GENERAL AGREEMENT

ON TARIFFS AND TRADE

RESTRICTED
L/7616
31 January 1995
Limited Distribution

(95-0145)

Original: English

UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Thirty-Seventh Annual Report by the United States Government Under the Decision of 5 March 1955

The following report, dated 9 January 1995, has been received from the representative of the United States. The report covers the period October 1993 to September 1994.

REPORT OF THE UNITED STATES GOVERNMENT TO THE CONTRACTING PARTIES ON ACTION UNDER SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT OF 1933, AS AMENDED

1994

Introduction

This report is submitted in accordance with the decision of 5 March 1955, waiving United States obligations under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions the United States Government is required to take under Section 22 of the Agricultural Adjustment Act of 1933, as amended (BISD, Third Supplement, page 32 and 35). This report covers the period October 1993 through September 1994. The Food, Agriculture, Conservation, and Trade Act of 1990 (1990 Act), which is applicable to farm programmes for the 1991-95 period, was signed by the President on 28 November 1990 (and later amended) and modifies provisions of numerous statutes, including the Agricultural Act of 1949.

Recent developments

Most import restrictions imposed under the authority of Section 22 continued in effect without change. Quantitative import restrictions established pursuant to Section 22 authority, through Presidential Proclamations of previous years, are in effect for: cotton of specified staple lengths; certain cotton waste and certain cotton products; peanuts; certain dairy products; and certain sugar-containing products. An import fee is imposed on refined sugar. Section 22 requires the President to impose fees or quantitative limitations on the importation of any articles which are necessary to prevent such articles from being imported into the United States "under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with," any programme undertaken by the Department of Agriculture with respect to such articles or products thereof, or to reduce substantially the amount of any product processed in the United States under such programmes.

During the period under review, no new proclamations were issued.

LOAN AND DEFICIENCY PAYMENTS RATES: 1993/94

COMMODITY	SUPPORT PRICE 1993 (dollars)	SUPPORT PRICE 1994 (dollars)
COTTON (lb.), Upland)		
Loan rate[1]	.5235	.5000
Deficiency payment[2]	.1860	[3]
COTTON, Extra Long Staple (ELS)		
Loan rate	.8812	.8503
Deficiency payment[2]	.1758	[3]
PEANUTS (lb.)		
Quota loan rate	.3375	.3392
Additional loan rate	.0655	.0660
DAIRY PRODUCTS (cwt.)		
Mfg. milk[4]	10.10	10.10
SUGAR, raw value (lb.)		
Raw cane sugar loan rate[5]	.18	NA
Beet sugar loan rate[5]	.2362	NA

[1]Basis Strict Low Middling 1-1/16, net weight, micronaire 3.5-3.6 and 4.3-4.90 Strength 24 through 25 grams per tex, at average location.

[2]The deficiency payment rate is based on the difference between the "established" target price and the higher of (a) the price support loan rate or, (b) the average market price received by farmers for the calendar year for upland cotton and for the first eight months of the calender year for ELS cotton.

[3]Has not been determined. Advance deficiency payments were issued under the 1994 upland cotton programme based on a projected final deficiency payment rate of $0.1290. No advance payments were made for 1993 crop ELS cotton. The 1994 crop final deficiency payment rate for upland cotton will be determined in February 1995. For ELS cotton, it will be determined in May 1995.

[4]Implemented through a standing offer to purchase cheese, butter and non-fat dry milk in carlots from processors at a price designed to return the support price for manufacturing milk (national average milkfat content of 3.67 per cent).

[5]Weighted average loan rate.

PRODUCTION, CONSUMPTION, TRADE AND CCC ACQUISITION AND STOCKS DATA
(Million lb.)

Cotton[a] August-July Production Year

Year	Production	Imports	Cons.	Exports	CCC Acq.	CCC Stock
1989/90	5,854	1	4,204	3,693	0[b]	13[c]
1990/91	7,442	2	4,155	3,741	0[b]	0[c]
1991/92	8,455	6	4,612	3,190	0[b]	0[c]
1992/93	7,785	0	4,920	2,496	6[b]	6[c]
1993/94	7,750	3	5,001	3,294	23[b]	23[c]

[a]Upland and ELS. Convert to United States bales by dividing by 480 lb. - the average weight of a bale of cotton.

[b]Upland and ELS cotton loans are made for a period of 10 months. Upland cotton loans may be extended for another eight months under certain price conditions; and, for ELS cotton, if authorized by the Secretary of Agriculture. These figures represent total forfeitures of cotton produced during the respective marketing year as of October 1994.

[c]As of July respective marketing year.

Milk[d] January-December Production Year

Year	Production	Imports	Cons.	Exports	CCC Acq.	CCC Stocks
1989	144,239	2,498	139,802[e]	3,995	9,416[f]	4,916[g]
1990	144,284	2,690	142,626[e]	1,886	9,017[f]	8,213[g]
1991	148,526	2,625	142,818[e]	3,673	10,425[f]	11,379[g]
1992	152,041	2,542	145,230[e]	8,532	9,936[f]	9,526[g]
1993	150,954	2,807	147,733[e]	8,643	6,654[f]	5,020[g]

[d]Milk equivalent, fat basis

[e]Does not include milk fed to calves

[f]Net acquisitions: CCC purchases minus sales for unrestricted use.

[g]Changes in stocks equal CCC purchases minus donations and restricted and unrestricted use sales.

Production, Consumption, Trade, and CCC Acquisition and Stock Data
(cont'd)

Peanuts August-July Production Year

Year	Production	Imports	Cons.[h]	Exports	CCC Acq.	CCC Stocks
1989/90	3,990	2	3,145	989	295[i]	0
1990/91	3,603	27	2,995	652	433[i]	0
1991/92	4,927	2	3,560	997	1,070[i]	0
1992/93	4,284	2	3,040	951	436[i]	0
1993/94	3,392	2	3,129	555	282[i]	0

[h]Domestic consumption includes food use, seed, crush, and loss

[i]Excludes immediate buybacks of additional loan peanuts

Sugar October-September Production Year

Year	Production	Imports[j]	Cons.	Exports	CCC Acq.	CCC Stocks
1998/90	13,382	5,136	18,664	1,228	0	0
1990/91	13,956	5,650	19,032	1,122	0	0
1991/92	14,610	4,388	19,084	1,254	0	0
1992/93	15,674	4,078	19,306	1,108	0	0
1993/94	15,352	3,528	19,606	908	29	12

[j]Includes Puerto Rico

Cotton and Cotton Products

Quotas

Import quotas continue for upland cotton, certain staple lengths of cotton, cotton waste (excluding cotton comber waste) and cotton products. The United States maintains cotton price support, production adjustment and related surplus disposal programmes. Import quotas on cotton, cotton waste and certain cotton products are necessary in order to prevent material interference with these programmes for cotton.

Support programmes

Upland cotton: The 1990 Act amended the 1949 Act and provided for a five-year programme covering the 1991-95 crops as part of a comprehensive farm programme designed to encourage agricultural production to meet domestic and foreign demand while protecting farm income. Although the upland cotton programme authorized during this period resembles earlier programmes in many respects, several changes were made and several new provisions were introduced that are intended to help improve the competitive position of United States' cotton in the world market.

The 1990 Act amendments continue the concept of a guaranteed or target price. The minimum target price for the 1991-95 crops is 72.9¢ per lb., the same as for 1990. If the weighted average price received by farmers for upland cotton during the calendar year equals or exceeds 72.9¢ per lb., no deficiency payments will be issued. If the average price is less than the target price, the deficiency payment rate will equal the difference between the target price and the higher of the calendar year average price or the loan level for the crop.

The loan repayment rate for the 1991-95 crops equals the lesser of (a) the loan rate or (b) the higher of - (1) 70 per cent of the loan rate, or (2) the adjusted world price (AWP) in effect for the week in which the loan redemption occurs. The minimum loan repayment rate is 70 per cent of the loan rate. Whenever the AWP falls below 70 per cent of the loan rate, commodity certificates or cash payments are issued to eligible first handlers of upland cotton. The first handler payment is based on the difference between 70 per cent of the loan rate and the AWP, multiplied by the quantity of cotton sold during the week in which a payment rate is in effect. The first handler programme is designed to make United States' cotton available to the world market at competitive prices, but this programme has not been operational since the 1986 marketing year.

During the initial ten-month loan period, whenever loan collateral is redeemed and the AWP is below the loan rate, the Commodity Credit Corporation (CCC) does not require payment of any interest and pays all of the warehouse charges.

When the AWP is above the loan rate, CCC does not require the payment of that portion of the interest and pays that portion of the warehouse charges necessary to permit the loan collateral to be redeemed with cash at the AWP. During the eight-month loan extension period, producers are required to pay interest and warehouse storage charges on cash loan repayments regardless of the level of the AWP. If the loan collateral is forfeited to CCC, the producer must pay CCC eight months of storage charges plus a handling charge of $1.00 per bale on the forfeited cotton.

Payments are authorized for producers who, although eligible to obtain loans, agree to forego obtaining loans whenever the AWP is less than the loan rate. The loan deficiency payment rate is equal to the difference between the loan rate and the loan repayment rate in effect during the week in which the application for payment is filed. Producers may decide whether to obtain or forego the loan deficiency payment on a bale-by-bale basis.

Three provisions address the competitiveness of United States cotton. The first gives the Secretary discretion to further adjust the AWP whenever (1) the AWP is below 115 per cent of the loan rate, and (2) the weekly average of the lowest-priced United States upland cotton quotation c.i.f. Northern Europe ("United States Northern Europe price") exceeds the Northern Europe price. An adjustment up to the difference between the two prices is allowed. This authority has not been available since January 1994 as the AWP moved above 115 per cent of the base loan rate.

The second competitiveness provision requires the issuance of cash or marketing certificate payments to domestic users and exporters if the United States Northern Europe price exceeds the Northern Europe price by more than 1.25¢ for four consecutive weeks. The payment rate equals the difference in the fourth week between the United States Northern Europe price, minus 1.25¢, and the Northern Europe price. Payments are made to domestic users based on the quantity of cotton consumed during the week the payment rate is in effect. For exporters, payments are based on the quantity of cotton sold under a written contract entered into during the period. Exporters do not receive payments until the cotton has been exported.

The third provision requires establishment of a special import quota equal to one week's seasonally-adjusted domestic mill consumption if the United States Northern Europe price, adjusted by the value of any marketing certificate issued, exceeds the Northern Europe price by more than 1.25¢ for ten consecutive weeks. This quota provision is different from, and in addition to, the provision which establishes a quota equal to 21 days of domestic mill consumption whenever the base quality spot price for a month exceeds 130 per cent of the average for the previous 36 months. The special import quota based on Northern Europe prices has never triggered.

Under the planting flexibility provisions, upland cotton, wheat, rice and feed grains producers may plant any programme crop, any oilseed, any designated industrial or experimental crop and any other crop except fruits and vegetables on up to 25 per cent of their base acreage. The acreage is known as "flex acreage" and the plantings can be credited as "considered planted" to the crop. If the producers choose to plant a crop other than their original programme crop, they will be eligible for loans, purchases or loan deficiency payments, but not deficiency payments. The first 15 per cent of the flex acreage is not eligible for deficiency payments, no matter what crop is planted. These provisions were designed to give producers the opportunity to respond to market supply and demand.

Extra long staple (ELS) cotton: The ELS cotton loan rate is equal to 85 per cent of the simple average price received by farmers for ELS cotton in the five-year period ending 31 July in the year the loan level is announced (dropping the highest and lowest years). The target price is 120 per cent of the loan rate. For 1994, the loan rate is 85.03¢ per lb. and the target price is 102¢ per lb.

The loan deficiency provisions, first handler and user certificate programmes and import quotas are not applicable to ELS cotton. ELS cotton is not considered a programme crop under the planting flexibility provisions of the 1949 Act. ELS cotton may be planted on the flex acres of other crop bases; however, in order to be eligible for ELS cotton programme benefits, including loans and deficiency payments, ELS planted acreage cannot exceed the permitted acreage for the farm.

Programme activity

(1) Upland cotton: Cotton price support loans mature ten months from the first day of the month in which the loan is made. However, non-recourse loans for upland cotton are available for an additional eight months upon request of the producer during the tenth month of the loan period, except when the average price of base quality Strict Low Middling 1-1/16 inch cotton (micronaire 3.5-3.6 and 4.3-4.9 strength 24-25 grams per tex) in the designated spot markets for the preceding month exceeds 130 per cent of the average spot price for the preceding 36 months. During the 1993/94 season, about 7.7 million bales of upland cotton were pledged as collateral for the CCC price support loan programme, and as of September 1994, nearly all loans were repaid. Only 1,100 bales were forfeited to CCC.

The May 1994 United States average spot market price for base quality cotton (spot price) was 70.3¢ per lb. which is 134 per cent of the average price for the previous 36-month period (May 1991-April 1994). As a result, the option to extend loans maturing in June 1994 was not made available to producers. In addition, as special import quota based on spot market prices equal to 183,694,813 kg. (404,978,070 lb.) was announced on 31 May, effective from 3 June through 31 August. During the quota period, a total of 410,606 kg. (905,232 lb.) of cotton was imported.

The June 1994 spot price also exceeded 130 per cent of the previous 36-month average. Producers were not allowed to extend loans that matured in July 1994. However, another special import quota was not established because, as specified in the Harmonized Tariff Schedule of the United States, quota periods for special import quotas triggered by spot prices cannot overlap.

(2) ELS cotton: Cotton loans mature ten months from the first day of the month in which the loan is made. The Secretary of Agriculture may authorize that loans be extended an additional eight months if requested by the producer, but this authority has never been used. 140,000 bales of ELS cotton were placed under loan during the 1993/94 season, and as of September 1994: 13,400 bales were redeemed; 78,700 were forfeited to CCC; and 49,400 bales were left outstanding.

Supply situation - 1993 crop

(1) Upland cotton: The carry over on 1 August 1993, totalled 4.5 million bales. Production in 1993 rose marginally to 15.8 million bales as compared to 15.7 million in the previous year. The increase was due largely to the ARP requirement which was 7.5 per cent in 1993/94 compared to 10 per cent the previous season. The total supply in 1993/94 was 20.2 million or 900,000 less than a year earlier. Disappearance (domestic consumption and exports) rose in 1993 to 16.9 million bales from the previous year's level of 15.1 million bales. The 1 August 1994, carry over was 3.3 million bales. The average United States yield for the 1993 crop of upland cotton was 601 lb./harvested acre, down about 13 per cent from the previous year's level of 693 lb.

(2) ELS cotton: The carry over on 1 August 1993 was 206,000 bales. Production in 1993 declined by about 25 per cent to 381,000 bales from 508,000 bales a year earlier. The decline resulted from a higher ARP requirement - 20 per cent from 1993 compared with 5 per cent for 1992. The total supply in 1993 reached 587,000 bales compared to 629,000 bales the previous year. Disappearance (domestic consumption and exports) totalled 379,000 bales, 13,000 less than in 1992. Carry over on 1 August 1994, was 227,000 bales, 21,000 bales above a year earlier. The yield for 1993 increased from last year's 938 lb. per harvested acre to 974 lb.

Steps taken to balance supply and demand

In addition to production adjustment programmes, additional Government programmes designed to attain a better balance in the supply and demand position include continued emphasis on research and market promotion programmes designed to increase cotton utilization throughout the world. These programmes remain basically the same as previously reported.

For upland cotton, the 1949 Act (as amended by the 1990 Act) gives the Secretary the authority to require of programme participants a base acreage reduction of up to 25 per cent and to implement an additional paid land diversion, and provides for a minimum target price of 72.9¢ per lb. Provisions designed to make United States cotton available to world markets at competitive prices established under amendments made to the 1949 Act by the 1985 Act were renewed with some changes, and several new provisions were added. Significantly, the 1990 Act allows producers to shift programme crop plantings and provides new options for growing oilseeds and industrial and experimental crops.

Peanuts

Quotas

The annual import quota of 775,189 kg. (1,709,000 lb.) (shelled basis) remained in effect for the 1994-crop year.

Support programmes

The 1990 Act amendments modified the peanut price support programme for the 1991 through

1995 crops and continued steps to bring peanut production for domestic edible use in balance with market needs. The amendments maintained the two-tier price support programme and suspended the peanut acreage allotments. This programme allows any farmer in the United States to grow and market peanuts for export or crush whether or not the farm has a poundage quota. The Omnibus Budget Reconciliation Act extended the peanut quotas through the 1997 crop.

Peanuts marketed under the poundage quota for domestic edible use are eligible to be supported at the higher rate of the two-tier price support programme. The price support for 1994-crop quota peanuts is $678.36 per short ton. Peanuts marketed for domestic edible use in excess of the farm poundage quota shall be subject to a penalty of 140 per cent of the quota price support rate. By law, the national average quota support for 1994 crop peanuts must be the 1993 crop support level adjusted for any increase in national average production costs (excluding the cost of land), not to exceed 5 per cent. In the event of a cost reduction, the support remains at the level set for the preceding year.

As required by the Agricultural Adjustment Act of 1938, as amended (the 1938 Act), the national poundage quota is set at a quantitative level equal to domestic edible, seed, and related uses, but not less than 1.35 million tons. The 1994 poundage quota was set at 1.35 million tons, as compared to 1.496 million tons in 1993.

Additional or non-quota peanuts may be grown by anyone, both quota holders and non-quota holders. Legislation requires these peanuts to be contracted for export, crushed, or both, or that they be placed under loan. Contracts (price and quantity agreements between buyers and sellers) for growing additional peanuts must be submitted to the CCC, if so designated, to the area associations before 15 September. Additional peanuts pledged as collateral for a price support loan may be sold for domestic edible use, but the cost of the loan redemption may be no lower than the quota price support level plus the cost incurred by CCC. The support price for additional peanuts is set to avoid any net cost to the Government. The demand for peanut oil and meal, expected prices for other vegetable oils and protein meals, and the demand for peanuts in foreign markets is also considered in establishing the support price for additional peanuts. For 1994, the support level was set $132 per short ton.

Programme activity

During the 1993/94 crop year (August-July), 324 million lb. of farmers' stock peanuts were place under loan of which approximately 62 million lb. were redeemed or bought back for domestic edible use. CCC net realized gains on the peanut programme were about $3 million for FY 1993, and $10 million loss for 1994.

Supply situation

Growers harvested 1,650,000 acres of peanuts in 1994, 3 per cent below 1993. Production in 1994 is estimated at 4,717 million lb. as compared to 3,392 million lb. in 1993. Growers are expected receive a season average price of 30.5¢ per lb. in 1994/95 compared to 29.6¢ per lb. 1993/94.

The total supply of peanuts in the United States for the 1994/95 marketing year is estimated to be 5,181 million lb., compared with total supply of 4,747 million lb. in the previous marketing year.

Steps taken to balance supply and demand

The Agriculture and Food Act of 1981 amendments to the 1938 Act and the 1949 Act which were effective for the 1982 through the 1985 peanut crops provided methods for achieving a balance between supply and demand which were maintained in amendments in the 1985 Act and the 1990 Act.

This legislation took two principal approaches: (1) setting the national poundage quota at the greater of 1.35 million lb. of the cstimated level of domestic edible, seed and related uses; and (2) disposal of quota peanuts acquired by the CCC under the price support programmes by sales for crushing into oil and meal. The quantity of peanuts eligible for the higher domestic edible use price support are limited by a national poundage quota. Additional peanuts are supported at a much lower price to avoid any net cost to the Government. Additional peanuts placed under loan may be sold for edible use under a procedure which permits immediate loan redemption at the domestic edible use support price. In addition, peanut products have been purchased under related programmes and utilized in domestic distribution programmes. Annual data on peanut production, consumption, exports, stock and acquisitions under the price support programme are in the following table:

Peanut Production, Consumption, Exports, Stocks and Acquisitions
Marketing Years (August-July) 1985-1993
(Million lb.)

Year beginning 1 August	Production[1]	Imports	Domestic consumption and Exports[2]	Stocks end of year	Acquisitions under price support[3]
1985	4,123	2	4,704	845	967
1986	3,697	2	3,541	1,003	119
1987	3,616	2	3,788	833	435
1988	3,981	2	3,973	830	560
1989	3,990	2	4,141	701	295
1990	3,603	27	3,647	683	433
1991	4,927	2	4,557	1,055	1,070
1992	4,284	2	3,991	1,350	436
1993	3,392	2	3,684	1,061	324

[1]Data are net weight values.
[2]Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss, and shrinkage.
[3]Included in domestic consumption and exports.

Dairy Products

Quotas

As in past years, the Trade Agreements Act of 1979 limits imports of dairy products (mainly cheese) to 111,000 metric tons per annum. Quotas on dairy products were first imposed during the early 1950s as a means to prevent material interference with the domestic price support programme for milk.

Import licences are issued to eligible applicants to allocate country quotas in a fair and equitable manner and to ensure that the total quota for dairy products is not exceeded. The on-line computer system, which became operational during mid-1979, provides rapid, error free responses to requests made by licensed importers regarding quota entries. Additionally, an on-going programme is in place to keep importers, importer associations, United States Customs Service officials, trade members, foreign embassies and foreign producers advised and up-to-date on pending changes to the quota system.

For 1994, several country of origin adjustments were effected when it became evident that quota items could not be supplied in sufficient quantity by the named country of origin to fill these quotas. Adjustments or partial adjustments for 1994 included: Lowfat cheese from New Zealand, and Australia; Blue mould cheese from Argentina; Italian-type cheese, not in original loaves, from Argentina; Swiss-Emmenthal cheese from Finland, Iceland, Argentina, and Australia; Gruyere processed cheese from Austria and Finland; Italian-type cheese, in original loaves, from Argentina; other cheese, NSPF, from Argentina, Finland and Iceland; Edam and Gouda cheese from Sweden; processed Edam and Gouda from Norway and other countries; and chocolate crumb from Australia.

Support programmes

The milk price support programme, which is operated pursuant to the 1949 Act requires that the price of milk to producers be supported at such level, between 75 and 90 per cent of parity, as will assure an adequate supply of milk, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. However, since 21 October 1981, the support price has been established by legislation at specific price levels, rather than parity levels. The support price of $10.10 per cwt. was continued on 1 October 1992.

The price of milk is supported by the Commodity Credit Corporation (CCC) through purchases of butter, cheese, and non-fat dry milk at prices calculated to enable plant operators to pay dairy farmers, on the average, a price equal to the support level. The effectiveness of the programme depends on competition by manufacturers for available supplies of milk so that the average price received by farmers will equal the announced support price. At times of significant price support purchases, the purchase prices for these products tend to become the floor for the market prices of such products. Since most of the fluid milk prices are based on prices paid for manufacturing milk, the price support programme supports all milk and dairy product prices.

Programme activity

In carrying out the price support and related programmes in the 1993-94 marketing year (MY), CCC removed from the market 2.6 per cent of milkfat and 2.3 per cent of solids-not-fat milk equivalent marketed by farmers. Removals of milkfat included 61.3 million lb. butter, 2.0 million lb. of cheese, and 231.2 million lb. of non-fat dry milk and 24.2 million lb. of dry whole milk exported under the Dairy Export Incentive Programme (DEIP).

CCC's net purchases, milkfat basis, for MY 1993-94 were about 4.0 billion lb. milk equivalent, compared to 8.1 billion lb. in MY 1992-93. CCC's net purchases under the price support programme totalled 171.5 million lb. of butter, 2.0 million lb. of cheese, and 307.4 million lb. of non-fat dry milk. In addition to purchases under the price support programme, CCC purchased 39.1 million lb. of processed American cheese and 15.5 million lb. of Mozzarella cheese at market prices for domestic distribution under various entitlement programmes. CCC also purchased 31.6 million lb. of evaporated milk, 5.1 million lb. of concentrated liquid infant formula and 403 thousand lb. of powdered infant formula under Section 4(a) authority for distribution to needy persons.

Supply situation

Milk production totalled 152.4 billion lb. in MY 1993-94, 0.6 per cent above a year earlier. Cow numbers decreased 0.2 per cent and production per cow increased 2.9 per cent in MY 1993-94.

Steps taken to balance supply and demand

The 1990 Act amendments to the 1949 Act provide that dairy product purchase estimates will be measured on a total milk solids basis, instead of a milkfat basis. Other provisions are explained as follows: The Secretary of Agriculture is required to - (1) increase the support price at least 25¢ per hundredweight (cwt.) if the Department's estimate of annual purchases does not exceed 3.5 billion lb. milk equivalent, total milk solids basis; (2) make no increase in the support price if CCC's estimated purchases exceeds 3.5 billion lb., but not 5 billion lb. milk equivalent, total milk solids basis, and (3) decrease the support price by 25 to 50¢ per cwt. if CCC's estimate of annual purchases exceeds 5 billion lb. milk equivalent. The support price, however, may not be reduced below $10.10 per cwt.

For the purpose of support price determination, the Secretary is instructed to deduct from the estimated level of CCC purchases, an amount equal to any increase in the most recent calendar year's dairy imports and average imports during 1986-90. CCC programme expenditures during calendar years 1992-95 will be limited to the purchase of the equivalent of 7 billion lb. of milk, total solids basis. Purchases above 7 billion lb. will be financed through a producer assessment on milk marketings.

The Secretary has the authority to adjust support purchase prices for butter and non-fat dry milk in such a way that will result in the lowest cost to CCC, or will achieve other objectives considered appropriate. However, CCC cannot purchase surplus butter for more than $0.65 per lb., nor non-fat dry milk for less than $1.034 per lb. Adjustment in purchase prices are limited to not more than two per calendar year.

The 1990 Act, as amended by the Omnibus Budget Reconciliation Acts of 1990 and 1993, provides for a reduction in the price received by producers for all milk marketed for commercial use during the period beginning 1 January 1991, and ending 31 December 1995. The law provides that any producer who did not market more milk in a refund year than was marketed in the immediately preceding year, is eligible for a refund of the entire amount assessed during the refund year. The Secretary is further required to increase the assessment rate on all milk marketing during May-December to recapture refunds made for the previous year. The following table details each year of the producer assignment programme.

Reduction Rates and Yearly Outcomes of Producer Assessments

Calendar Year	Budget Assessment (Jan.-Dec.) $ per cwt.	Assessment Offset (May-Dec.) $ per cwt.	Calendar Year Reduced Marketings	No. of Applications	Refunds $ millions
1991	.0500		4.6	47,805	23.164
1992	.1125	.0240	3.6	38,595	50.733
1993*	.1125	.0510	5.5	54,403	80.325
1994*	.1125	.0803			
1995	.1125				
1996	.1000				
1997	.1000				

*The Budget Reconciliation Act of 1993 provided for a 90-day moratorium on the sale of Recombinant Bovine Somatotropic (RBST), beginning with the date of its approval for use on dairy animals by the Food and Drug Administration (FDA). The Act further required assessment rates on milk marketed during the 90-day period be reduced by 10 per cent. FDA approved the use of RBST on 5 November 1993. Thus, the November and December 1993 assessment rate was reduced to $0.1471 and the January 1994 rate was $0.1012.

Outlook

As of 30 September 1993, the uncommitted inventories were: butter, 78 million lb.; no cheese; and non-fat dry milk, 41 million lb. This compares with 262 million lb. of butter, no cheese, and 16 million lb. of non-fat dry milk as of 30 September 1993. The following table summarizes USDA market removals from MY 1989 through 1993.

Milk Production and Market Removals 1989-1993 Marketing Year
(1 October-30 September)

USDA Market Removals (Million lb.)

Year	Milk Production	Butter	Cheese	NFDM	Evaporated Milk	Milk Equivalent of Removals
1989/90	146.9	384.0[2]	18.7[3]	28.1[4]	31.8	8,377[1]
1990/91	148.6	433.0[5]	96.7[5]	342.6[5]	30.3	10,450[1]
1991/92	150.9	460.3[6]	10.0[6]	118.3[6]	31.9	10,343[1]
1992/93	152.0	345.9[7]	15.5[7]	355.2[7]	27.7	8,069[1]
1993/94	152.4	171.5[8]	2.0[8]	307.4[8]	25.9	6,654[1]

[1]Reflects approved methodology for calculating milk equivalent on fat solids basis in accordance with amendments to the 1949 Act made by the 1990 Act. Milk equivalent, fat solids basis, is derived by adding the following: lb. of butter times conversion factor of 21.8; lb. of cheese times conversion factor of 9.23; and lb. of non-fat dry milk times conversion factor .22. Evaporated milk is no longer considered in the milk equivalent.

[2]Includes approximately 14 million lb. of butter equivalent exported under the Dairy Export Incentive Programme.

[3]Mozzarella cheese purchased on a competitive bid basis - not included in total milk equivalent.

[4]Includes 10 million lb. of instant, fortified NFDM purchased under the authority of Sec. 709 of the Food and Agriculture Act of 1965.

[5]Includes approximately 2 million lb. of cheese and 21 million lb. of non-fat dry milk exported under DEIP.

[6]Includes approximately 57 million lb. of butter 10 million lb. of cheese 109 million lb. of non-fat dry milk and 26 million lb. of whole milk exported under DEIP.

[7]Includes approximately 53 million lb. of butter 11 million lb. of cheese, 338 million lb. of non-fat dry milk and 42 million lb. of dry whole milk exported under DEIP.

[8]Includes approximately 61 million lb. of butter, 2 million lb. of cheese, 231 million lb. of non-fat dry milk, and 24 million lb. of dry whole milk exported under DEIP.

Sugar and Sugar-Containing Articles

Measures taken under Section 22

The 1¢ per lb. (2.2¢ per kilogram) fee on refined sugar and the quotas for sugar-containing articles remain in effect. These measures are necessary to prevent material interference with the price support programme for sugar administered by the United States Department of Agriculture.

Other import controls

Presidential Proclamation 6179 of 13 September 1990 (effective 1 October 1990) established a tariff-rate quota (TRQ) system pursuant to Addition United States Note 3, Chapter 17 of the Harmonized Tariff Schedule of the United States (HTS). The TRQ is operated under the HTS domestic authority which is independent of Section 22. Sugar imports entered within the in-quota TRQ quantity are subject to the MFN first tier (lower tariff) duty rate of .625 ¢/lb., raw value. Under the special tariff rate provisions of the HTS, imports from designated beneficiary countries under the Caribbean

Basin Initiative (CBI), Andean Trade Preference Act and Generalized System of Preferences (GSP) are imported duty-free for quantities that enter within the in-quota TRQ. The following announcements were made since the previous report.

- On 27 August 1992 the TRQ for the October 1992 through 30 September 1993 period was announced at 1.357 million short tons.

- USDA announced on 11 May 1993 that the TRQ period would be extended from 30 September 1993 to 30 September 1994 and the quota level would be raised from 1.257 million short tons to 2.5 million short tons.

- The TRQ was further modified on 8 August 1994 when the Secretary of Agriculture announced that the quota period would be changed from 1 October 1992 though 30 October 1994 to 1 October 1992 through 31 July 1994. Any TRQ amounts previously allocated to any country for the 1 October 1992 through 30 September 1994 quota period that were not entered by 31 July 1994 could subsequently be charged to the 1 October 1992 through 31 July 1993 quota period.

- The 8 August 1994 announcement also included a new quota level of 1.458 million short tons for the period 1 August 1994 through 30 September 1995.

- The sum of the above TRQ actions resulted in an overall quota level for sugar of 3.958 million short tons, that could be entered during the period 1 October 1992 through 30 September 1995.

Imports of sugar entered above the in-quota TRQ quantity are subject to the second tier (higher tariff) duty rate of 16 ¢/lb., raw value including imports from CBI, GSP and Andean countries. Additional sugar is allowed to enter subject to the first tier duty rate (duty free for CBI, GSP and the Andeans) provided that such sugar is re-exported in either refined or further processed form under USDA's re-export programmes.

Support programmes

The 1990 Act amended the 1949 Act to establish a support programme for domestically grown sugar cane and sugar beets for the 1991 through 1995 crops. Support is provided through a programme of non-recourse loans at such levels as the Secretary of Agriculture determines appropriate, but not less than 18¢ per lb. for raw cane sugar. Beet sugar shall be supported through non-recourse loans at such levels as the Secretary determines is fair and reasonable in relation to the loan level for raw sugar cane. The United States raw cane sugar and refined beet weighted average sugar loan levels for the 1993/94 crop was established at 18.0 and 23.62¢ per lb., respectively.

Loans were made for a period of six months for the 1990 crop, but increased to nine months for the 1991 through 1995 crops as a result of amendments in the 1990 Act. In all cases, loans have a maturity date of no later than 30 September of the fiscal year in which they are made. The interest rate on these loans will be the rate applicable to CCC loans. To be eligible to participate in the loan programme, processors are required to pay at least the minimum specified price support levels determined by CCC to any grower who delivers eligible sugar beets or sugar cane to the processor.

Steps taken to balance supply and demand

The United States is a net importer of sugar, with imports regulated as described above. Domestic consumption of sugar in the United States has increased steadily during the past few years from 7.7 million short tons in 1985/86 to a forecast 9.275 million short tons in 1994/95. The 1990 Act does not provide for regulation of the marketing of domestically produced raw cane and refined beet sugar if imports of raw cane sugar are estimated by USDA to be above 1.25 million short tons in any one marketing year in the 1991/95 period.

Marketing allotments were imposed on 1 July 1993 for fiscal year 1993 and applied to all sugar and crystalline fructose marketed in the United States from 1 October 1992 through 30 September 1993. The overall allotment quantity was 7,770 thousand short tons. The beet sugar allotment was 4,149.2 thousand short tons allotment was 3,620.9 thousand short tons. The overall marketing allotment for crystalline fructose manufactured from corn was 159,757 short tons. Marketing allotments were again applied beginning 1 October 1994 for the fiscal year 1995. The overall allotment quantity was 7,889 thousand short tons. The beet sugar allotment was for 4,355.3 thousand short tons and the cane sugar allotment was for 3,533.7 thousand short tons. The overall marketing allotment for crystalline fructose manufactured from corn was 159,757 short tons. The implementation of marketing allotments means that any sugar beet processor or sugar cane processor who markets sugar or pledges sugar as collateral for a price support loan in excess of the processor's allocation shall be liable to the CCC for a civil penalty in an amount equal to three times the United States market value of that quantity exceeding allocation.