the minimum support price for milk (3.67% butterfat) at the following levels: 1982, $13.10; 1983, $13.25; 1984, $14.00; and 1985, $14.60.

In carrying out the program the CCC purchases butter, cheese, and nonfat dry milk to maintain the announced milk support.

In managing its dairy support program the United States strives to avoid setting support prices at levels which stimulate production beyond domestic market requirements. In those instances when dairy surpluses have accumulated, the policy is to use special care in disposing of those surpluses. In most cases the surpluses can be directed to non-commercial markets (relief

donations, concessional sales, etc.) General U.S. policy on dairy exports is to abide by the terms of the GATT International Dairy Arrangement.

4. Sugar. The Agriculture and Food Act of 1981 sets the United States domestic price support for sugar at not less than 17c/lb. in 1982, 17.50c/lb in 1983, 17.75c/lb. in 1984 and 18c/lb in 1985. The domestic support price is maintained through non recourse loans made to sugar processors.

The price support for sugar is not intended to stimulate an increase in domestic production. The United States is a large net importer of sugar, and expects to remain so.

5. Peanuts. The Agriculture and Food Act of 1981 eliminates acreage allotments, retains farm quotas, and sets the minimum price support at $550 a ton on quota peanuts in 1982. In the crop years 1983-1985, the quota support level will be adjusted a maximum of 6 percent a year according to cost of production increases. The national poundage quota is set at 1.2 million tons in 1982, 1.1673 tons in 1983, 1.1345 million tons in 1984, and 1.1 million in 1985. The Secretary of Agriculture will set loan rates for additional peanuts at levels considering the demand for oils and meals, and at levels to ensure that there are no losses to CCC on the sale or disposal of such peanuts.

6. Tobacco. Marketing quotas are in effect for most types of tobacco. Price supports are mandatory under domestic law when marketing quotas have been approved by growers. Under the price support program CCC loans are made available through producer associations with the tobacco as collateral. The associations repay the loans as the tobacco is sold. The two features, supply control through marketing quotas and price support through non-recourse loans, constitute the basic elements of the price support program for tobacco.

Individual farm marketing quotas are allocated on the basis of an administratively determined national quota projected to provide the production needed to meet domestic and export demand. The farm marketing quota is the quantity of tobacco produced on the farm's acreage allotment. The price support level is calculated according to a formula specified by law.

The Agriculture and Food Act of 1981 directs the Secretary of Agriculture to operate the tobacco support program at no net cost to taxpayers other than administrative expenses.

U.S. Government Expenditures for Agricultural Commodity Support Programs

(million dollars)

Commodity	1979	1980	1981
Wheat	627.3	--	--
Feedgrains	657.0	135.9	0.1
Rice	58.0	--	--
Upland Cotton	23.6	--	--
Soybeans	3.5	--	--
Dairy Products	23.8	1,011.1	1,893.8
Sugar	--	25.4	--
Peanuts	26.7	27.8	27.8
Tobacco	157.3	-87.8 *	-51.2 *
Total	1,577.2	1,112.4	1,870.6

* Represents net receipts

IV. COMMODITY CREDIT CORPORATION (CCC) PROGRAMS

The USDA has the following CCC programs:

-- GSM-102 (Export Credit Guarantee Program). As its title indicates, it is a guarantee program, not a direct credit program. U.S. commercial banks extend the credit for periods between 6 months and 3 years. The U.S. exporter pays a fee to CCC for the guarantee, the U.S. lender sets the interest rate.

-- GSM-101 (Non-Commercial Risk Assurance Program). This is a guarantee program which preceded GSM-102. This program is no longer available although there remain some outstanding contracts.

The CCC has direct lending authority under GSM-5 (General Export Sales Program), GSM-201 (for export of breeding animals), and GSM-301 (intermediate credit principally for use in developing infrastructure in importing countries). None of those programs have been funded for several years.

The Agriculture and Food Act of 1981 establishes a revolving fund to finance the existing direct credit programs; hwoever, no funds were approved.

Officials of the Office of General Sales Manager who manage the CCC Credit Programs advise that loans made under the currently authorized direct credit programs (when they were funded) were made at commercial interest rates which were always higher than the cost of the funds to the U.S. government.

United States
Statistics of Production, Consumption, Imports, and Exports
(1000 Metric Tons)

Commodity/Year	Production	Consumption	Imports	Exports
Wheat				
1976-77	55,700	23,400	100	30,600
1977-78	48,300	22,800	--	32,500
1978-79	58,100	21,300	100	37,400
1979-80	64,600	21,200	100	41,100
1980-81	76,000	25,500	100	50,300
Feedgrains				
1976-77	205,700	138,300	300	56,300
1977-78	222,100	157,200	300	60,200
1978-79	238,700	161,400	300	71,400
1979-80	198,400	147,100	300	69,600
1980-81	248,900	151,800	300	66,500
Upland Cotton				
1976-77	2,290	1,436	5	1,040
1977-78	3,108	1,397	--	1,189
1978-79	2,343	1,369	--	1,339
1979-80	3,164	1,402	1	1,998
1980-81	2,399	1,269	5	1,283
Milled Rice				
1976-77	3,781	1,248	3	2,097
1977-78	3,120	1,708	3	2,270
1978-79	4,271	1,793	3	2,431
1979-80	4,232	2,077	3	2,706
1980-81	4,802	1,974	7	3,028
Soybeans				
1976-77	35,070	23,584	--	15,351
1977-78	48,097	27,451	--	19,061
1978-79	50,859	30,390	--	20,117
1979-80	61,722	32,872	--	23,818
1980-81	48,772	30,120	--	19,712
Dairy/Butter				
1977	493	429	1	2
1978	451	440	1	2
1979	447	459	1	2
1980	519	461	1	2
1981	558	446	1	56
Dairy/Cheese				
1977	1,523	1,597	95	17
1978	1,597	1,700	110	20
1979	1,686	1,751	112	21
1980	1,807	1,811	105	21
1981	1,934	1,857	124	22

Commodity/Year	Production	Consumption	Imports	Exports
Dairy/NFDM				
1977	502	342	1	74
1978	417	338	1	122
1979	412	369	1	89
1980	527	358	2	125
1981	571	290	1	140
Refined Sugar				
1976-77	6,234	10,019	4,482	40
1977-78	5,436	9,872	4,414	14
1978-79	5,557	9,751	4,416	16
1979-80	5,187	9,519	4,022	336
1980-81	5,448	9,117	3,977	720
Peanuts (in shell)				
1976-77	1,690	1,236	--	465
1977-78	1,793	1,273	--	518
1978-79	1,800	1,302	--	479
1979-80	1,047	1,099	182	228
1980-81	1,791	1,357	1	340
Unmanu. Tobacco				
1977	5,892	4,714	1,232	1,269
1978	6,097	4,877	1,368	1,409
1979	5,701	4,913	1,342	1,362
1980	5,575	4,961	1,333	1,307
1981	5,823	5,018	1,346	1,328

Notes on Submission by the United States

1/ Only vessels satisfying the following requirements may be constructed with the aid of CDS: (a) the purchaser must be a U.S. citizen; (b) the ship must be built for use in the foreign commerce of the United States; (c) the shipyard must be in one of the 50 states or Puerto Rico; (d) the purchaser must possess certain managerial qualifications; (e) the vessel must satisfy certain foreign commerce and national defense requirements; (f) the vessel must be documented under the laws of the U.S. for 25 years (20 years for tankers and other liquid bulk carriers); (g) all members of the crew must be U.S. citizens; (h) except as specially provided for, the ship must be operated in the foreign commerce of the United States; and, (i) if the U.S. Government purchases or requisitions the vessel, the owner shall be paid the original depreciated construction cost or the scrap value, whichever is greater.

2/ Years are U.S. fiscal years (October 1 - September 30).

3/ Deliveries from U.S. shipyards. Of these numbers, 4 ships received CDS in 1978, 7 ships received CDS in 1979, and 8 ships received CDS in 1980.

4/ Active Oceangoing Merchant Marine Fleet.

5/ No statistics are kept on foreign transfers to U.S. citizens.

6/ Of the 58 vessels transferred to foreign owners in 1980, 32 were sold for scrapping.

7/ The direct cost of providing the export credit which is borne by the government of the exporting country, however, is the difference between the yields on long-term government instruments of comparable maturity and what the export credit agency offered. The direct cost can be considerably less than the amount of the subsidy.

8/ Figures used in the calculation are found in Appendix A to the section on Export Credit Subsidies.

9/ Loan rates for grain sorghums, barley, rye, and oats are established in relation to corn, based on feed value. Deficiency payments are also provided for grain sorghums, barley and oats, at rates fair and reasonable in relation to those for corn.