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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

First Annual Report by the United States Government under the Decision of 5 March 1955

October 1955

This report is made pursuant to the Decision of 5 March 1955 of the CONTRACTING PARTIES, granting a waiver to the United States in connection with import restrictions imposed under Section 22 of the Agricultural Adjustment Act of 1933, as amended. That Decision provided that the United States would furnish a report to the CONTRACTING PARTIES "showing any modification or removal of restrictions effected since the previous report; the restrictions in effect under Section 22 and the reasons why such restrictions (regardless of whether covered by this waiver) continue to be applied and any steps it has taken with a view to a solution of the problem of surpluses of agricultural commodities."

At the time of the Decision of the CONTRACTING PARTIES, import controls under Section 22 were in effect for 9 commodity groups. Since that time, as a result of changed circumstances, the President, in accordance with the procedures required by Section 22 suspended the quota on peanuts for the quota year ending July 31, 1955, and has permitted controls over three other groups of commodities (barley, oats and tree-nuts) to expire. There has been no intensification of the controls over the remaining commodities nor have controls been extended to any additional commodities.

The present status and details of the action taken by the United States under Section 22 with respect to each of the commodities under control on 5 March 1955 are presented below.

Cotton and Cotton Waste

1. Quotas in Effect 1955-56

The following annual quotas are in effect on a continuing basis for cotton and cotton waste, pursuant to Section 22 of the Agricultural Adjustment Act, as amended:

a. Short staple cotton - Cotton under 1-1/8 inches other than rough or harsh - 14,516,882 pounds annually during the quota year 20 September - 19 September.

b. Long staple cotton - Cotton 1-1/8 inches to, but not including, 1-11/16 inches - 45,656,420 pounds annually during the quota year 1 February - 31 January.

c. Cotton waste - Cotton card strips made from cotton having a staple length of less than 1-3/16 inches, comber waste, lap waste, sliver waste, and roving waste - 5,482,509 pounds annually during the quota year 20 September - 19 September.

d. Rough or harsh cotton - Cotton under 3/4 inch - 70,000,000 pounds annually during the quota year 20 September - 19 September.

The first three quotas became effective 20 September 1939, and that on rough or harsh cotton on 20 September 1946. Cotton 1 - 11/16 inches and longer, which originally was included in the long staple quota, has been free of quotas since 1940.

The representative period used in establishing the quota was the period 1 July 1928, to 30 June 1933, for short staple, long staple, and cotton waste, and 1 January 1929, to 31 December 1933, for harsh and rough cotton.

Country quotas are in effect for short staple cotton and for cotton wastes. Quotas for long staple and harsh or rough cotton are global quotas.

The country quotas for cotton under 1-1/8 inches other than harsh or rough cotton under 3/4 inch (short staple cotton) are as follows:

Country	Amount of Quota (pounds)
Egypt and Sudan	783,816
Peru	247,952
British India	2,003,483
China	1,370,791
Mexico	8,883,259
Brazil	618,723
USSR	475,124
Argentina	5,203
Haiti	237
Ecuador	9,333
Honduras	752
Paraguay	871
Colombia	124
Iraq	195
British East Africa	2,240
Netherlands East Indies	71,388
Designated British East Indies	21,321
Nigeria	5,337
Designated British West Africa	16,004
Designated French Africa	689
TOTAL	14,516,882

Country quotas for designated cotton wastes are as follows:

Country	Amount of Quota (pounds)
United Kingdom	4,323,457
Canada	239,690
France	227,420
British India	69,627
Netherlands	68,240
Switzerland	44,388
Belgium	38,559
Japan	341,535
China	17,322
Egypt	8,135
Cuba	6,544
Germany	76,329
Italy	21,263
TOTAL	5,482,509

2, Need for Continued Quotas on Cotton and Cotton Waste

Price support programmes, and acreage allotment and marketing quota operations are in effect for the 1955 crops of upland and extra long staple cotton. Import quotas on cotton and cotton products are needed to prevent imports from materially interfering with these programmes and operations and related disposal operations.

Upland Cotton

Price support for upland cotton is mandatory under Title I of the Agricultural Act of 1949, as amended. The 1955 crop is being supported at 90 per cent of parity. This level, which was established prior to planting time, was the minimum level under the supply conditions then in prospect for 1955-56. The average level of support for middling 7/8-inch upland cotton is 31.70 cents per pound, slightly above the level of 31.58 cents in effect for 1954 crop, due to a slight increase in the parity price. The 1955 support level for middling 15/16-inch cotton, average location, is 33.50 cents per pound compared with the 1954 support price of 33.23 cents per pound.

Acreage allotments and marketing quotas also are in effect for the 1955 crop of upland cotton. The national marketing quota is 10 million bales, the minimum for 1955 under existing legislation.

Under the marketing quota operation, a national acreage allotment of 18,113,000 acres was established.

The United States is faced with a relatively large surplus of cotton.

The supply of upland cotton in the United States for the 1955-56 crop year is estimated at about 24.7 million bales, 1.5 million more than that for the season just past. This is the fifth consecutive year in which supply has increased over a year earlier. The record 1955-56 supply includes a beginning carryover of 10.9 million running bales as reported by the Bureau of the Census, an estimate of imports of 50,000 bales, an estimated city crop of 40,000 bales, and the 1955 cotton crop indicated as of 1 October to be 13.7 million running bales. (The city crop consists of rebaled samples and pickings from cotton damaged by weather and fire.)

The 1 August 1955 carryover of 10.9 million running bales was about 1.3 million bales larger than a year earlier and the highest since 1 August 1945, when stocks of cotton amounted to 11.1 million bales. The carryover has increased each year from the post-World War II low of about 2.2 million bales on 1 August 1951.

Almost three-fourths of the 1955 beginning carryover, or about 8.0 million bales, was held by CCC (owned and pledged as collateral against outstanding loans). This is about 1.1 million bales more than was held by CCC at the start of the 1954-55 marketing year. CCC holdings have risen each year since 1 August 1951, both in number of bales and as a percentage of the total beginning carryover.

The 1955 cotton crop was estimated at 13.7 million running bales (13.9 million 500-pound bales) as of 1 October. This is 1 percent larger than the 13.6 million running bales produced in 1954.

Disappearance of upland cotton in 1955-56 will probably be around 12.0 million bales, compared with about 12.1 million in 1954-55. Domestic mill consumption in 1955-56 is expected to total around 9 million bales and exports probably will be no higher than 3.0 million. A more precise estimate of disappearance cannot be made until more information, particularly on exports, is available. Deducting estimated disappearance from total supply indicates a carryover on 1 August 1956, of about 12.7 million bales, or larger than at the start of the season. CCC-held stocks on that date may be about 9.5 million bales, or more.

As of 7 October cotton pledged from the 1955 upland cotton crop as collateral against outstanding loans amounted to 530,000 bales. It is difficult to estimate the total quantity of the 1955 cotton crop which will be pledged against oustanding loans by the end of the 1955-56 season, but a large loan activity is expected. Some cotton will move into export channels under Public Law 480 and under the "Special Cotton Export Programme" from CCC stocks acquired from previous crops. This will cause more 1955 crop cotton to move into the CCC loan than the net addition of 1.5 million bales or more to all CCC-held stocks (owned and pledged as collateral against outstanding loans) expected by 1 August 1956.

Extra Long Staple Cotton

Price support for extra long staple cotton is mandatory under Title I of the Agricultural Act of 1949, as amended. The 1955 crop is being supported at 75 per cent of parity, the minimum within the over-all range of 75 to 90 per cent of parity at which extra long staple cotton may be supported. The 1954 crop of extra long staple cotton was supported at 90 per cent of parity.

The dollars-and-cents support prices established for the 1955 crop are sharply below those in effect for 1954 and even much more below the 1953 crop support level which was about 105 per cent of parity. The average support level for American-Egyptian cotton is 55.32 cents per pound (compared with 65.53 cents per pound in 1954), and for Sealand and Sea Island 50.32 cents per pound (compared with 56.22 cents per pound in 1954).

Acreage allotments and marketing quotas also are in effect for the 1955 crop of extra long staple cotton. The national marketing quota is 30,000 bales, the minimum quota authorized by law. This quota is the same as the minimum in effect for 1954. Under the marketing quota operation, a national acreage allotment of 46,000 acres has been established.

CCC-held stocks of extra long staple cotton on 1 August 1955, the start of the marketing season, amounted to about 131,000 bales or around 75 per cent of the total extra long staple carryover of about 174,000 bales. These CCC-held stocks consist of 30,000 bales from the 1952 crop, 65,000 bales from the 1953 crop, and 36,000 bales from the 1954 crop. They reflect the fact that CCC acquired about 100 per cent of the 1953 crop and around 88 per cent of 1954 domestic production due to the fact that foreign cotton was available at prices lower than the support level. These large acquisitions occurred notwithstanding Section 22 import controls. In this period, domestic consumption was about equal to imports.

The total supply of extra long staple cotton, for 1955-56, (that is, total carryover, plus imports equal to the quota, plus the 1955 crop of American-Egyptian cotton) is estimated at about 315,000 bales equal to nearly three full years' domestic requirements at the recent level of consumption, about 110,000 bales. This supply not only is above the 294,000 bales available in 1954, but significantly above levels in other earlier years. Exclusive of any imports during the 1955-56 marketing year, the supply would be sufficient for about two years' needs.

Although no 1955 crop American-Egyptian cotton has yet been pledged under the CCC loan programme, more than 25,000 bales or about two-thirds of the 1955 crop probably will be under loan by 1 August, 1956. Exports from CCC-owned stocks may approximate 5,000 bales and the net addition to CCC-held stocks of American-Egyptian cotton during the 1955-56 season will probably be more than 20,000 bales.

The solution of the cotton problem outlined above is more difficult because cotton is a world crop produced and used in many countries. As indicated above, steps have been taken to reduce production in the United States. Under these controls, United States production of all cotton has

dropped from 16.3 million running bales in 1953 to an estimated 13.8 million bales in 1955. While the United States has been cutting production sharply, other countries have been increasing their acreage and their share of the world total cotton production. For example, cotton production in other free world countries has gone up from 13.9 million bales in 1953 to an estimated 16.7 million bales this year. Export developments have followed about the same trend. As a result, the United States have been losing its normal and historical position in world cotton exports.

3. Steps Taken With a View to the Solution of the Problem of Surplus

The steps taken by the United States Government with a view to the solution of the problem of surplus generally have been discussed above. Briefly, they are as follows:-

a. Price support levels have been established at minimum levels permitted by law. In the case of extra long staple cotton, this involved a reduction in the support level to 75 per cent of parity. Successive reductions of about 10 cents per pound were made in the support level for American-Egyptian cotton from 1953 to 1954 and again from 1954 to 1955.

b. Acreage used for cotton production has been reduced under acreage allotments and marketing quota programmes rather sharply to the minimum specified by law for 1955. This has resulted in sharp cutbacks from the acreages in cultivation in 1953 before acreage allotments and marketing quotas were reimposed. The national acreage allotment for upland cotton (18 million acres) for 1955 is 3 million acres (or about 15 per cent) below the allotment established for the 1954 crop, and 7 million acres (or nearly 30 per cent) below the acreage in cultivation on 1 July 1953, the year just prior to the imposition of acreage controls. It compares with 41.4 million acres in cultivation on 1 July on the average during the representative period (1928-1933). The national acreage allotment of 46,000 acres for extra long staple cotton is about one-half of the acreage in cultivation in 1953 prior to the imposition of marketing quotas. The marketing quota for upland cotton of 10 million bales is the minimum for 1955 under existing legislation. The marketing quota for extra long staple cotton of 30,000 bales is also the minimum quota authorized by law, and is the same as the minimum in effect for 1954.

When marketing quotas are in effect, any producer who markets cotton in excess of his farm marketing quota is required to pay, on such excess quantity, 50 per cent of the 15 June parity price, in the case of upland cotton, and either the same of 50 per cent of the support price, in the case of extra long staple cotton. A producer who knowingly exceeds his farm acreage allotment on any farm is ineligible for cotton price support on that farm.

Wheat and Wheat Products

1. Section 22 Quotas in Effect

Section 22 quotas have been in effect on a continuing basis since 29 May 1941, on wheat classified as fit for human consumption, and certain wheat products. The quota year begins on 29 May of each year. The annual wheat quota is 800,000 bushels and that for wheat products (flour, semolina, crushed and cracked wheat, and similar products) is 4,000,000 pounds. The current quotas are the same as those imposed initially. The representative period used in establishing these quotas was the years 1929-33, and the quotas are well above imports during that period.

No import quotas are in effect for wheat classified as unfit for human consumption (e.g., feed wheat), nor or wheat imported for seed use.

Country quotas are in effect for both wheat and wheat products. These are as follows:

Country	Quota Wheat bushels	Wheat Products 1,000 lbs.
Canada	795,000	3,815
United Kingdom	100	75
Germany	100	5
Syria	100	5
Netherlands	100	1
Argentina	2,000	14
France	1,000	1
Italy	100	2
Mexico	100	1
Rumania	1,000	0
Guatemala	100	0
Brazil	100	0
Soviet Union	100	0
Belgium	100	0
China		24
Hungary		13
Hong Kong		13
Japan		8
Cuba		12
Australia		1
Chile		1
New Zealand		1
Greece		1
Panama		1
Uruguay		1
Poland		1
Sweden		1

Country	Quota Wheat bushels	Wheat Products 1,000 lbs
Yugoslavia		1
Norway		1
Canary Islands		1
TOTAL	800,000	4,000

2. Reasons why Restrictions Continue to be Applied

The United States is confronted with a serious suplus situation on wheat.

United States wheat supplies in 1955-56 are at a record high level of 1,937 million bushels. This supply is equivalent to more than two years' domestic consumption and exports.

The supply includes a carryover of 1,020 million bushels, the bulk of which is owned or controlled by the Commodity Credit Corporation. These Government stocks, at the beginning of the 1955-56 season on 1 July, were equivalent to over a year's requirements (domestic use and exports) - about double the 500 million bushels which might be considered an adequate carryover under existing circumstances and larger than the average domestic production during the past five years. They represent an investment of nearly $2.5 billion.

United States farmers not only are faced with continued declining wheat prices, but at the same time are curtailing acreages. The value of wheat sales from farms in 1955-56 will probably total about $1,600 million compared with $1,850 million in 1954-55.

Wheat price support is mandatory each year under Title I of the Agricultural Act of 1949, as amended. The 1955 crop is being supported at 82.5 per cent of parity (the minimum level permitted by law) or a United States national average of $2.08 per bushel. Marketing quotas will continue in effect during the 1955 season and already have been aproved by farmers for the 1956 crop.

Relatively large price support activity is expected in 1955-56 despite a reduced crop (917 million compared with 970 million in 1954 and the 1944-53 average of 1,154 million) and a lower support price. It is estimated that farmers will place about 275 to 300 million bushels of the 1955 crop under price support. This would be nearly one-third of total United States production. CCC is expected to acquire about 225 million bushels or the bulk of that placed under support. While the acquisitions from the 1955 crop are expected to be very large, they will be below the 374 million bushels acquired from the 1954 crop.

It is anticipated that price support acquisitions in 1955-56 will be nearly as great as dispositions. Consequently, the quantities of wheat

owned by CCC at the end of the 1955-56 season will not be materially less than the close to a billion bushels at the end of 1954-55.

The reduction in Government-owned stocks to more desirable levels probably will be a slow process, barring a crop failure in the United States or unexpected increase in demand. The minimum acreage permitted under marketing quota legislation of 55 million acres, with average yields of 15.5 bushels per acre, will produce about 850 million bushels annually.

As far as United States utilization of wheat is concerned, there is no indication of any significant increase in the years ahead. The amounts used for human food are not increasing, despite the increase in population each year; and the quantities used for seed are decreasing because of smaller acreage. With domestic feed grain supplies at a record level of 169 million short tons, the amount of wheat used for feeding livestock is lower than in earlier years. In view of over-all large supplies of wheat throughout the world, it will be difficult for the United States to maintain exports at a level of around 275 million bushels per year - the approximate level reached in 1954-55.

The wheat price support programme already has resulted in a substantial loss to the United States Government. The loss realized by CCC in 1954-55 was $128 million. This does not include potential losses on wheat still on hand for which a reserve for losses of $1 billion has been established. This loss also does not include subsidy payments of approximately $100 million on the 131 million bushels of wheat moving under the International Wheat Agreement at prices roughly in line with the world level. It also does not include losses on wheat and flour moving outside of IWA at wheat agreement prices which amounted to nearly $50 million in 1954-55.

Under these conditions, any increase in imports above the levels now authorized would materially interfere with current agricultural programmes and nullify the steps being taken to bring about a better balance between supply and demand.

3. Steps Taken with a View to the Solution of the Problem of Surpluses

The United States Government has taken a number of steps aimed at a solution to the wheat problem.

The national average support rate for the 1955 crop is $2.08 per bushel, considerably below the support price of $2.24 for the 1954 crop. It already has been announced that the support price for the 1956 crop will be further reduced to not less than $1.81 per bushel, which was 76 per cent of parity at the time it was announced.

For both 1955 and 1956, the national acreage allotment (which serves as the basis for determining the size of the acreage allotted to individual farmers) has been established at 55 million acres, the minimum permitted by law. This allotment is 30 per cent below the acreage seeded to wheat in the United States in 1953 prior to the imposition of quotas. When marketing quotas are in effect, any farmer who exceeds his wheat farm acreage allotment

becomes ineligible for wheat support on that farm. In addition, any farmer who exceeds his farm marketing quota must pay a penalty of 45 per cent of the 1 May parity price on such excess quantity.

In addition, a number of steps have been taken aimed at increasing outlets. These include donations for overseas famine relief under Title II of Public Law 480, and donations of flour for domestic relief under Section 32 of the act of 24 August 1935 (Public Law 311).

These disposal programmes, together with the acreage allotment and marketing quota programme, are directed toward bringing about a better balance between supplies and requirements.

Dairy Products

1. Section 22 Quotas in Effect

Annual import quotas established under Section 22 for dried milk, butter, and certain varieties and types of cheese, effective 1 July 1953, are on a continuing basis. The quota year for each commodity is the same - 1 July through 30 June.

Quotas in effect for 1955-56, which are the same as those established initially in 1953-54, are indicated in the table below.

In establishing quotas, the following representative periods were used: butter, the five-year period 1930-34; other commodities, the three-year period 1948-50 immediately prior to the effective date of the initial import quotas imposed under Section 104 of the Defense Production Act. The average annual imports during these representative periods are shown in the table below.

Quotas for all cheese, except cheddar, are in excess of average annual imports in the representative periods. The quotas for butter, skim milk, and cheddar cheese - the three commodities currently being purchased under the price support programme - are all approximately 50 per cent of average annual imports during the base period.

Commodity	Representative period used in establishing quota	Average annual imports during representative period	Section 22 Quota 1955 - 56
		- - - - thousand pounds - - - -	
1. Dried Milk products			
Dried cream	1948-50	.06	.5
Dried whole milk	1948-50	13.0	7.0
Dried Buttermilk	1948-50	991.2	496.0
Malted milk	1948-50	11.4	6.0
Dried skim milk	1948-50	3,613.2	1,807.0

Commodity	Representative period used in establishing quota	Average annual imports during representative period	Section 22 Quota 1955 - 56
		- - - - thousand pounds - - - -	
2. Cheese			
Cheddar	1948-50	5,490.2	2,780.1
Blue-mold	1948-50	2,066.0	4,167.0
Edam and Gouda	1948-50	1,831.0	4,600.2
Italian (cow's milk)	1948-50	8,121.9	9,200.1
3. Butter	1930-34 inc.	1,411.5	707.0

2. Reasons Why Restrictions Continue to be Applied

Continuation of restrictions on imports of dairy products has been necessary to prevent imports from materially interfering with the mandatory support of prices to producers for milk and butterfat and the disposal operations in progress.

Title II of the Agricultural Act of 1949, as amended, requires the Secretary of Agriculture to support prices to producers of milk and butterfat at such level from 75 to 90 per cent of parity as is necessary to assure an adequate supply. It requires this support to be carried out by loans on, or purchases of, milk and its products. In carrying out this law, the Department of Agriculture has been buying dairy products at prices which have been enough above prices of dairy products in foreign markets to attract imports into the United States. It is apparent that in the absence of import restrictions imports of dairy products would increase, CCC's price support purchases would increase correspondingly, and to that extent CCC would support returns to producers for milk and butterfat in the exporting countries.

Although CCC has confined its purchases to butter, cheddar cheese, and non-fat dry milk solids (which are the products that can be most readily purchased, stored, handled, and utilized in available outlets), the purpose of these purchases is to support the prices of milk and butterfat in all uses. This purpose is accomplished by the Government's standing offer to buy and remove from the market, in the form of butter, cheddar cheese, non-fat dry milk, all of the milk and butterfat produced in excess of the quantities that can be commercially marketed in domestic and export outlets in the forms of those three products, fluid milk, other types of cheese and other dairy products at prices corresponding to the support prices to producers for milk and butterfat.

One indication of the serious dairy problem in the United States which necessitates continuation of controls is the decline of 11 per cent in cash receipts from farm sales of dairy products from 1952 to 1954. Such farm

receipts were approximately the same in the first half of 1955 as in the first half on 1954.

This decline in returns from dairying was largely due to a decrease in prices. Rising milk production, large government purchases, and mounting stocks of dairy products led to a decrease in the support level from 90 per cent of parity to the legal minimum (75 per cent of parity) for the 1954-55 marketing year. The dollars and cents support prices for the current 1955-56 marketing year are the same as in 1954-55, and in terms of per cent of parity are only a little above the legal minimum.

Another indication of the seriousness of the dairy problem is the large Government purchases required to support prices. During the marketing year April 1954-March 1955, CCC purchased 210 million pounds of butter, 153 million pounds of cheddar cheese, and 523 million pounds of nonfat dry milk solids. Sizable purchases still are being made under price support.

During the spring and summer months of the 1955-56 marketing year, the production of milk averaged above a year earlier. Production of American cheese and nonfat dry milk solids approximated a year earlier, while production of butter was somewhat below a year earlier. By September, however, production of cheese was well above a year earlier, and production of butter about equal to a year earlier.

3. Steps Taken with a View to the Solution of the Problem of Surpluses.

Lower prices and strong consumer demand encouraged some increase in consumption of milk and other dairy products and helped to reduce support purchases of butter and cheese in the first half of the 1955-56 marketing year below a year earlier. Nevertheless, from 1 April to 20 September 1955, CCC purchased 112 million pounds of butter, 92 million pounds of cheese, and 343 million pounds of nonfat dry milk solids. It is expected that substantial addional purchases will be necessary during the remainder of the 1955 - 56 marketing year.

Disposition of the large quantities of dairy products acquired under the support programme continues to be a major problem. Congress has found it necessary to provide additional legislative authority to help to meet this problem. For example, under Title III of the Agricultural Trade Development and Assistance Act of 1954 Congress authorized CCC to pay costs of processing, repackaging, and transporting (within the United States) dairy products donated for school lunch and welfare uses both in the United States and in foreign countries.

Donations, or sales at token prices, for foreign welfare uses are the largest human food outlet for these dairy products. Next largest has been donation for domestic use. Payment of processing and repackaging costs by CCC and payment of costs of transportation to ports of export by CCC and of ocean freight by the International Co-operation Administration has made

possible a large increase in dispositions of dairy products through donation for welfare uses in foreign countries.

Dispositions in other outlets, generally with either no recovery or only partial recovery to CCC, have been stepped up. Almost 600 million pounds of nonfat dry milk solids or 60 per cent of total disposals of 1954-55 was sold domestically for animal and poultry feed. About 75 million pounds were sold in September 1955 for export for animal and poultry feed use.

The following summary reflects the relatively large quantities of price support stocks of diary products disposed of by CCC through donations for school lunch, domestic and foreign welfare uses, non-commercial sales at very low prices to international agencies and foreign governments for welfare uses, and sales for animal and poultry feed during the 1954-55 marketing year:

	Butter	Cheese	Nonfat Dry Milk
	- - - - - - - - - -	-million pounds	- - - - - - -
Commercial domestic sales	19.9	119.0	4.4
Animal and mixed feed sales	-	-	581.4
Section 32 donations (domestic)[1]	17.5	12.9	1.2
Section 416 donations[1]			
Domestic	91.9	72.5	71.0
Foreign[2]	134.3	86.1	258.6
Commercial export sales	2.1	.6	5.0
Non-commercial export sales	18.9	-	99.2
FOA transfers[3]	9.1	4.1	11.6
United States Army transfers	39.1	2.0	.1
Other[4]	4.0	-	-
	336.8	297.2	1,032.5

Donations to schools, charitable institutions, and needy persons.
Donations to United States welfare agencies for needy persons outside the United States.
Primarily under Title II of P.L. 480 for relief purposes abroad.
Other includes butter sold for salvage, for extended cocoa butter, for liquid milk recombining, transferred to the Veterans Administration, and donation of nonfat dry milk for research use.

Notwithstanding the large dispositions during the 1954-55 marketing year, CCC had uncommitted inventories on 1 April 1955 the beginning of the new marketing year, of 237 million pounds of butter, 329 million pounds of cheese, and 86 million pounds of nonfat dry milk solids. Commercial stocks of the same products on 1 April amounted to 31 million pounds of butter, 144 million pounds of cheese, and 64 million pounds of nonfat dry milk solids.

Every effort is being made to continue the disposition of CCC stocks in an orderly manner at levels that will reduce the CCC inventories as much as possible by the end of the 1955-56 marketing year. Under the Agricultural Act of 1954, the Secretary has been directed to undertake domestic disposal programmes as authorized by law to prevent the accumulation of excessive inventories. Donation for domestic and foreign relief continues to be the major outlet.

In addition, to help reduce the amount of purchases and inventories of dairy products, special programmes have been adopted under which the consumption of fluid milk by school children and by personnel of the Armed Forces and Veterans' Hospital patients has been increased. The programme for school children provides for the use of not to exceed $50 million annually for 1954-55 and 1955-56 to increase the consumption of fluid milk by children in non-profit schools of high school grade and under.

Under this special school lunch programme, 8,674,000 children in 41,460 schools consumed more than 451 million additional half-pints of milk in 1954-55. The programme for 1955-56 has been modified to permit more schools to encourage increased consumption more effectively and to eliminate some operating problems that limited development of the programme's full potential during 1954-55.

A study of alternative methods for controlling farm milk production and supporting prices to farmers for milk and butterfat was made by the Department of Agriculture and submitted to Congress on 3 January 1955, pursuant to Section 204(f) of the Agricultural Act of 1954. Purpose of this study was to develop basic material which can be used by Congress in formulating an improved agricultural programme for milk and butterfat and their products. Government enforced individual producer controls over milk production to limit market sales have never been used, because of the numerous problems such controls would encounter in the dairy industry. These problems are discussed in detail in the study referred to above.

Flaxseed (including Linseed Oil)

1. Controls in Effect for the 1955-56 Year

A fee of 50 per cent ad valorem on imports of flaxseed (except flaxseed approved for planting pursuant to the Federal Seed Act) and linseed oil was established on a continuing basis effective 1 July 1953. This fee is in addition to the applicable import duty of 50 cents per bushel (56 pounds) of flaxseed and 4.5 cents per pound on linseed oil. The import duty on flaxseed and linseed oil is not bound under GATT. This ad valorem fee has continued in effect at this level since first established.

Imports of flaxseed and linseed oil have been subject to import controls of some kind in the United States each year since early in World War II when they were instituted because of the world shortage of fats and oils.

2. Reasons Why Such Restrictions Continue to be Applied

It is considered necessary that imports of flaxseed and linseed oil into the United States continue to be controlled through the means of an import fee, because imports in large quantities, that is, in excess of seed requirements, would materially interfere with the present support programme for flaxseed.

Price support for flaxseed is being undertaken under the provisions of Title III of the Agricultural Act of 1949, as amended. The level at which flaxseed is supported has been lowered substantially in the last three years. Flaxseed from the 1955 crop is supported at a national average price of $2.91 per bushel, 65 per cent of parity. This average support level reflects a decline of 23 cents from the national average support price of $3.14, or 70 per cent of parity, that applied to 1954 crop production. Flaxseed from the 1953 crop was supported at 80 per cent of parity and a national average of $3.79 per bushel.

Commercial flaxseed supplies in the 1955-56 season are expected to be about 12 million bushels in excess of probable domestic use. This excess is equal to nearly 30 per cent of the 1955 crop. The 1955 crop is estimated at about 43 million bushels, slightly above the 41.5 million bushels produced in 1954. Domestic oil use may be equivalent to about 27 million bushels of flaxseed (slightly more than the amount used in 1954-55). About 4 million bushels will be needed for seed and cleaning loss.

Most or all of the excess of 12 million bushels over domestic use is likely to be delivered to CCC, as export prospects at prices above the support level are not very bright. One factor in the export picture is that Canada, a major source of flaxseed for export, has the largest crop in many years - the crop being double that in 1954.

Commercial stocks of flaxseed and linseed oil at the end of the 1955-56 season are expected to be about the same as at the beginning of the season when they were probably near a minimum.

Under these circumstances, relatively large price support activity is in prospect in 1955-56. The total volume of price support extended probably would exceed somewhat the 10 million bushels placed under price support in 1954-55. Acquisitions also will exceed the 8 million bushels acquired by CCC from the 1954 crop.

A further increase in CCC stocks thus is in prospect unless it is possible to dispose of substantial quantities in export markets.

While CCC has disposed of significant quantities of flaxseed and linseed oil in the past year, it still owns significant quantities. As of 15 September 1955, CCC owned about 91 million pounds of linseed oil, the equivalent of about 4½ million bushels of flaxseed. In addition, CCC owned

about 1 million bushels of flaxseed. These stocks represent an investment of close to $20 million. The cost of this oil compared with present prices in export areas suggests that sales of CCC stocks for export could be made only at a sizeable loss to the Corporation. The 1955 crop flaxseed likely to be acquired by the Corporation also probably will have to be disposed of at a loss.

3. Steps Taken with a View to the Solution of Surpluses

a. Price support levels for flaxseed have been reduced 88 cents per b bushel, or 23 per cent, in the last two years. The support level for the 1955 crop is $2.91 per bushel, or 65 per cent of parity, compared with $3.79 per bushel, or 80 per cent of parity, in 1953.

b. In March, 1955, farmers reported that they intended to cut their 1955 flaxseed acreage about 3 per cent. However, planted acreage was reduced 11 per cent (from 6.0 million acres to 5.3 million acres) probably as a result of changes in farmers' production plans following the lowering of the support price for the 1955 flaxseed crop, which was announced after the March 1955 intention report. The problem of reducing flaxseed output has been particularly difficult because most of it is produced in important wheat-growing States, North Dakota, and South Dakota, where acreage has been cut sharply under allotment programmes, leaving land available for other uses. Despite this reduced acreage (which was still larger than in 1953), production has increased due to increased yields.

Peanut and Peanut Oil

1. Controls in Effect for 1955-56

Peanuts

The quota in effect for the 1955-56 year, which began 1 August, is 1,709,000 pounds aggregate quantity in shell basis. This quota, which is a global quota on a continuing basis, covers peanuts, whether shelled, not shelled, blanched, salted, prepared or preserved (including roasted peanuts, but not including peanut butter). Peanuts in the shell are charged against this quota on the basis of 75 pounds for each 100 pounds of peanuts in the shell.

The representative period used in establishing the quota on peanuts was the four-year period 1936-39. The quota is equivalent to one-half of the average duty paid imports of 3,418,000 pounds, shelled basis, in the 1936-39 years. This period was selected because some form of import control on peanuts was in effect from early years in World War II under other legislation because of world shortages of fats and oils.

The current quota is the same as that established initially for 1953-54, except that the quota year has been changed to begin on 1 August rather than 1 July, annually.

For 1954-55, this quota was increased and subsequently suspended owing to changed circumstances, drought having caused the shortest crop since 1934. Following an investigation by the Tariff Commission, the President, on

9 March 1955, issued a proclamation permitting additional imports of 51 million pounds of peanuts, shelled only, averaging more than 40 kernels per ounce. Later, when it became apparent that the shortage of supplies from the 1954 crop was more pronounced and import requirements greater than previously estimated, the President - upon the recommendation of the Tariff Commission - proclaimed on 16 May that unlimited quantities of shelled peanuts could be imported or withdrawn from warehouses from that date through 31 July, 1955. With the extension of the 1954-55 year to 13 months, the President also made effective the recommendation by the Tariff Commission that the quota year for peanuts be changed to begin thereafter on 1 August rather than 1 July.

Peanut Oil

Imports, and or withdrawals from warehouse , for consumption in excess of 80 million pounds in any 12-month period beginning 1 July are subject to a 25 per cent ad valorem fee in addition to the import duty of 4 cents per pound. This import duty of 4¢ is not bound in GATT. There have been no changes in the fee, which is on a continuing basis, since it was first announced by Presidential Proclamation effective 1 July 1953. The fee-free quota of 80 million pounds was determined on the basis of estimated annual domestic requirements.

2. Reasons Why Such Restrictions Continue to be Applied

Import controls of peanuts and peanut oil are being continued to prevent imports from materially interfering with the price support, acreage allotment, marketing quota, and disposal operations in effect for peanuts.

Peanuts price support is mandatory every year under Title I of the Agricultural Act of 1949, as amended. Price support levels for 1955 crop peanuts are intended to reflect a national average support price of $244.80 per short ton which is 90 per cent of parity. The level is the same as in 1954. This support level, which was announced prior to planting time, was the minimum per cent of parity prescribed by law on the basis of supplies then in prospect for 1955-56.

Acreage allotments and marketing quotas again are in effect for the 1955 crop, and have been announced for the 1956 crop. A national acreage allotment of 1,610,000 acres - the minimum permitted by law - has been announced for 1956.

Peanut supplies are expected to be well in excess of domestic food and farm use. The increase in supply over 1954-55 is due to a very sharp increase in yields, the larger acreage and the fact that farmers harvested a larger than usual per centage of their allotted acreage. Stocks at the start of the 1955-56 year were the lowest since 1950, but new crop production in prospect for 1955-56 was the largest since 1950. The total supply of about 1900 million pounds is considerably in excess of the 1,283 million pounds exclusive of imports in 1954-55.

In view of these relatively large supplies, extensive price support activity is expected in 1955-56 in sharp contrast to the situation in 1954-55. It is anticipated that under this price support activity, total loans may cover as much as 600 million pounds, or about 35 per cent of the total crop. It is anticipated that only part of these loans will be redeemed so that CCC may acquire around 350 million pounds, or about 20 per cent of the crop.

These acquisitions, as in the past, will continue to provide disposal problems. The usual outlets for excess peanuts are crushing for oil, or exportation, usually again for oil purposes. Disposals of this type usually result in large losses, since the price support level is based upon use of peanuts in candy, peanut butter, etc., which have a much higher value than that obtained from crushing.

In view of the large acquisitions in prospect for 1955 and the types of outlets available, it is anticipated that substantial losses will be incurred by CCC under the peanut price support programme.

3. Steps Taken with a View to the Solution of the Problem of Surplus

The United States has taken positive steps working toward a solution of the peanut surplus problem through acreage allotments and marketing quotas which have been continuously in effect in recent years. Peanut producers have approved marketing quotas for the 1956 crop as well as the 1955 crop. These allotments generally have been at the minimum levels permitted by law.

When marketing quotas are in effect, any producer who markets a quantity of peanuts in excess of his farm marketing quota must pay a penalty of 50 per cent of the loan rate on such excess quantity. In addition, any producer who knowingly exceeds his farm acreage allotment is denied price support on any peanuts produced on that farm.

The efforts directed toward keeping supplies in line with edible requirements, however, have been hampered by changes in weather which have affected yields. For example, with extensive drought prevailing throughout some of the major producing areas in 1954, yields were low and output was far below domestic needs. In 1955, under excellent growing conditions, yields are high and prospects are that production will be substantially in excess of edible requirements.

When surpluses have developed, as in 1953-54, considerable quantities of the shelled peanuts accumulated under the price support programmes have been moved into domestic channels or export for oil purposes. Through this type of operation, CCC stocks were exhausted during the 1954-55 crop year. As of 1 August, the beginning of the current marketing year, CCC held no stocks on hand.

Rye, Rye Flour, and Rye Meal

1. Section 22 Quotas in Effect 1955-56

Import quotas for rye on an annual basis have been announced for both the 1955-56 and 1956-57 seasons. The quota is 186 million pounds annually, of which not more than 15,000 pounds may be in the form of rye flour or rye meal. Not more than 182,280,000 pounds of the total quantity may be imported from Canada annually and not more than 3,720,000 from non-Canadian sources. The quota year runs from 1 July through 30 June.

The total quota is the same as that in effect for the 12 months ending 30 June 1955. However, no country quotas were in effect during 1954-55.

The quota is equal to about 100 per cent of average annual imports during the 3-year representative period used in establishing the quota; namely, 1 July 1950 through 30 June 1953. The quota, which is approximately equivalent to 3.3 million bushels, compares with imports of 3.0 million bushels in 1950-51, 1.3 million in 1951-52, 5.6 million in 1952-53, and 13.5 million in 1953-54. It was the latter large imports which led to the establishment of the initial quota (equivalent to 554,000 bushels during April-June 1954).

2. Need for Continuing Quotas

Import quotas have been continued on rye for two additional years because

(a) domestic supplies are expected to be much larger than prospective utilization,

(b) a price support programme has been announced for 1955-56, and

(c) large quantities of rye are available at prices below United States support levels in exporting countries.

Under these conditions, unrestricted imports would materially interfere with and render ineffective the Department's price support programme.

The 1955 crop rye is being supported at $1.13 per bushel, or 70 per cent of parity. This programme is being undertaken under the provisions of Title III of the Agricultural Act of 1949, as amended. The support level is considerably below the 1954 support level which was $1.43 per bushel, or 85 per cent of parity. The marked reduction in supports was made in an effort to better adjust production in line with requirements.

Despite the lowered 1955 support level, supplies probably will exceed prospective utilization for several years to come. The total domestic supply in 1955-56 is expected to be about 44.5 million bushels. This supply, together with imports at the quota level of 3.3 million bushels, will result in a total supply of around 48 million bushels, or the equivalent of about 2 years' domestic requirements. Domestic utilization will probably increase to about 25 million bushels. Exports in 1955-56 may total about 5 million bushels, but practically all will be from Government-owned stocks, at prices

reflecting substantial losses to the Government. Thus, the Government-held and commercial carryover from 1955-56 is expected to be in the neighbourhood of 18 million bushels, or 2 million above the carryover at the beginning of this season. Such a carryover is excessively large. The 1949-53 average carryover was 6.6 million bushels.

Record large price support activity is expected in 1955-56 despite the import controls and reduced support. Over 7 million bushels of rye were placed under the price support programme from the 1954 crop, nearly all of which was delivered to the CCC. Indications are that an even larger quantity, about 9 million bushels, will be placed under price support from the 1955 crop and that at least 7.5 million bushels will be acquired by CCC.

This situation is practically certain to lead to an increase in Government stocks and substantial losses by the Government. Government-held stocks on 1 July 1955, the beginning of the current season, totaled 6.5 million bushels, which represents an investment of about $10 million. Stocks owned by the Government are likely to increase to around 10 million bushels (about one-third of a year's requirements) by the end of the season.

This situation points to further losses under price support operations. During 1954-55, CCC realized a loss of $2.7 million on rye - the largest of any year on record. This loss does not include any possible loss on rye still in inventory. A reserve of $6.5 million (about two-thirds of the cost) has been established to cover prospective losses.

The value of rye sales by farmers in 1955-56 probably will total about $20 million, approximately the same as in 1954-55; lower prices are expected to offset the larger quantities sold.

3. Steps Taken with a View to the Solution of the Problem of Surpluses

As in the case of other commodities, the Department is attempting to adjust both production and use of rye. To adjust production, support prices have been lowered. Several steps have been taken to encourage use. The lower support price is one step. Other steps include donations for emergency relief and domestic as well as foreign sales.

It is hoped ultimately to bring supplies and requirements more nearly in balance, but it may take several years to accomplish this. Unrestricted imports during this transitional period would tend to nullify these efforts.

Oats and Barley

1. Quotas in Effect During the Year Ending 30 September, 1955

The following section 22 quotas were in effect during the twelve-month period ending 30 September 1955:

Oats - hulled or unhulled and unhulled ground oats - 40 million bushels of which not more than 39,312,000 could be imported from Canada and 688,000 from other sources.

Barley - hulled or unhulled, including rolled barley, ground barley, and barley malt - 27.5 million bushels of which not to exceed 27,225,000 bushels could be imported from Canada and 275,000 bushels from non-Canadian sources. In addition, Canada agreed voluntarily to limit exports of feed barley to the United States to 3,500,000 bushels.

2. Quotas Discontinued Beginning 1 October 1955.

Import restrictions were allowed to lapse on 1 October 1955 despite record supplies in the United States, prospects for continued large acquisitions under price support, and surplus supplies available in exporting countries. They were allowed to lapse because in view of sharply reduced prices in the United States compared with prospective prices in countries which normally export to the United States it appeared that imports would not be large enough during 1955-56 to materially interfere with or render ineffective the price support programme.

It will be necessary to have a new investigation by the Tariff Commission before any section 22 restrictions on oats or barley can be reimposed in the future.

Almonds and Filberts

1. Restrictions in Effect in Year Ending 30 September 1955.

The following restrictions were in effect in the 1954-55 season:

Shelled almonds, blanched, roasted, or otherwise prepared or preserved (not including almond paste) - On 11 October 1954, the United States announced that a fee of 10 cents per pound, in addition to the customs duty, would be imposed on imports in excess of 5,000,000 pounds during the period 1 October 1954, to 30 September 1955.

Shelled Filberts - whether or not blanched - On 11 October 1954, the United States Government announced that a fee of 10 cents per pound, in addition to the customs duty would be imposed on any imports in excess of 6,000,000 pounds during the period 1 October 1954, to 30 September 1955. On 15 July 1955, the fee free quota was increased by 1,500,000 pounds (i.e., to 7,500,000 pounds). This modification was made following a supplemental investigation by the Tariff Commission pursuant to section 22 (d) of the Agricultural Adjustment Act, as amended, which revealed that changed circumstances required modification of the original fee quota.

2. Restrictions Eliminated Beginning 1 October 1955.

On August 5 1955, the President, at the request of the Secretary of Agriculture, directed the Tariff Commission to cancel a hearing previously scheduled on edible tree nuts to determine whether import restrictions on

edible tree nuts should be continued in 1955-56 under Section 22. The Secretary informed the President that he did not have reason to believe that imports of tree nuts during the 1955-56 crop year would materially interfere with the Federal Marketing Agreement and Order programmes for almonds, filberts, walnuts, or pecans, because relatively favourable marketing conditions for domestic tree nuts were anticipated at least during the first half of the crop year due in large measure to reduced supplies and higher prices of tree nuts, both in the United States and abroad.

It will be necessary to have a new investigation by the Tariff Commission before any section 22 restrictions on almonds or filberts can be reimposed in the future.