

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/4148

3 February 1975

Limited Distribution

---

Original: English

## UNITED STATES AGRICULTURAL ADJUSTMENT ACT

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

### Contents

	<u>Page</u>
Introduction	2
Background	2
Current situation	3
Steps taken to balance agricultural production with demand	4
Cotton and cotton waste	6
Peanuts	8
Dairy products	10

### Introduction

This report is submitted in accordance with a decision of the Contracting Parties of March 5, 1955. It covers the period September 1973 through August 1974 and includes a brief review of the situation with respect to the commodities currently subject to Section 22 import regulations, and descriptions of steps taken in the United States to balance agricultural production with demand. These steps are along the same general line as in recent years. Finally, the report outlines by commodities the supply position and related data on farm products for which Section 22 regulations are currently in effect.

### Background

By decision of March 5, 1955, the Contracting Parties waived obligations of the United States under Articles II and XI of the General Agreement to the extent necessary to prevent their conflict with actions required to be taken by the Government of the United States under Section 22 (see BISD, Third Supplement, page 32). The waiver decision calls for the United States to make an annual report which includes:

1. Any modifications or removal of restrictions effected during the reporting period;
2. Restrictions currently in effect;
3. Reasons why such restrictions (regardless of whether covered by this waiver) continue to be applied, and;
4. Steps taken during the reporting period with a view to a solution of the problem of surpluses of agricultural commodities.

As in previous years, and in keeping with the language of the waiver, all imported commodities currently subject to regulation under Section 22 are reviewed in this report, whether or not such regulation would, in the absence of the waiver, conflict with the provisions of the General Agreement.

Section 22 of the Agricultural Adjustment Act, as amended, has been in effect since August 24, 1935. It empowers the President of the United States on the basis of an investigation and report by the United States Tariff Commission to regulate the importation of commodities whenever he finds that such importation renders or tends to render ineffective or materially interferes with any domestic production and marketing control program, price support, or other program or operation relating to agricultural commodities undertaken by the Department of Agriculture. When a condition exists requiring emergency treatment, the President may take action prior to the Tariff Commission's investigation and report.

The legislation also provides for the modification of import regulations established under its terms in order to meet changing circumstances. The complete text of Section 22 is published as an Annex to the Decision in BISD, Third Supplement, page 36.

#### Current Situation

There are now in effect import restrictions pursuant to Section 22 on cotton of certain specified staple lengths, cotton waste and certain cotton products, peanuts, and certain dairy products. All of these commodities are subject to continuing restrictions.

Since the last report the President has taken actions to suspend indefinitely the quotas on wheat and milled wheat products, to review the quotas on cotton, and to allow temporary increases in import of butter and butteroil, non-fat dry milk, and Cheddar cheese.

On January 25, 1974, the President issued Proclamation Number 4260 temporarily suspending through June 30, 1974, the annual quotas on wheat and milled wheat products. This action was taken on the basis of the Tariff Commission's interim report to the President on its investigation, initiated at his request on November 7, 1973. On June 25, 1974, the President, acting on Tariff Commission's final report, issued Proclamation 4298 suspending these quotas indefinitely.

The President also issued three Proclamations which authorized temporary additional imports of butter and butteroil, Cheddar cheese and nonfat dry milk. Proclamation 4253, dated October 31, 1973, allowed the importation of 56 million pounds of butter and 22.6 million pounds of butteroil during

the period November 1, 1973, to December 31, 1973; Proclamation 4258, dated January 2, 1974, allowed the importation of 100 million pounds of Cheddar cheese during the period January 3, 1974, through March 31, 1974; and Proclamation 4274, dated March 4, 1974, allowed the importation of 150 million pounds of nonfat dry milk during the period March 5, 1974, through June 30, 1974.

All of the temporary quota increase for butteroil and all but 1.1 and 1.2 million pounds, respectively, of the butter and Cheddar cheese increases were utilized. Only about 114 million pounds of the nonfat dry milk increase was used before that quota expired on June 30, 1974.

On October 31, 1973, the President directed the Tariff Commission to conduct an investigation and report to him whether the regular quotas on certain cotton, cotton waste, and certain cotton products (picker lap) could be suspended. The Tariff Commission submitted its report to the President in April 1974 with the recommendation that these quotas be suspended during their respective quota years ending in 1975. The President has not yet acted on this recommendation.

#### Steps Taken To Balance Agricultural Production With Demand

During the period under review, the United States continued to take actions designed to bring about a better balance between supply and demand of the commodities under Section 22 regulation.

Acreage allotments and marketing quotas were in effect for the 1973 and 1974 crops of extra long staple cotton and peanuts; acreage allotments were in effect for upland cotton. Compliance with acreage allotments and marketing quotas for extra long staple cotton and peanuts is a condition of price support and other program benefits and serves to limit acreage planted. However, the 1974 acreage allotments for upland cotton will not limit the acreage planted; there is no limit and the 1974 allotment will be used only to determine the maximum acreage eligible for payment.

The preceding summarized briefly steps taken to influence the supply. Previous reports have noted the influence natural forces have upon the harvest in any season, as well as the highly significant effects of technological improvements in production.

Price support levels for commodities regulated under Section 22 for 1972, 1973, and 1974, if available, are shown in Table 1.

TABLE 1Price Support Levels; Section 22 Commodities

<u>Commodity</u>	<u>Unit</u>	<u>1972</u>	<u>Support Price</u>	<u>1974</u>
			<u>1973</u> (dollars)	
Cotton, Upland				
Loan Rate <sup>a/</sup>	lb.	.1950	.1950	.2526
Payments <sup>b/</sup>	lb.	.1500	.1500	c/
Cotton, Extra Long Staple				
Loan Rate	lb.	.3850	.3820	.4972
Payments	lb.	.1285	.1601	.1086
Peanuts	lb.	.1425	.1642	.1830
Dairy Products <sup>d/</sup>				
Mfgr. Milk	Cwt.	4.93	5.61 <sup>e/</sup>	6.57

---

<sup>a/</sup>Basis Middling 1-inch, net weight, micronaire 3.5 through 4.9, at average location.

<sup>b/</sup>Earned on the farm base acreage allotment, if planted, in 1972 and 1973.

<sup>c/</sup>The Agriculture and Consumer Protection Act of 1973 established guaranteed or "target" prices for upland cotton. For 1974, the target price is 38 cents per pound. Payments will be made only if the average market price received by farmers during the 1974 calendar year is lower than the target price.

<sup>d/</sup>Implemented through a standing offer to purchase Cheddar cheese, butter and nonfat dry milk, in cartons, from processors at prices designed to return the support price for manufacturing milk and butterfat on an annual national average basis.

<sup>e/</sup>The price support was raised from \$5.29, effective August 10, 1973, for the remainder of the 1973/1974 marketing year ending March 31, 1974. The increase was in accordance with the Agriculture and Consumer Protection Act of 1973.

### Cotton and Cotton Waste

1. Section 22 Quotas in Effect. Import quotas continue for upland-type cotton, long staple cotton, and certain cotton waste and cotton products.

2. Need for Continuing Import Quotas. During the 1973 and 1974 crop season, the United States has had in operation price support, production adjustment, and related surplus disposal programs. As noted under the "current situation," the President presently has under review the Tariff Commission's report and recommendations regarding the need to continue import quotas on cotton and cotton waste in order to prevent material interference with the Department of Agriculture's programs for cotton. It may be noted that the conditions which triggered the quota review have changed considerably since the Tariff Commission's report.

a. 1974 Cotton Program. The 1974 program for extra long staple cotton is essentially the same as the 1973 program. However, the 1974 upland cotton program introduces several new concepts provided in the Agriculture and Consumer Protection Act of 1973. The new act provides a four year program (1974-1977) for wheat, feed grains, and upland cotton. The upland cotton program is part of an overall farm program designed to encourage the expansion of needed farm production to meet domestic and foreign demand while protecting farm income earned from the marketplace.

New with the 1973 act -- and the 1974 upland cotton program -- are guaranteed or "target" prices. The target price for 1974 crop upland cotton is 38 cents per pound. If the average market price received by farmers during the 1974 calendar year is at or above the 38 cents per pound target price, no payments will be made. If the average price is below the target level, payments will be made on the deficiency. The 1973 act limits total payments to any person under one or more of the annual programs for cotton, wheat, or feed grains to \$20,000.

There is no cropland set-aside requirement for upland cotton in 1974. The 1974 national allotment for upland cotton was set at 11 million acres compared with 10 million acres in 1973; it reflects the minimum provided under the new law. Size of the allotment does not restrict planting; there is no limit on planted acreage. The 1974 allotment will be used only to determine the maximum acreage eligible for payment. The law requires that the allotment be set at a level that the Secretary determines necessary to maintain adequate supplies, but can not be less than 11 million acres as noted above.

The decision to eliminate the set-aside requirement for upland cotton was made in line with a legislative directive which provides that a set-aside for cotton will be required as a condition for program benefits if the Secretary determines that the total supply of agricultural commodities will likely be excessive in the absence of a set-aside. Elimination of the cotton set-aside made more acreage available for planting other crops that are in demand.

b. Program Activity

1) Upland Cotton. CCC stocks under loan or in inventory on June 30, 1974 (the end of the fiscal year), were 0.4 million bales, compared with about 0.3 million on June 30, 1973, and about 0.3 million on June 30, 1972. Beginning with the 1971 crop, loans mature 10 months from the first day of the month in which the loan is made, rather than on July 31 as was the case in prior years. During the marketing year ending July 31, 1973, cotton placed under loan amounted to 1.9 million bales, of which only 33 bales were not redeemed. During the 1973/74 season, about 1.7 million bales were placed under loan, and through November 7, 1974, all but 23,192 bales had been redeemed. During the 1974/75 season through November 7, 1974, about 230,000 bales have been placed under loan and 45,000 bales redeemed, leaving loans outstanding on about 185,000 bales.

2) Extra Long Staple Cotton. As with upland cotton, loans mature 10 months from the first day of the month in which the loan is made. During the 1972/1973 season, 35,215 bales of extra long staple cotton were placed under loan, of which only 18 bales were not redeemed. During the 1973/74 season, 21,715 bales were placed under loan, and through November 7, 1974, all but 100 bales had been redeemed. No loans on the 1974 crop had been made through November 7, 1974.

c. Supply Situation

1) Upland Cotton. The carryover on August 1, 1973, totaled 4.0 million bales. Production in 1973 decreased moderately from 1972, totaling about 13.1 million bales as compared with about 13.6 million in the previous year. Thus, total supply in 1973/74 approximated 17.1 million bales or .3 million above a year earlier. Disappearance (domestic consumption and exports) totaled about 13.5 million bales in 1973 as compared with 13 million in 1972. Offtake in 1973 was also above 1973 production by about .4 million bales, resulting in a .2 million bale decrease in the carryover. The August 1, 1974, carryover is reported at about 3.8 million bales. The November

estimate of 1974 crop production was 12 million bales, down 1.1 million from 1973.

2) Extra Long Staple Cotton. The carryover on August 1, 1973, totaled about 60,000 bales. Production in 1973 declined substantially from 1972 totaling 78,100 bales as compared with 95,800 in the previous year. Imports in 1973 totaled 21,000 bales. Thus, total supply approximated 159,000 bales or about 22,000 below a year earlier. Disappearance (domestic consumption and exports) totaled about 100,000 bales, a little less than 1971; about 7,000 bales were unaccounted for. The net result was a carryover on August 1, 1974, estimated at about 52,000 bales, 8,000 bales below a year earlier. The November estimate of the 1974 crop extra long staple production was 77,300 bales, down 800 bales from 1973.

3. Steps Taken to Balance Supply and Demand. In addition to acreage allotments and marketing quotas, other government programs designed to attain a better balance in the supply and demand position include 1) CCC sales of its stocks in a manner that should avoid disrupting domestic and foreign markets; and 2) continued emphasis on research and market promotion programs designed to increase cotton utilization throughout the world. These programs remain the same as reported last year.

#### PEANUTS

1. Section 22 Quotas in Effect. No changes were made in the import quota for peanuts.

2. Need for Continuing the Import Quota. Import controls on peanuts are being continued to prevent material interference with U.S. programs and operations relating to peanuts.

a. Programs. The program remains the same as reported last year and again the national acreage allotment is near the minimum permitted by law.

b. Program Activity. During the 1973/74 marketing year 1,026 million pounds of farmers stock peanuts were placed under loan, of which approximately 195 million pounds were redeemed. For the 1974/75 marketing year, it is anticipated that the quantity placed under loan will approximate 1,080 million pounds, with 90 million pounds redeemed.



c. Supply Situation. During the 1973 crop year the U.S. continued to be confronted with a surplus situation on peanuts. Annual data on peanut production consumption, exports, stocks and acquisitions under the price support program since the 1965 marketing year are shown below.

<u>Year</u> <u>Beginning</u> <u>August 1</u>	<u>Production<sup>a/</sup></u>	<u>Imports</u>	<u>Domestic</u> <u>Consumption</u> <u>&amp; Exports<sup>b/</sup></u>	<u>Stocks</u> <u>End of</u> <u>Year</u>	<u>Diversion</u> <u>Under</u> <u>Price Support<sup>c/</sup></u>
-----Million Pounds, Farmers Stock Basis-----					
1965	2,384	1	2,346	412	679
1966	2,410	2	2,452	372	701
1967	2,473	2	2,495	353	650
1968	2,543	2	2,541	357	581
1969	2,529	2	2,529	352	589
1970	2,954	2	2,855	453	1,062
1971	3,005	2	3,060	392	1,179
1972	3,275	2	3,240	429	1,158
1973 <sup>d/</sup>	3,474	1	3,350	554	883

<sup>a/</sup>Data are net weight values.

<sup>b/</sup>Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss, and shrinkage.

<sup>c/</sup>Included in Domestic Consumption & Exports; may include diversions of previous crop.

<sup>d/</sup>Preliminary.

Source: The Fats and Oils Situation, Economics Research Service, U.S.D.A. and ASCS operating data.

The total supply of peanuts in the United States for 1974/75 is expected to be about 4,317 million pounds compared with an average supply of 3,444 million pounds for the five years 1969-73.

3. Steps Taken to Balance Supply & Demand. The U.S. has followed two principal approaches with a view to solving the problem of surplus peanuts. (1) Acreage in production has for 17 years been held to the minimum permitted by law and (2) Peanuts acquired by the CCC under the price support programs have been disposed of outside normal commercial market channels at a financial loss, primarily for crushing into oil and export. During the 1972/73 marketing year (1972 crop), CCC sold about 1,158 million pounds, farmers stock basis at a financial loss of \$58.5 million. The loss for the 1973 crop is estimated at \$5 million.

#### DAIRY PRODUCTS

1. Section 22 Quotas In Effect. There has been no change in the basic quotas since the last report. However, as described under the Current Situation, there were three actions authorizing temporary increases in the quotas for butter and butteroil, Cheddar cheese and nonfat dry milk. All these temporary quota increases have expired and the basic quotas continue in effect.

Effective April 1, 1974, the domestic support purchase price for Cheddar cheese was increased to 70.75 cents per pound. This resulted in the "pricebreak" cheeses being subject to the quota if priced less than 78 cents per pound F.O.B. The Cheddar cheese support price had been 65 cents per pound since August 28, 1973, and the "pricebreak" level was 72 cents F.O.B.

#### 2. Need for Continuing Import Quotas.

a. Programs. The price support program which is operated pursuant to the Agricultural Act of 1949, as amended by the Agriculture and Consumer Protection Act of 1973, requires that price support for milk be established at such level between 80 and 90 percent of parity as will assure an adequate supply through March 31, 1975. After that date the minimum level of support reverts to 75 percent of parity. The Act provides for such support to be carried out by purchases of milk and dairy products. For the 1973/74 marketing year (April 1 through March 31) the support level for manufacturing milk was initially set at \$5.29 per hundredweight, which was 75 percent of the parity equivalent price for manufacturing milk as of April 1, 1973. Effective August 10, as required by the newly enacted Agriculture and Consumer Protection Act of 1973, the support level was raised to \$5.61 per hundredweight for the remainder of the 1973-74 marketing year. Support at this level was 80 percent of

the parity equivalent price as of the beginning of the marketing year. Effective April 1, 1974, the support price was raised to \$6.57 per hundredweight for the 1974 marketing year. This was 81 percent of the parity equivalent price as of that date.

b. Program Activity. In carrying out the price support and related programs in the 1973 calendar year, the Department of Agriculture removed 2.1 percent of the milkfat and 0.5 percent of the solids nonfat in the milk and cream marketed by farmers. USDA removals in calendar year 1973 were 98 million pounds of butter, 3 million pounds of cheese, 37 million pounds of nonfat dry milk, and 54 million pounds of evaporated milk, representing the equivalent of 1.9 billion pounds of milk. The CCC purchase cost was \$87 million as compared with \$312 million during 1972. This does not include expenditures under the Special Milk Program which totaled \$50 million for the year ending June 30, 1974, compared to \$91 million in the previous year.

Through June of the 1974 calendar year, the Department of Agriculture had removed 25 million pounds of butter, 4 million pounds of cheese, 50 million pounds of nonfat dry milk, and 54 million pounds of evaporated milk, at a purchase cost of \$48 million.

c. Supply Situation. Milk production declined sharply in 1973 as a result of several factors, including relatively low milk prices, sharply higher feed costs, and relatively high beef prices which encouraged greater than usual elimination of cows from herds. The 1973 drop in milk production (totaling 4.3 billion pounds) occurred at a time when overall domestic demand was increasing, and several temporary increases in quotas of dairy products were authorized.

In the spring of 1974, the situation reversed itself dramatically. Commercial consumption declined; this was particularly marked for fluid milk, which had the effect of diverting large supplies of milk into manufacturing uses. In consequence, production of manufactured dairy products increased substantially. Producer prices fell sharply to support levels and the Department of Agriculture again began to buy substantial quantities of dairy products under the price support program. Milk production has been above year earlier levels since July 1974.

World supplies of dairy products remain at levels far in excess of commercial demand. The resultant surpluses continue to seek outlets wherever possible. In the absence of import controls, these surpluses would replace domestic production to the serious impairment of the dairy price support program.

3. Steps Taken to Balance Supply and Demand. There are several programs available which are used as adjuncts to the price support program and which serve to attain an effective balance between supply and demand. These include: (a) the special milk program designed to increase the consumption of fluid milk among children; (b) CCC purchases on a competitive bid basis of butter, cheese, and nonfat dry milk in special forms and in consumer-size packages, especially for use in various food distribution programs, such as the programs for school lunch and institutions; and (c) the use of excessive CCC stocks for various foreign programs, including emergency aid, donations, grants, and sales for foreign or U.S. currency under long term low interest bearing loans. Programming of dairy products in foreign assistance programs was suspended during the winter of 1972/73 as government inventories were nearly depleted; however, the authority for such utilization remains in effect and the programs can be resumed if warranted.

Production and USDA Market Removals for the Calendar Years 1960-73 and January-June 1974 were as follows:

Year	Milk Production	USDA Market Removals				Milk Equivalent Removals	Percent Removals of Milk Production
		Butter	Cheese	Nonfat dry milk	Evap- orated milk		
	Mil lb.	Mil lb.	Mil lb.	Mil lb.	Mil lb.	Mil lb.	Percent
1960 . . . . .	:123,109	144.8	.3	852.8	---	3,101	2.5
1961 . . . . .	:125,707	329.4	100.0	1,085.6	---	8,019	6.4
1962 . . . . .	:126,251	402.7	212.9	1,386.1	---	10,724	8.5
1963 . . . . .	:125,202	307.5	110.9	1,219.2	---	7,745	6.2
1964 . . . . .	:126,967	295.7	128.5	1,168.8	---	7,676	6.0
1965 . . . . .	:124,180	241.0	48.6	1,098.4	---	5,665	4.5
1966 . . . . .	:119,912	25.1	10.8	365.8	---	645	0.5
1967 . . . . .	:118,732	265.1	180.5	687.0	---	7,427	6.3
1968 . . . . .	:117,225	194.8	87.5	557.8	54.9	5,159	4.4
1969 . . . . .	:116,108	187.9	27.7	407.2	107.5	4,479	3.9
1970 . . . . .	:116,962	246.4	48.9	451.6	48.4	5,779	4.9
1971 . . . . .	:118,532	292.2	90.7	456.2	111.4	7,251 <sup>a/</sup>	6.1
1972 . . . . .	:119,904	233.7	30.4	345.0 <sup>b/</sup>	97.0	5,401 <sup>a/</sup>	4.5
1973 . . . . .	:115,620	97.7	3.2	36.8	53.7	2,185 <sup>a/</sup>	1.9
1974 Jan.-June	: 59,309	24.6	3.7	50.1	16.0	590 <sup>a/</sup>	1.0

<sup>a/</sup>Includes small purchases of dry whole milk.

<sup>b/</sup>Includes 9 million pounds, Title I export sales

Uncommitted Government stocks on June 30, 1974 (in million pounds) were:  
butter 19.3; cheese 1.8; nonfat dry milk 44.6.

Utilization (commitments to uses) in January-June 1973  
compared with January-June 1974 were:<sup>s/</sup>

Item	Butter		Cheese		Nonfat Dry Milk	
	Jan.-	Jan.-	Jan.-	Jan.-	Jan.-	Jan.-
	June	June	June	June	June	June
	1973	1974	1973	1974	1973	1974
	(Million Pounds)					
Uncommitted supplies as of beginning of year	42.5	6.4	----	----	----	----
Purchases (contract basis)	82.6	24.6	2.7	5.2	----	61.4
Utilizations:						
Sales--unrestricted use	----	----	----	----	----	----
Sales--restricted use	.1	.2	----	----	----	----
Commercial export sales	3.1	----	----	----	----	----
Noncommercial export sales	----	----	----	----	----	----
Sales to Dept. of Defense	.8	----	----	----	----	----
Donations to Dept. of Defense	----	----	----	----	----	----
Donations to Veterans Administration	1.3	----	----	----	----	----
Donations to Bureau of Prisons	1.0	----	----	----	----	----
Domestic donations-- school lunch and ready	70.7	2.3	2.9	3.4	5.4	----
Foreign donations	----	----	----	----	----	----
Total utilizations	76.9	2.5	2.9	3.4	5.4	----
Uncommitted supplies as of June 30	60.1	19.3	.3	1.8	----	44.6

<sup>s/</sup> Totals may not result from additions and subtractions because of rounding and inventory adjustments.

Utilization (commitments to uses) in calendar year 1973  
compared with calendar year 1972 were:<sup>a/</sup>

Item	Butter		Cheese		Nonfat Dry Milk	
	1972	1973	1972	1973	1972	1973
(Million Pounds)						
Uncommitted supplies as of beginning of year	33.4	42.5	15.3	---	14.0	---
Purchases (contract basis)	223.9	97.7	20.5	4.2	298.4	32.4
Utilizations:						
Sales--unrestricted use	20.3	---	---	---	13.3	---
Sales--restricted use	1.5	.5	---	---	b/	---
Commercial export sales	13.5	3.1	---	---	6.9	---
Noncommercial export sales	---	---	---	---	63.7	---
Sales to Dept. of Defense	1.9	.8	---	---	---	---
Donations to Dept. of Defense	20.0	---	---	---	---	---
Donations to Veterans Admin.	2.4	1.3	---	---	---	---
Donations to Bur. of Prisons	2.0	1.0	---	---	.5	---
Domestic donations--School lunch and needy	154.6	143.5	35.9	4.7	96.9	33.1
Foreign donations	---	---	---	---	131.1	---
Total utilizations	216.2	150.2	35.9	4.7	312.4	33.1
Uncommitted supplies as of December 31	42.5	6.4	---	---	---	---

<sup>a/</sup> Totals may not result from additions and subtractions because of rounding and inventory adjustments.

<sup>b/</sup> Less than 50,000 pounds.