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# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## UNITED STATES AGRICULTURAL ADJUSTMENT ACT

### Twenty-Eighth Annual Report by the United States Government under the Decision of 5 March 1955

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

Introduction

This report is submitted in accordance with the decision of March 5, 1955, waiving U.S. obligations under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions the U.S. Government is required to take under Section 22 of the Agricultural Adjustment Act, as amended (see BISD, Third Supplement, page 32 and 35). The report reviews recent developments and steps taken to balance supply with demand and summarizes support programs and supply situations for commodities subject to Section 22 controls. The reporting period is October 1984-September 1985, and supplementary information on the Food Security Act of 1985 which will apply to the period 1986-1990 has also been provided.

Recent Developments

Most import restrictions imposed under the authority of Section 22 continued in effect, without change, including those for several dairy products, peanuts, cotton of specified staple lengths, cotton waste and certain cotton products. The important changes affected sugar and sugar-containing products.

Additional import quota restrictions were imposed during the reporting period on certain sugar-containing articles.<sup>1/</sup> Presidential Proclamation No. 5294 of January 28, 1985, which was subsequently modified by Presidential Proclamation No. 5340 of May 17, 1985, imposed restrictions that will remain in effect pending Presidential action on the report and recommendations of the U.S. International Trade Commission (ITC). The articles concerned are described specifically in items 958.16, 958.17 and 958.18 of Part 3 of the Appendix to the Tariff Schedules of the United States (TSUS). In general, these articles are dry mixtures containing over 10 percent by dry weight of sugar. The quota amounts, which pertain to 12-month periods beginning October 1 of any year, are 3,000 short tons for articles provided for in TSUS item 156.45, (sweetened cocoa), 7,000 short tons for articles provided for in TSUS item 183.01 (pancake flour and other flour mixes), and 84,000 short tons for articles provided for in TSUS item 183.05 (edible preparations containing over 5 percent butterfat). The ITC made its report to the President in October 1985.

Presidential Proclamation No. 5294 of January 28, 1985, also continued in effect certain import quota restrictions on sugar-containing articles that were first imposed by Presidential Proclamation No. 5071 of June 28, 1983, pending further action by the President after a report to him by the ITC. The articles concerned are certain blended sirups provided for in TSUS item 155.75 and

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<sup>1/</sup> Country quotas restricting the import of raw and refined sugars are imposed under the authority of the Headnote to the Tariff Schedules, not under Section 22 authority.

certain articles containing over 65 percent by dry weight of sugars provided for in TSUS items 155.75, 156.45, 183.01 and 183.05. These articles are described specifically in items 958.10 and 958.15 of Part 3 of the Appendix to the Tariff Schedules of the United States. The quota amounts are zero.

Quota limitations have been imposed on imports of articles containing sugar to prevent material interference with the price support program for sugar which the U.S. Department of Agriculture administers.

Import fees on certain sugars, sirups and molasses were suspended or modified during the reporting period. Presidential Proclamation No. 5313 of March 29, 1985, suspended the application of fees on articles to be further refined or improved in quality and fixed at one cent per pound the fee on refined sugars, sirups and molasses.

#### Steps Being Taken to Balance Agricultural Supply with Demand

The Food Security Act of 1985 provides for gradual reductions in milk support prices, with further reductions possible under certain circumstances which will encourage consumption and discourage high-cost producers. As a further disincentive to excess supply, producers will be assessed a fee on all milk produced and marketed. Also, a program to retire marginal producers began April 1, 1986.

For peanuts, the steps to bring production in line with demand which were begun in 1977 are continuing. Production is controlled by a national poundage quota representing national requirements for domestic edible use. Only peanuts within that quota receive full support. The national poundage quota was set at 1.3555 million tons for the 1986 crop, estimated domestic edible, seed, and related use for the 1986/87 marketing year.

In the case of upland cotton, the Food Security Act authorized the Secretary to require a 25 percent maximum acreage reduction and to offer voluntary paid diversion in addition. Although the target price for 1986 was frozen at the 1985 level of 81 cents per pound, the new legislation provides for gradual target price reductions for the 1987-1990 crops of upland cotton. The new legislation also contains a number of provisions designed to make U.S. cotton available to world markets at competitive prices.

1984-85 Price Support Levels for Section 22 Commodities

<u>Commodity</u>	<u>Unit</u>	<u>Support Price</u>	
		1984 (Dollars)	1985 (Dollars)
Cotton, Upland			
Loan Rate <u>1/</u>	1b.	.55	.573
Deficiency Payment Rate <u>2/</u>	1b.	.186	.237
Cotton, Extra Long Staple			
Loan Rate	1b.	.825	.8595
Deficiency Payment Rate	1b.	.065	<u>3/</u>
Peanuts - Quota Loan	1b.	.2750	.2795
- Additional Loan	1b.	.0925	.0740
Dairy Products			
mfg. Milk <u>4/</u>	cwt.	12.60	12.60 (Jan-Mar) 12.10 (Apr-Jun) 11.60 (Jul-Dec)
Raw Cane Sugar Loan Rate <u>5/</u>	1b.	.1775	.18
Refined Beet Sugar Loan Rate <u>5/</u>	1b.	.2076	.2106

1/ Basis Strict Low Middling 1-1/16", net weight, micronaire 3.5 through 4.9, at average location.

2/ For the 1984 and 1985 crops, deficiency payments were calculated based on the difference between the target price and the average market price received by farmers for the calendar year, not to exceed the difference between the target price and the loan rate. Deficiency payments were made only to producers who participated in the acreage reduction program.

3/ Has not been determined.

4/ Implemented through a standing offer to purchase cheese, butter and nonfat dry milk, in carlots, from processors at prices designed to return the support price for manufacturing milk (national average milkfat content of 3.67 percent.)

5/ National average loan rates.

## COTTON AND COTTON WASTE

### Quotas

Import quotas continue for upland-type cotton, long staple cotton, and certain cotton waste and cotton products.

The United States maintains price support, production adjustment, and related surplus disposal programs; import quotas on cotton, cotton waste and certain cotton products are necessary in order to prevent material interference with these programs for cotton.

### Support Program

The Food Security Act of 1985 provides a 5 year program covering the 1986-90 crops of wheat, feedgrains, rice and upland cotton. The upland cotton program is part of a comprehensive farm program designed to encourage agricultural production to meet domestic and foreign demand while protecting farm income. Although the 1985 Act provides for an upland cotton program that in many respects resembles the programs of recent years, several changes were introduced that are intended to help restore the competitive position of U.S. cotton in world markets.

The 1985 Act continues the concept of guaranteed or "target" prices. The 1986-crop upland cotton target price is frozen at the 1985 level (81 cents per pound), but gradual reductions are required in subsequent years. If the weighted average price received by farmers for upland cotton during calendar year 1986 equals or exceeds 81 cents per pounds, no deficiency payments will be made. If the average price is less than the target price, deficiency payments are made on the difference between the target prices and the higher of the calendar year price or the loan level for the crop. The 1985 Act continues the annual \$50,000 payment limit to any one person participating in the upland cotton, extra long staple cotton, rice, wheat and feed grains programs.

The 1985 Act contains provisions designed to make U.S. cotton more competitive in world markets. If the prevailing world price for upland cotton (as calculated by USDA using a prescribed formula) is below the loan level for the crop, the Secretary of Agriculture must implement one of two plans (Plan A or plan B) to lower the loan repayment rate. It is the intention of USDA to implement Plan A in 1986. Plan A provides that the loan repayment rate be set at not less than 80 percent of the loan rate. It also requires that negotiable marketing certificates be issued to participating first handlers of cotton if the loan repayment rate is above the prevailing world price for upland cotton. The payments are made to assure that U.S. cotton be made available to the world market at competitive prices. Payments may also be made as necessary to make raw cotton in inventory on August 1, 1986, available on the same basis.

The 1986 loan level has not been announced yet. However, it cannot be less than 55 cents per pound. A new discretionary provision contained in the 1985 Act authorizes payments to producers who, although eligible to obtain loans, agree to forgo obtaining loans. These payments equal to the difference between the loan rate and the loan repayment rate times the quantity of upland cotton eligible to be placed under loan (not to exceed the upland cotton farm program acreage times the farm program payment yield), are not subject to the payment limit. This provision was authorized for the 1986 upland cotton program.

On January 13, 1986, the Secretary of Agriculture announced a 25 percent acreage reduction program for the 1986 crop, the maximum allowed under the 1985 Act. No paid land diversion program is offered for 1986. To be eligible for price support loans and deficiency payments, producers cannot plant more than 75 percent of their farm acreage bases to upland cotton.

New legislation enacted in 1983 changed the program for extra long staple (ELS) cotton from an acreage allotment and marketing quota system to a program similar to that in effect for upland cotton, wheat, rice and feedgrains. The Food Security Act of 1985 changed the formula for calculating the ELS cotton loan rate. Instead of being based on the upland cotton loan rate as in the past, the ELS cotton loan rate is equal to 85 percent of the simple average price received by farmers for ELS cotton in the previous 5 year period, dropping the highest and lowest years. The 1986 ELS cotton loan rate is 85.40 cents per pound and the target price is 102.48 cents per pound. A 10 percent acreage reduction program is in effect for the 1986 ELS cotton crop. ELS cotton producers must participate in the acreage reduction program to be eligible for price support loans and target price protection.

#### Program Activity

- 1) Upland Cotton. CCC stocks under loan or in inventory on July 31, 1985, (the end of the 1984 marketing year), were 1,671 thousand bales, compared with about 602 thousand on July 31, 1984. Beginning with the 1971 crop, loans mature 10 months from the first day of the month in which the loan is made; however, the Food Security Act of 1985 provides that nonrecourse loans for upland cotton shall, upon request of the producer during the tenth month of the loan period, be made available for an additional term of eight months, unless the average price of Strict Low Middling 1-1/16 inch cotton (micronaire 3.5 through 4.9) in the designated spot markets for the preceding month exceeds 130 percent of the average spot price for the preceding 36 months. During the 1984-85 season, about 3 million bales were placed under loan, whereas 7.0 million bales of 1985-crop cotton had been placed under loan by late February 1986.

#### Supply Situation

- 1) Upland Cotton. The carryover on August 1, 1984, totaled 2.7 million bales. Production in 1984 increased significantly from 1983, totaling about 12.9 million bales as compared with about 7.7 million in the previous year. The total supply in 1984-85 approximated 15.6 million bales or 0.1 million above a year earlier. Disappearance (domestic consumption and exports) totaled about 11.6 million bales in 1984 as compared with 12.6 million in 1983. The August 1, 1985, carryover was reported at about 4.0 million bales. The current estimate of 1985 crop production is 13.4 million bales, up about 0.5 million bales from 1984. The average U.S. yield for the 1985 crop of upland cotton is estimated at a record 629 lbs/harvested acre.
- 2) Extra Long Staple Cotton. The carryover on August 1, 1984, totaled about 82,000 bales. Production in 1984 increased over 1983, totaling 130,000 bales as compared with 95,000 a year earlier. Imports in 1984 totaled 4,000 bales, 1,000 bales below 1983. The total supply approximated 215,000 bales compared to 192,000 bales the previous year. Disappearance (domestic consumption and exports) totaled about 139,000 bales, about 36,000 more than 1983; about 2,000 bales were unaccounted for. The net result was a

carryover on August 1, 1985, estimated at about 78,000 bales, 4,000 bales below a year earlier. The current estimate of the 1985 crop extra long staple production is 149,000 bales, up 19,000 bales from 1984.

#### Steps Taken to Balance Supply and Demand.

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

### PEANUTS

#### Quotas

The annual quota of 1,709,000 pounds (shelled basis) remains in effect to prevent material interference with U.S. programs and operations relating to peanuts.

#### Support Program

The Food Security Act of 1985 further modified the peanut price support program for the 1986 through 1990 crops, continuing steps begun in 1977 to bring peanut production for domestic edible use in balance with market needs. The 1985 Act continued the two-tier price support program.

Poundage quotas were retained and acreage allotments were suspended. This program allows any farmer in the United States to grow and market peanuts for export or crush whether the farm has a poundage quota or not.

Peanuts under the national poundage quota are eligible for domestic edible use and are supported at a higher rate. Price support for 1986-crop quota peanuts is set at \$607.47 per ton, up 8.67 percent from 1985. Legislation requires that the 1986 quota support be set at the 1985 level adjusted by the percentage increase (8.67 percent) in the Index of Prices Paid by Producers for Commodities and Services, Interest, Taxes and Wage Rates for calendar years 1981 through 1985. Quota support for the 1987 through 1990 crops will reflect annual increases in production costs, excluding any change in the cost of land; but it limits the increase to 6 percent for each annual adjustment.

The national poundage quota must be set at estimated domestic edible, seed, and related uses, but no less than 1.1 million tons. The 1986 poundage quota was set at 1.3555 million tons, up .2555 million tons from the 1.1 million ton quota for 1985.

Additional or nonquota peanuts may be grown by anyone, both quotaholders and nonquotaholders. Legislation requires these peanuts to be contracted for export, crush, 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 Department of Agriculture or, if so designated, to the area association before August 1.

The support price for additional peanuts will be set to avoid any net cost to the government. The basis for the support rate continues to be the demand for peanut oil and meal, expected prices for other vegetable oils and protein meals, and the demand for peanuts in foreign markets. For 1985 the support level was set at \$149.75 per ton, up \$1.75 per ton from the \$148 per ton level for 1985.

#### Program Activity

During the 1984-85 marketing year (August-July), 1,355 million pounds of farmers' stock peanuts were placed under loan, of which approximately 1,024 million pounds were redeemed or bought back for domestic edible use. For the 1985-86 marketing year to date, 1,338 million pounds of peanuts were placed under loan, with about 595 million pounds redeemed or bought back for domestic edible use. Most of the remainder is expected to be redeemed by August 1.

#### Supply Situation

Growers harvested 1,531,000 acres of peanuts in 1984, 11 percent above 1983. Supplies in the 1984-85 marketing year were 20 percent above 1983-84. Growers received an average of \$506 per ton for all peanuts produced, \$44 per ton below the quota support level.

Growers harvested an estimated 1,462,000 acres of 1985-crop peanuts, 4 percent below 1984. Yield per harvested acre is expected to average 2,833 pounds in 1985, compared with an average of 2,878 pounds in 1984. Increased production combined with higher than normal beginning stocks result in supplies of 5,568 million pounds, 11 percent above 1984. Quota peanuts are expected to account for 54 percent of production and additional peanuts the remaining 46 percent.

Annual data on peanut production, consumption, exports, stocks and acquisitions under the price support program since the 1970 marketing year are shown on the following table.

<u>Year Beginning August 1</u>	<u>Production 1/</u>	<u>Imports</u>	<u>Domestic Consumption &amp; Exports 2/</u>	<u>Stocks End of Year</u>	<u>Acquisitions Under Price Support 3/</u>
----- Million Pounds -----					
1970	2,979	2	2,881	453	1,033
1971	3,005	2	3,063	392	1,204
1972	3,275	2	3,240	429	1,158
1973	3,474	1	3,351	553	858
1974	3,668	1	3,138	1,084	410
1975	3,857	1	3,886	1,060	1,170
1976	3,739	1	4,192	608	1,235
1977	3,715	1	3,743	581	305
1978	3,952	1	3,948	586	309
1979	3,968	1	3,927	628	436
1980	2,303	401	2,919	413	235
1981	3,982	2	3,640	757	298
1982	3,440	2	3,335	864	175
1983	3,296	2	3,551	611	111
1984	4,406	2	3,595	1,424	165
1985 <u>4/</u>	4,142	2	4,163	1,405	

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 & Exports; may include diversions of previous crop.

4/ Preliminary.

The total supply of peanuts in the United States for 1984-85 is expected to be about 5,019 million pounds, compared with an average supply of 4,222 million pounds for the five years 1980-84.

### Steps Taken to Balance Supply and Demand

The Agriculture and Food Act of 1981 which was effective for the 1982 through the 1985 peanut crops provided methods for achieving a balance between supply and demand. This legislation took two principal approaches: (1) setting the national poundage quota at the estimated level of domestic edible, seed and related uses, and (2) disposal of peanuts acquired by the CCC under the price support programs by means outside normal commercial market channels, at a financial loss--primarily for crushing into oil. In addition, peanut products have been purchased under related programs and utilized in domestic distribution programs.

CCC net realized losses were about \$2 million for the 1984 crop and about \$6 million for the 1983 crop.

### DAIRY PRODUCTS

#### Quotas

As in recent years the import licenses for 1985 were issued quite early in order to give the licensees maximum time to use their licenses fully.

In previous reports it was pointed out that new data processing equipment was being installed. There is now a continuing program of replacing old equipment with new in an effort to maintain state-of-the-art capability, thereby providing import licensees with rapid, error-free service.

There is also an on-going program of keeping close contact with importers, importers' associations, U.S. Customs Service officials and trade members in an effort to keep them updated on pending changes to the quota system. Close contact with foreign embassies is also maintained, along with contact with foreign producers.

As usual, country-of-origin adjustments were made in 1985 when it became evident that a country could not provide a quota item in sufficient quantities to fill its quota. Adjustments this year included: Swiss-Emmentaler (950.10B) from Argentina and Israel and Other Cheese, N.S.P.F. (950.10D) from Argentina and condensed milk (949.90), from Denmark.

In 1984 and 1985, almost 98 percent of the quotas were used showing continued progress in complete or full use of the quotas.

Import controls on dairy products need to be continued to prevent material interference with the price support program for milk.

#### Support Program

The price support program, which is operated pursuant to the Agricultural Act of 1949 (1949 Act), as amended, requires that the price of milk to producers be supported at such level between 75 and 90 percent 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.

The price of milk is supported by the Commodity Credit Corporation (CCC), through purchases of butter, cheese and nonfat dry milk at prices calculated to enable plant operators to pay dairy farmers, on average, a price equal to the support level. The effectiveness of the program 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 program undergirds all milk and dairy product prices.

The high levels of support from 1977 through 1980 required by law gave dairy farmers a strong incentive to produce an increasing volume of milk. This led to large price support purchases of surplus dairy products and a record build-up of Government-owned inventories. In an effort to discourage the production of surplus milk, the milk support price has not been permanently increased since October 1, 1980. Also, producer deductions were paid into the U.S. treasury each month from April 1983 through March 1985. However, because of low grain and feed prices and the lack of favorable alternative farm enterprises, milk production has continued to increase -- except for 1984 when the milk diversion payment program was operational.

The first producer deductions were authorized by the Omnibus Budget Reconciliation Act of 1982 (Reconciliation Act of 1982). The initial deduction was 50 cents per cwt., effective April 16, 1983. A second (and additional) 50-cent deduction, with provisions to refund the second deduction to those farmers who reduced their marketings at least 8.4 percent below their marketings in marketing years 1980-81 and 1981-82, was effective September through November 1983. Approximately \$584 million was collected from producers on milk marketed from April 16 through November 30, 1983, under this authority, and \$15.4 million of this was refunded to qualifying producers.

In November 1983, President Reagan signed into law the Dairy and Tobacco Adjustment Act of 1983 (1983 Act) which superseded all dairy provisions of the Reconciliation Act of 1982, and established the support price at \$12.60 per cwt., effective December 1, 1983. Under the provisions of the 1983 Act, the Secretary of Agriculture reduced the support price to \$12.10 per cwt. on April 1, 1985, based on the projection that CCC's net purchases of milk and milk products would exceed 6 billion pounds milk equivalent in the succeeding 12 months. The Secretary reduced the support price a second 50 cents to \$11.60 per cwt. on July 1, 1985, based on the projection that CCC's net purchases of milk and milk products would exceed 5 billion pounds milk equivalent in the succeeding 12 months.

Other provisions of the 1983 Act included: (1) a 50-cent per cwt. deduction from the proceeds of sale of all milk marketed within the 48 contiguous States from December 1, 1983, through March 30, 1985, and (2) for the 15 months beginning January 1, 1984, diversion payments of \$10 per cwt. to producers who contracted to reduce their milk marketings between 5 and 30 percent below their base production. Deductions from producers for milk marketed from December 1, 1983 to March 30, 1985, totaled \$875 million. About \$955 million were paid as diversion payments to producers.

### Program Activity.

In carrying out the price support and related programs in the 1984 calendar year, USDA removed from the market 6.5 percent of the milkfat and 7.0 percent of the solids-not-fat in the milk and cream marketed by farmers. USDA removals in calendar year 1984 were 203 million pounds of butter, 447 million pounds of American cheese, 26 million pounds of Mozzarella cheese, 577 million pounds of nonfat dry milk, 19 million pounds of evaporated milk and 6 million pounds of infant formula. CCC's purchase cost was \$2.1 billion in calendar 1985, compared with \$1.6 billion in 1984 and with \$2.8 billion in 1983.

In calendar year 1985, USDA removed from the market 9.3 percent of milkfat and 9.2 percent of the solids-not-fat in the milk and cream marketed by farmers. CCC removals in calendar year 1985 were 334 million pounds of butter, 596 million pounds of American cheese, 32 million pounds of Mozzarella cheese, 1,129 million pounds of nonfat dry milk, 27 million pounds of evaporated milk and 5 million pounds of infant formula.

The expenditures under the Special Milk Program were \$16.0 million during FY 1985, the same as in FY 1984.

### Supply Situation.

Milk production increased 3.1 percent in calendar year 1983, decreased 3.2 percent in 1984 and increased 5.7 percent in 1985. In January 1984, milk production dropped below year-earlier levels for the first time in nearly 5 years. Monthly milk production continued below year-earlier levels through January 1985. Monthly milk production rose above year-earlier levels in February and each subsequent month of 1985. Cow numbers increased 0.8 percent in 1983, decreased 2.5 percent in 1984, and increased 1.6 percent in 1985.

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

### Steps taken to Balance Supply and Demand

Numerous legislative actions implemented in the 1980's were intended to discourage the production of excess milk. On March 31, 1981, the President signed the law that rescinded the semiannual adjustment in the support price for milk scheduled for April 1, 1981. Also, the October 1, 1981, support price increase to \$13.49 per cwt. (the legal minimum on that date) was rolled back to \$13.10 on October 21, 1981. The Agriculture and Food Act of 1981 authorized continuation of the support price at \$13.10 per cwt. for the remainder of the 1981-82 marketing year and reduced the minimum support level below 70 percent of parity through September 30, 1985, if projected price support purchases exceeded certain levels. The signing by the President of the Budget Reconciliation Act of 1982 represented a further effort to control excess milk production. The Reconciliation Act of 1982 continued to hold the support price at \$13.10 per cwt. for the 1982-83 marketing year (rescinding the 10-cent increase authorized by the Agriculture and Food Act of 1981), and provided for two 50-cent per cwt. deductions from producers on all milk marketed commercially.

On November 29, 1983, the Dairy and Tobacco Adjustment Act of 1983 was signed into law. This Act superseded all dairy provisions of the Omnibus Budget Reconciliation Act of 1982. As required by the Act, the support price was reduced from \$13.10 per hundredweight to \$12.60. Other provisions included a 50-cent per cwt. deduction from the proceeds of sale of all milk marketed in the 48 contiguous States and a 15-month, \$10 per cwt. diversion payment to producers who reduced their milk marketings between 5 percent and 30 percent below their base production. Under the 1983 Act, the Secretary of Agriculture lowered the support price to \$12.10 per cwt. on April 1, 1985, and to \$11.60 per cwt. on July 1, 1985, because the surplus was projected to exceed certain levels. The law also included an assessment of 15 cents per cwt. of milk marketed by producers to finance a dairy promotion program.

On September 30, 1985, the 1983 Act expired. The support level would have reverted to 75 percent of parity (\$15.94 per cwt.), except that the \$11.60 support price was continued through November 15 by Public Law (P.L.) 99-14, through December 13 by P.L. 95-157 and through the end of calendar year 1985 by P.L. 99-182.

The Food Security Act of 1985, passed in late December, amended the 1949 Act by continuing the \$11.60 per cwt. support price through calendar year 1986. It establishes a support price of \$11.35 per cwt. during the period January 1 through September 30, 1987, and \$11.10 per cwt. for the period October 1, 1987, through December 1, 1990, except that on January 1 of 1988, 1989 and 1990, the Secretary is required to reduce the support price 50 cents per cwt. if purchases during that calendar year are projected to exceed 5.0 billion pounds milk equivalent, or to increase the support price 50 cents per cwt. if purchases are projected at 2.5 billion pounds or less milk equivalent.

Other provisions of the 1985 Act include: a 40-cent per cwt. producer assessment on all milk produced and marketed in the 48 contiguous States from April 1 through December 31, 1986, and a 25-cent per cwt. assessment for all milk marketed from January 1 through September 30, 1987. Also, the Secretary is barred from considering the market value of whey in calculating the CCC purchase prices for cheese; he is required to provide, on a bid basis, at least one million pounds of nonfat dry milk annually to persons for use in casein manufacturing, and to establish and carry out a milk production termination program (whole-herd buyout program) for the period April 1, 1986, through September 30, 1987. Under the buyout program, producers may submit bids to the Secretary, and if accepted, will be paid for terminating their entire milk production operation for a period of five years. The Secretary also has the option to establish a milk diversion payment or milk production termination program for any of the calendar years 1988, 1989 or 1990, as necessary, to avoid burdensome excess supplies of milk or milk products.

A number of domestic and foreign feeding programs are used to expand the utilization of dairy products. These programs serve as adjuncts to the price support program in seeking to attain a better balance between supply and demand. They include: (a) the Special Milk Program designed to increase the consumption of fluid milk among children by reimbursing state agencies and private institutions for the milk served; (b) CCC purchases (under the authority of the price support program) of butter, cheese, and nonfat dry milk in special forms and in consumer-size packages on competitive bids or at announced prices for use in food sales and donation programs; (c) CCC purchases of evaporated milk and milk-based infant formula; (d) the school lunch program;

(e) distribution to institutions and welfare programs; (f) special distribution of surplus commodities to the needy; (g) foreign donation programs for welfare and emergency assistance under Public Law 480, Title II; (h) expanded authority to donate surplus dairy products to needy persons in the U.S. and overseas under the Reconciliation Act of 1982, and (i) export sales for social welfare programs in recipient countries. The Food Security Act of 1985 also expands the authority for export sales and donations of dairy products. Increased consumption of dairy products also resulted from the food stamp program and from participation in the women-infants-children (WIC) program under which disadvantaged groups receive financial assistance for increased food purchases.

The Agriculture and Food Act of 1981 as amended by the Temporary Emergency Food Assistance Act of 1983 (P.L. 98-8) authorized the domestic donation of surplus dairy products to needy persons. Under this authority, which has been extended through September 30, 1987, by the Food Security Act of 1985, 1,557 million pounds of cheese, 497 million pounds of butter and 215 million pounds of nonfat dry milk have been released to States for distribution to needy households from January 1982 through December 1985. The 1981 and 1985 Acts also directed USDA to use all available authorities to the fullest practicable extent to reduce Government inventories of dairy products, including exportation at not less than world market prices.

For FY 1985, 167 million half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Program compared with 174 million half-pints in FY 1984. Slightly more than 5.0 billion half-pints of milk were served in each fiscal year under the School Lunch and other Child Nutrition Programs.

The following tables summarize USDA market removals from 1960 through 1985.

Milk Production and Market Removals, by Calendar Year,  
1960-1985

Year	Milk Production	USDA Market Removals					Milk Removals	Percent of Milk Production
		Butter	Cheese	Nonfat dry milk	Evap- orated milk	Equiva- lent of removals		
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Percent	
1960	123,109	144.3	0.3	852.8	-	3,101	2.5	
1961	125,707	329.4	100.3	1,085.6	-	8,019	6.4	
1962	126,251	402.7	212.9	1,386.1	-	10,724	3.5	
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	4.6	
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	117,007	246.4	48.9	451.6	48.4	5,774	4.9	
1971	118,565	292.2	90.7	456.2	111.4	17,268	6.1	
1972	120,025	233.7	30.4	2,345.0	97.0	15,345	4.5	
1973	115,491	97.7	3.2	36.8	53.7	2,165	1.9	
1974	115,586	32.7	60.3	265.0	28.3	1,346	1.2	
1975	115,398	63.4	68.2	394.5	24.5	2,036	1.8	
1976	120,180	39.4	38.0	157.1	21.8	1,236	1.0	
1977	122,654	221.8	148.2	461.7	15.9	6,080	5.0	
1978	121,461	112.0	39.7	285.0	17.6	2,743	2.3	
1979	123,411	81.6	40.2	255.3	16.4	2,119	1.7	
1980	128,525	257.0	3,349.7	634.3	17.5	8,800	6.9	
1981	133,013	351.5	3,563.0	851.3	18.6	12,861	9.7	
1982	135,802	382.0	3,642.5	948.1	20.8	14,282	10.5	
1983	139,968	413.2	3,832.8	1,061.0	24.6	16,813	12.0	
1984	135,444	203.0	447.4	677.1	19.0	8,666	6.4	
1985	143,113	334.3	629.0	940.6	26.8	13,175	9.2	

1/ Includes small purchases of dry whole milk.

2/ Includes 9.6 million pounds, Title I export sales.

3/ Includes quantities of Mozzarella cheese as follows: 28.4 million pounds in CY 1980, 12.1 million pounds in CY 1981, 28.4 million pounds in CY 1982, 35.6 million pounds in CY 1983, 26.5 million pounds in CY 1984 and 32.4 million pounds in CY 1985.

Utilizations (commitments to users) in calendar year 1985 compared with calendar year 1984 were: 1/

Item	Cheese							
	Butter		American		Mozzarella		Nonfat dry milk	
	1984	1985	1984	1985	1984	1985	1984	1985
	(Million pounds)							
Uncommitted supplies as of beginning of year	341.7	178.3	838.3	602.3	---	---	1,372.3	1,120.2
Purchases (contract basis)	205.8	334.3	451.5	638.3	26.8	31.9	677.1	940.6
Utilizations								
Sales--								
unrestricted use								
Announced price	3.6	---	14.0	6.1	---	---	---	---
Competitive price	---	---	16.6	35.8	---	---	---	---
Sales--								
restricted use	0.7	1.7	0.7	0.2	---	---	87.0	91.3
Exchange for UHT milk:	---	---	---	0.1	---	---	0.3	0.6
Export Sales								
Noncommercial	---	109.1	11.0	---	---	---	49.8	205.0
Barter	7.8	---	---	---	---	---	53.3	---
Dept. of Defense	<u>4/</u>	3.0	1.0	3.2	---	---	7.6	0.1
Domestic Donations								
Needy	<u>3/</u> 181.3	<u>3/</u> 101.4	<u>3/</u> 530.9	<u>3/</u> 418.6	---	---	<u>3/</u> 77.2	<u>3/</u> 81.0
Schools and Insts.	<u>3/</u> 126.7	<u>3/</u> 112.4	<u>3/</u> 102.3	<u>3/</u> 116.7	26.8	31.9	<u>3/</u> 40.2	<u>3/</u> 37.2
Bureau of Prisons	2.0	2.0	0.9	1.5	---	---	0.2	0.7
Veterans Admin.	0.3	0.7	---	---	---	---	---	---
Dept. of Defense	12.6	3.2	2.0	---	---	---	---	0.4
Foreign Donations								
Title II								
As dairy product	5.5	---	6.7	1.6	---	---	292.0	255.9
Furnished as an ingredient in blended foods	---	---	---	---	---	---	93.6	74.7
Section 416	<u>4/</u> 118.1	<u>4/</u> 68.0	<u>4/</u> 0.4	<u>4/</u> 65.2	---	---	205.2	<u>3/</u> 21.9
Total utilizations	458.6	401.5	726.5	649.0	26.8	31.9	906.4	1,129.2
Uncommitted supplies as of December 31	<u>5/</u> 178.3	<u>5/</u> 126.4	<u>5/</u> 602.3	<u>5/</u> 594.5	---	---	<u>5/</u> 1,120.3	<u>5/</u> 899.0

1/ Totals may not result from additions and subtractions because of rounding and inventory adjustments.

2/ Less than 50,000 pounds.

3/ Based on orders issued for shipment.

4/ Includes butter used as butteroil.

5/ Reflects contract adjustments.

## SUGAR AND SUGAR-CONTAINING ARTICLES

### Quotas and Fees

Effective June 29, 1983, action was taken to limit imports of certain sugar-containing articles which were entering in circumvention of the quota established under the President's "Headnote authority," which governs imports of sugar, sirups and molasses. All of the articles concerned were new articles with a high sugar content designed to obtain customs classifications in tariff categories other than sugar and thereby evade the quota controls. Primarily, these articles were blends and mixtures of sucrose with other articles, such as fructose, dextrose, starch and cocoa, falling under TSUS item numbers 155.75, 156.45, 183.01 and 183.05.

The Section 22 quotas established in June 1983 (items 958.10 and 958.15), of zero pounds each, specifically apply to such articles. Normal imports of traditional sugar-containing articles, such as confectionery, jellies, bakery goods and desserts, are not affected. These Section 22 quotas were finalized on January 28, 1985 by Presidential Proclamation 5294. This Proclamation as modified by Presidential Proclamation 5340 of May 17, 1985, also imposed emergency quotas on certain dry mixture sugar containing articles with 10 percent or more by dry weight of sugar (items 958.16, 958.17, 958.18). The ITC has made its recommendations on these actions to the President.

The system of import fees on raw and refined sugar in effect at the time of the last report was finalized by Presidential Proclamation 5164 of March 19, 1984. However, effective April 1, 1985, Presidential Proclamation 5313 suspended the import fee on raw sugar and reduced the fee on refined sugar from 3.7185 cents per pound to one cent per pound, pending an investigation by the ITC. On September 10 the ITC issued its findings, unanimously agreeing with the Presidential suspension of fees on raw sugar and reducing of fees to one cent per pound on refined sugar.

### Support Program

The Agriculture and Food Act of 1981 established a support program for sugar cane and sugar beets for the 1982 through 1985 crops. Support is provided through a program of non-recourse loans.

The raw cane sugar and refined beet sugar loan levels for the 1985 crop were established at 18.0 cents and 21.06 per pound, respectively.

The Food Security Act of 1985 established a support program for sugarcane and sugar beets for the 1986 through 1990 crops. Support is provided through a program of nonrecourse loans at such level as the Secretary of Agriculture determines appropriate, but not less than 18 cents per pound for raw cane sugar. Sugar beets shall be supported through nonrecourse loans at such level as the Secretary determines is fair and re.

Loans will be available beginning October 1 each year. Loans are for a period of six months, except that all loans will have a maturity date of no later than September 30. The interest rate on these loans will be the rate applicable to CCC loans. To be eligible for the loan program, a processor must agree to pay at least the minimum specified support price to any grower who delivers sugar beets or sugar cane to him.

### Supply Situation

The United States is not self-sufficient in sugar. Imports, since 1960, have ranged from 2.7 million metric tons to 6.1 million tons, and have accounted for as much as 40 percent of U.S. requirements. The attached tables show sugar production and use.

### Steps Taken to Balance Supply and Demand

The basic goal of the U.S. sugar program is to maintain a production capacity to meet its minimum essential sugar needs. Support prices are fixed accordingly. Under legislation, support prices administratively been kept at the legal minima. The domestic program has historically maintained an equitable share of the American market for foreign suppliers. This policy continues in force.

—U.S. sugar supply and use, fiscal  
1984, 1985 and 1986

	Fiscal year		Forecast
	1983/84	1984/85	1985/86
	1,000 short tons raw value		
Beginning stocks 1/	1,408	1,611	1,745
Total production	5,814	5,830	5,855
Beet sugar	2,837	2,914	2,925
Cane sugar	2,977	2,916	2,930
Total offshore receipts	3,615	2,813	2,355
Quota sugar	3,175	2,223	1,450
Quota shortfall	-45	—	—
Quota transfer 2/	-100	—	454
Quota-exempt for reexport	428	419	341
Quota-exempt for polyhydric alcohol	8	22	25
Blends/mixtures	125	75	75
Total foreign	3,591	2,739	2,320
Puerto Rico	24	74	35
Total supply	10,837	10,254	9,955
Total exports	394	457	400
Quota-exempt	400	390	345
Puerto Rico	77	60	55
Export adjustment	-83	7	—
Fuel ethanol use	—	—	122
Polyhydric alcohol	8	22	25
Refining loss adjust.	68	48	50
Stat. adjust. 3/	53	-190	—
Total domestic use	8,703	8,172	8,025
Deliveries	8,578	8,097	7,950
Imported blends/mixt.	125	75	75
Total use	9,226	8,509	8,622
Ending stocks 1/	1,611	1,745	1,333
	Percent		
Ending stocks/total use	17.5	20.5	15.5

1/ Stocks in hands of primary distributors and CCC. 2/ Transfer between fiscal year quotas. 3/ Calculated as a residual. Largely consists of invisible stocks change of wholesalers, retailers, and industrial users. Minus sign means a withdrawal from stocks.

SOURCE: Data are from Statistical Reporting Service, Sugar Market Statistics. Beginning fiscal 1983, imports based on Customs data for quota sugar and company data for quota-exempt sugar; exports based on Census data. Estimates are from Interagency Estimates Committee.

U.S. sugar: Crop area, yield, production, raw value output, recovery rate, and sugar yield per acre, 1980/81-1984/85 1/

Area	Area harvested	Crop yield per acre	Sugarcane or sugarbeet production	Sugar production	Recovery rate	Sugar yield per acre
	1,000 acres	Short tons	1,000 short tons	1,000 short tons, raw value	Percent	Short tons
<b>Florida</b>						
1980	320.7	31.1	9,985	1,121	11.25	3.50
1981	334.4	28.5	9,530	963	10.10	2.88
1982	358.9	33.6	12,070	1,307	10.85	3.64
1983	361.1	31.4	11,330	1,223	10.79	3.39
1984	371.9	32.5	12,087	1,412	11.68	3.80
<b>Louisiana</b>						
1980	232.0	23.3	5,414	491	9.07	2.12
1981	247.0	26.9	6,650	712	10.71	2.88
1982	234.0	27.6	6,450	675	10.47	2.88
1983	245.0	23.9	5,850	603	10.31	2.46
1984	205.0	22.0	4,510	452	10.02	2.20
<b>Texas</b>						
1980	33.5	28.9	969	93	9.60	2.78
1981	36.6	31.5	1,154	110	9.53	3.00
1982	35.7	31.0	1,105	98	8.87	2.74
1983	34.5	31.7	1,095	60	5.48	1.74
1984	34.3	27.9	957	81	8.46	2.36
<b>Total mainland</b>						
1980	586.2	27.9	16,368	1,705	10.42	2.91
1981	618.0	28.0	17,334	1,785	10.30	2.89
1982	628.6	31.2	19,625	2,080	10.60	3.31
1983	640.6	30.3	18,275	1,886	10.32	2.94
1984	611.2	28.7	17,554	1,945	11.08	3.18
<b>Hawaii</b>						
1980	97.4	94.6	9,214	1,023	11.10	10.50
1981	97.6	90.5	8,831	1,048	11.87	10.74
1982	89.3	98.6	8,808	983	11.16	11.01
1983	92.3	96.2	8,926	1,044	11.70	11.25
1984	89.5	94.5	8,454	1,062	12.56	11.87
<b>Total cane 2/</b>						
1980	683.6	37.4	25,582	2,728	10.66	3.99
1981	715.6	36.6	26,165	2,833	10.83	3.96
1982	717.9	39.6	28,433	3,063	10.77	4.27
1983	733.4	37.1	27,201	2,930	10.77	4.00
1984	700.7	37.1	26,008	3,007	11.56	4.29
<b>Beet 3/</b>						
1980	1,189.5	19.8	23,502	3,149	13.40	2.65
1981	1,228.1	22.4	27,538	3,388	12.30	2.76
1982	1,025.8	20.3	20,894	2,737	13.10	2.67
1983	1,055.8	19.9	20,992	2,699	12.86	2.56
1984	1,096.3	20.2	22,177	2,902	13.09	2.65

1/ Crop year September/August. 2/ Excludes sugarcane for seed. 3/ Refined beet sugar is multiplied by 1.07 to obtain raw value.

SOURCE: Crop Production, Crop Reporting Board, SRS, USDA.

U.S. sugar crops: Area, yield, and production by State, 1982-1984<sup>1/</sup>

State and area	Acres harvested			Yield per acre			Production			Share of 1984 production		Production change from 1985 to 1984	
	1982	1983	1984	1982	1983	1984	1982	1983	1984	Percent	1,000 short tons	Percent	
	1,000 acres			Short tons			1,000 short tons						
<b>Sugarcane:</b>													
For sugar	700.4	733.4	700.7	40.6	37.1	38.1	28,449	27,201	26,720	100.0			
Florida	341.4	361.1	370.8	35.4	31.4	32.8	12,086	11,330	12,162	45.5	-481	-1.8	
Louisiana	234.0	245.0	205.0	27.6	23.9	22.0	6,450	5,850	4,510	16.9	832	7.3	
Texas	35.7	34.3	35.5	31.0	31.7	29.8	1,105	1,095	1,058	4.0	-1,340	-22.9	
Total mainland	611.1	640.6	611.3	32.1	30.3	29.0	19,641	18,275	17,730	66.4	-37	-3.4	
Hawaii	89.3	92.8	89.4	98.6	96.2	100.6	8,808	8,926	8,990	33.6	-545	-3.0	
											64	.7	
For seed	41.3	34.3	45.2	32.0	28.0	29.0	1,321	960	1,309	100.0	349	36.4	
Florida	13.9	6.8	13.2	37.9	32.7	38.9	527	222	313	39.2	291	31.1	
Louisiana	21.0	20.0	25.0	27.6	23.9	22.0	580	478	550	42.0	72	15.1	
Texas	1.0	1.0	.8	25.0	27.0	25.0	25	27	20	1.5	-7	-25.9	
Total mainland	35.9	27.8	39.0	31.8	29.8	27.8	1,132	727	1,083	82.7	356	49.0	
Hawaii	5.4	6.5	6.2	35.0	35.8	36.5	189	233	226	17.3	-7	-3.0	
For sugar and seed	741.7	767.7	745.9	40.1	36.7	37.6	29,770	28,161	28,029	100.0	-132	-.5	
Florida	355.3	367.9	384.0	35.5	31.4	33.0	12,613	11,552	12,675	45.2	-1,123	-9.7	
Louisiana	255.0	265.0	230.0	27.6	23.9	22.0	7,030	6,328	5,060	18.1	-1,268	-20.0	
Texas	36.7	35.5	36.3	30.8	31.6	29.7	1,130	1,122	1,078	3.8	-44	-3.9	
Total mainland	647.0	668.4	650.3	32.1	30.3	28.9	20,773	19,032	18,813	67.1	-189	-1.0	
Hawaii	94.7	99.3	95.6	95.0	92.2	96.4	8,997	9,159	9,216	32.9	57	.6	
<b>Sugarbeets:</b>													
Michigan	1,026.8	1,055.8	1,096.2	20.3	19.9	20.3	20,894	20,992	22,207	100.0	1,215	5.9	
Ohio	96.5	104.0	108.0	19.2	19.0	19.6	1,853	1,976	2,117	9.5	141	7.1	
Great Lakes	—	12.6	10.6	—	17.6	19.2	—	222	204	.9	-18	-8.1	
Minnesota	96.5	116.6	118.6	19.2	18.8	19.6	1,853	2,198	2,231	10.4	123	5.6	
North Dakota	252.0	259.0	261.0	18.8	18.0	16.7	4,738	4,662	4,346	19.6	-316	-6.8	
Red River Valley	144.8	142.2	139.1	17.1	16.9	16.6	2,476	2,404	2,309	10.4	-95	-4.0	
Colorado	396.8	401.2	400.1	18.2	17.6	16.6	7,214	7,066	6,655	30.0	-411	-5.8	
Kansas	46.0	37.2	44.2	20.0	16.2	21.8	920	603	964	4.3	361	59.9	
Montana	9.3	6.9	7.1	17.9	13.7	17.2	170	95	122	.6	27	28.4	
Nebraska	43.0	41.3	24.6	19.8	19.8	16.9	850	818	416	1.9	-402	-49.1	
New Mexico	45.4	65.3	67.5	20.4	18.9	21.9	926	1,233	1,480	6.7	247	20.0	
Texas	.7	—	—	17.1	—	—	12	—	—	—	—	—	
Wyoming	29.4	31.9	37.8	18.9	19.5	22.0	556	622	832	3.8	210	33.8	
Great Plains	38.4	32.1	32.7	21.1	19.2	20.0	810	616	654	2.9	38	6.2	
Idaho	212.4	214.7	213.9	20.0	18.6	20.9	4,244	3,987	4,468	20.2	481	12.1	
Oregon	136.0	143.0	144.0	23.4	24.4	23.0	3,182	3,487	3,312	14.9	-175	-5.0	
Northwest	10.3	11.5	11.6	24.4	28.0	27.0	251	316	313	1.4	-3	-9.0	
Arizona	146.3	154.5	155.6	23.5	24.8	23.3	3,433	3,803	3,625	16.3	-178	-4.7	
California	12.8	—	—	23.3	—	—	298	—	—	—	—	—	
Southwest	162.0	169.0	208.0	23.8	23.3	24.7	3,252	3,938	5,138	23.1	1,200	30.5	
Total	174.8	169.0	208.0	23.7	23.3	24.7	4,150	3,938	5,138	23.1	1,200	30.5	

1/ Crop year September/August.

SOURCE: Crop Production, Crop Reporting Board, SRS, USDA.