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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

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

The following report, dated 14 December 1992, has been received from the representative of the United States. The report covers the period October 1991 to November 1992.

REPORT OF THE UNITED STATES GOVERNMENT TO THE CONTRACTING PARTIES ON ACTION UNDER SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT OF 1933, AS AMENDED 1992

Introduction

This report is submitted in accordance with the decision of 5 March 1955, waiving United States obligations under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions the United States Government is required to take under Section 22 of the Agricultural Adjustment Act of 1933, as amended (see BISD, Third Supplement, page 32 and 35). The report reviews recent developments, the reasons why restrictions continue to be applied and steps taken to balance supply with demand. It also summarizes support programmes and supply situations for commodities subject to Section 22 controls. This report covers the period October 1991 through November 1992. The Food, Agriculture, Conservation and Trade Act of 1990 (1990 Act), which is applicable to farm programmes for the 1991-95 period, was signed by the President on 28 November 1990 (and later amended) and modifies provisions of numerous statutes, including the Agricultural Act of 1949.

Recent developments

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

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

Loan and Deficiency Payments Rates: 1991-1992

Commodity	1991	1992
	dollars per unit	
Crop of:		
Cotton, upland (lb.)		
Loan rate[1/]	.5077	.5235
Deficiency payment[2/]	.1010	[3/]
Cotton, Extra Long Staple (ELS) (lb.)		
Loan rate	.8299	.8815
Deficiency payment[2/]	0	[3/]
Peanuts (lb.)		
Quota loan	.3214	.3375
Additional loan	.0749	.0655
Dairy products (cwt.)		
Manufacturing milk[4/]	10.10	10.10
Sugar (lb./raw value)		
Raw cane sugar loan rate[5/]	.18	.18
Beet sugar loan rate[5/]	.2285	.2333

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

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

[3/] Has not been determined. Advance deficiency payments were issued under the 1992 upland cotton programme based on a projected final deficiency payment rate of $0.15. No advance payments were made for 1992 crop ELS cotton. The 1991 crop final deficiency payment rate for upland cotton will be determined in February 1993. For ELS cotton, it will be determined in May 1993.

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

[5/] National weighted average loan rate.

Production, Consumption, Trade and CCC Acquisition and Stock Data

(Million Lb.)

Commodity	Production	Imports	Domestic Consumption	Exports	CCC Acquisitions	CCC Stocks
Cotton[a]	(August-July production year)					
1987/88	7,085	1	3,656	3,159	64[b]	2[c]
1988/89	7,397	2	3,735	2,951	32[b]	44[c]
1989/90	5,854	1	4,204	3,693	0[b]	13[c]
1990/91	7,440	2	4,128	3,741	0[b]	0[c]
1991/92	8,455	6	4,612	3,190	0[b]	0[c]
Milk[d]	(January-December production year)					
1986	143,124	2,732	142,355[e]	2,001	10,774[f]	8,820[g]
1987	142,709	2,490	146,016[e]	2,431	6,811[f]	2,877[g]
1988	145,152	2,394	142,919[e]	1,487	9,070[f]	4,122[g]
1989	144,239	2,498	139,823[e]	3,971	9,358[f]	4,916[g]
1990	144,284	2,690	142,634[e]	1,713	8,951[f]	8,213[g]
1991	148,526	2,629	142,684[e]	3,692	10,429[f]	11,379[g]
Peanuts	(August-July production year)					
1987/88	3,616	2	3,170	618	435[i]	0
1988/89	3,981	2	3,285	688	560[i]	0
1989/90	3,990	2	3,145	989	295[i]	0
1990/91	3,603	27	2,995	652	433[i]	0
1991/92	4,927	2	3,560	997	385[i]	0
Sugar	(October-September production year)					
1987/88	14,292	2,582	16,386	880	0	0
1988/89	13,424	3,998	16,452	1,032	0	0
1989/90	13,246	4,990	16,750	1,228	0	0
1990/91	13,830	5,650	17,408	1,364	0	0
1991/92	14,500	4,376	17,564	1,256	0	0

[a] Upland and ELS. To convert to United States bales, divide by 480 lb. the average weight of a bale of cotton.

[b] Upland and ELS cotton loans are made for a period of ten months. Upland cotton loans may be extended for another eight months under certain price conditions; and, for ELS cotton, if authorized by the Secretary of Agriculture. These figures represent total forfeitures of cotton produced during the respective marketing year as of October 1992.

[c] As of July respective marketing year.

[d] Milk equivalent, fat basis.

[e] Does not include milk fed to calves.

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

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

[h] For peanuts, domestic consumption includes food use, seed, crush and loss.

[i] Excludes immediate buybacks of additional loan peanuts.

Cotton and Cotton Products

Quotas

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

Support programmes

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

The 1990 Act amendments continue the concept of a guaranteed or target price. The minimum target price for the 1991-95 crops are 72.9 ¢ per lb., the same as for 1990. If the weighted average price received by farmers for upland cotton during calendar year 1992 equals or exceeds 72.9 ¢ per lb., no deficiency payments will be issued. If the average price is less than the target price, the deficiency payment rate will equal the difference between the target price and the higher of the calendar year average price or the loan level for the crop.

The basic limitation for deficiency and diversion payments is $50,000 per person. Loan deficiency payments and gains from marketing loans are limited to an additional $75,000 per person. The total payment limitation is $250,000 per person.

The 1990 Act revised some provisions contained in the 1949 Act, as amended by the Food Security Act of 1985 (the 1985 Act), designed to make United States cotton more competitive in world markets. "Plan A" and "Plan B" were eliminated. Instead, the loan repayment rate for the 1991-95 crops equals the lesser of (a) the loan rate of (b) the higher of - (1) 70 per cent of the loan rate, or (2) the adjusted world price (AWP) in effect for the week in which the loan redemption occurs. The minimum loan repayment rate is 70 per cent of the loan rate. Whenever the AWP falls below 70 per cent of the loan rate, commodity certificates or cash payments are issued to eligible first handlers of upland cotton. The first handler payment is based on the difference between 70 per cent of the loan rate and the AWP, multiplied by the quantity of cotton sold during the week in which a payment rate is in effect. The first handler programme is designed to make United States cotton available to the world market at competitive prices.

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

The 1990 Act amendments made mandatory the discretionary provision contained in the 1949 Act authorising payments to producers who, although eligible to obtain loans, agree to forego obtaining loans whenever the AWP is less that the loan rate. The loan deficiency payment rate is equal to the difference between the loan rate and the loan repayment rate in effect during the week in which the application for payment is filed. Loan deficiency payments for the 1991 and 1992 marketing years are made in cash and are subject to the payment limitation. As before, producers may decide whether to obtain or forego the loan deficiency payment on a bale-by-bale basis.

The 1990 Act contains three new provisions designed to improve the competitiveness of United States cotton. The first, which was originally implemented by regulation in October 1989, gives the Secretary discretion to further adjust the AWP whenever (1) the AWP is below 115 per cent of the loan rate, and (2) the weekly average of the lowest-priced United States upland cotton quotation c.i.f. Northern Europe ("United States Northern Europe Price") exceeds the Northern Europe price. An adjustment up to the difference between the two prices is allowed.

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

The third provision requires establishment of a special import quota equal to one week's seasonally-adjusted domestic mill consumption if the United States Northern Europe price, adjusted by the value of any marketing certificate issued, exceeds the Northern Europe price by more than 1.25 ¢ for ten consecutive weeks. This quota provision is different from, and in addition to, the provision which establishes a quota equal to twenty-one days of domestic mill consumption whenever the base quality spot price for a month exceeds 130 per cent of the average for the previous thirty-six months.

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

Extra long staple (ELS) cotton. No major changes were made in the legislation governing the ELS cotton programme. The ELS cotton loan rate is equal to 85 per cent of the simple average price received by farmers for ELS cotton in the five-year period ending 31 July in the year the loan level is announced (dropping the highest and lowest years). The target price is 120 per cent of the loan rate. For 1992, the loan rate is 88.15 ¢ per lb. and the target price is 105.80 ¢ per lb.

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

Programme activity

(1) Upland cotton. Cotton price support loans mature ten months from the first day of the month in which the loan is made. However, non-recourse loans for upland cotton are available for an additional eight months upon request of the producer during the tenth month of the loan period, except when the average price of Strict Low Middling 1-1/16 inch cotton (micronaire 3.5-3.6 and 4.3-4.9 strength twenty-four through twenty-five gr. per tex) in the designated spot markets for the preceding month exceeds 130 per cent of the average spot price for the preceding thirty-six months. During the 1991/92 season, about 6.3 million bales of upland cotton were pledged as collateral for the CCC price support loan programme.

(2) ELS cotton. Cotton loans mature ten months from the first day of the month in which the loan is made. The Secretary of Agriculture may authorize that loans be extended an additional eight months if requested by the producer, but this authority was not used for the 1991/92 season. Thirty-two thousand bales of ELS cotton were placed under loan during the 1991/92 season.

Supply situation - 1991 crop

(1) Upland cotton. The carryover on 1 August 1991, totalled 2.3 million bales. Production in 1991 increased to 17.2 million bales as compared with about 15.1 million in the previous year. The increase was due

largely to the ARP requirement which was only .5 per cent in 1991/92 compared with 12.5 per cent the previous season. The total supply in 1991/92 was 19.5 million or 1.5 million more than a year earlier. Disappearance (domestic consumption and exports) decreased slightly in 1991 to 15.9 million bales from the previous year's level of 16.0 million bales. The 1 August 1992, carryover was 3.6 million bales. The average United States yield for the 1991 crop of upland cotton was 650 lb./harvested acre, up about 3 per cent from the previous year's level of 632 lb.

(2) ELS cotton. The carryover on 1 August 1991 was 82,000 bales. Production in 1991 increased by nearly half to 398,000 bales from 358,000 bales a year earlier. The total supply in 1991 reached 480,000 bales compared to 560,000 bales the previous year. Disappearance (domestic consumption and exports) totalled 363,000 bales, 117,000 less than in 1990; about 3,000 bales were unaccounted for. The net result was a carryover on 1 August 1992, estimated at about 120,000 bales, 38,000 bales above a year earlier. The yield for 1991 rose from last year's 758 lb. per harvested acre to 784 lb.

Steps taken to balance supply and demand

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

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

Peanuts

Quotas

The annual import quota of 1,709,000 lb. (shelled basis) remained in effect for the 1991-crop year.

Support programmes

The 1990 Act amendments modified the peanut price support programme for the 1991 through 1995 crops and continued steps to bring peanut production for domestic edible use in balance with market needs.

The amendments maintained the two-tier price support programme and suspended the peanut acreage allotments. This programme allows any farmer in the United States to grow and market peanuts for export or crush whether or not the farm has a poundage quota.

Peanuts marketed under the poundage quota for domestic edible use are eligible to be supported at the higher rate of the two-tier price support programme. The higher price support for 1992-crop quota peanuts is $674.93 per short ton, compared to $642.79 per short ton in 1991. Peanuts marketed for domestic edible use in excess of the farm poundage quota shall be subject to a penalty of 140 per cent of the quota price support rate. By law, the national average quota support for 1992 crop peanuts must be the 1991 crop support level adjusted for any increase in national average production costs (excluding the cost of land), not to exceed 5 per cent.

As required by the Agricultural Adjustment Act of 1938, as amended (the 1938 Act), the national poundage quota is set at a quantitative level equal to domestic edible, seed, and related uses, but not less than 1.35 million tons. The 1992 poundage quota was set at 1.540 million tons, as compared to 1.550 million tons in 1991.

Additional or non-quota peanuts may be grown by anyone, both quota holders and non-quota holders. Legislation requires these peanuts to be contracted for export, 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 CCC, if so designated, to the area associations before 15 September. Additional peanuts pledged as collateral for a price support loan may be sold for domestic edible use, but the cost of the loan redemption may be no lower than the quota price support level plus the cost incurred by CCC. The support price for additional peanuts will be set to avoid any net cost to the Government. The demand for peanut oil and meal, expected prices for other vegetable oils and protein meals, and the demand for peanuts in foreign markets is also considered in establishing the support price for additional peanuts. For 1992, the support level was set at $131.09 per short ton, down from the level for 1991 of $149.75.

Programme activity

During the 1991/92 crop year (August-July), 985 million lb. of farmers' stock peanuts were placed under loan, of which approximately 171 million lb. were redeemed or bought back for domestic edible use. CCC net realised losses on the peanut programme were about $95 million for FY 1992, $9 million for 1991, and zero for FY 1990.

Supply situation

Growers harvested 2,016,000 acres of peanuts in 1991, 11 per cent above 1990. Production in the 1991/92 marketing year was 4,927,000 lb. as compared to 3,603,000 lb. in 1990/91. Growers received a season average price of 28.30 ¢ per lb. in 1991/92 compared to 34.90 ¢ per lb. in 1990/91. The total supply of peanuts in the United States for 1991/92 marketing year was about 5,612 million lb., compared with an average supply of 4,331 million lb. in the previous marketing year.

Steps taken to balance supply and demand

The Agriculture and Food Act of 1981 amendments to the 1938 Act and the 1949 Act which were effective for the 1982 through the 1985 peanut crops provided methods for achieving a balance between supply and demand which was maintained in amendments in the 1985 Act and the 1990 Act. This legislation took two principal approaches: (1) setting the national poundage quota at the estimated level of domestic edible seed and related uses, and (2) disposal of quota peanuts acquired by the CCC under the price support programmes by sales for crushing into oil and meal. The quantity of peanuts eligible for the higher domestic edible use price support are limited by a national poundage quota. Additional peanuts are supported at a much lower price set to avoid any net cost to the Government. Additional peanuts placed under loan may be sold for edible use under a procedure which permits immediate loan redemption at the domestic edible use support price. In addition, peanut products have been purchased under related programmes and utilized in domestic distribution programmes.

Annual data on peanut production, consumption, exports, stock and acquisitions under the price support programme are shown below.

Peanut Production, Consumption, Exports, Stocks and Acquisitions
Marketing Years (August-July) 1970 - 1991

(Million Lb.)

Year beginning 1 August	Product[1]	Imports	Domestic consumption & exports[2]	Stocks end of year	Acquisitions under price support[3]
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	2,982	2	3,640	757	535
1982	3,440	2	3,335	864	304
1983	3,296	2	3,551	611	246
1984	4,406	2	3,595	1,424	334
1985	4,123	2	4,704	845	967
1986	3,697	2	3,541	1,003	119
1987	3,616	2	3,788	833	435
1988	3,981	2	3,973	830	560
1989	3,990	2	4,141	701	295
1990	3,603	27	3,647	683	433
1991	4,927	2	4,557	1,055	985

[1]Data are net weight values.

[2]Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss and shrinkage.

[3]Included in domestic consumption and exports.

Dairy Products

Quotas

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

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

For 1992, several country-of-origin adjustments were effected when it became evident that quota items could not be supplied in sufficient quantity by the named country of origin to fill these quotas. Adjustments or partial adjustments for 1992 included: Italian-type cheese, in original loaves, from Argentina (HTS 9904.10.42), Italian-type not in original for "other countries" and Argentina (HTS 9904.10.45); Low fat cheese from Australia, New Zealand and Sweden (HTS 9904.10.57); Blue mould cheese from Argentina (HTS 9904.10.27); Swiss/Emmenthaler cheese from Finland, Argentina and Austria (HTS 9904.10.48), Gruyère Processed cheese from Finland and Austria (HTS 9904.10.51) "other cheese not specifically provided for" from Finland, Argentina and Sweden (HTS 9904.10.54); Edam and Gouda cheese from Sweden (HTS 9904.10.36); Cheddar cheese from Australia (9904.10.30) and dried skim milk from Canada (9904.10.09). The utilization rate for quota cheese requiring import licences was 92 per cent in 1991.

Support programmes

The milk price support programme, which is operated pursuant to the 1949 Act requires that the price of milk to producers be supported at such level, between 75 and 90 per cent of parity, as will assure an adequate supply of milk, reflect changes in the cost of production and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. However, since 21 October 1981, the support price has been established by legislation at specific price levels, rather than parity levels. The support price of $10.10 per cwt. was effective on 1 October 1991.

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

Programme activity

In carrying out the price support and related programmes in the 1991-92 marketing year (MY), CCC removed from the market 6.9 per cent of milk fat and 1.1 per cent of solids-not-fat milk equivalent marketed by farmers. Removals of milk fat included 57.0 million lb. of butter, 10.0 million lb. of cheese and 108.9 million lb. of non-fat dry milk and 26.0 million lb. of dry whole milk exported under the Dairy Export Incentive Programme (DEIP).

USDA's purchases, milk fat basis for MY 1991-92 were about 10.3 billion lb. milk equivalent, compared to 10.4 billion lb. in MY 1990-91. CCC's net purchases under the price support programme totalled 460.3 million lb. of butter, 10.0 million lb. of cheese, and 118.3 million lb. of non-fat dry milk. In addition, USDA purchased 40.7 million lb. of processed American cheese and 13.7 million lb. of Mozzarella cheese at market prices. USDA also purchased 31.8 million lb. of evaporated milk, 7.4 million lb. of concentrated liquid infant formula and 570,000 lb. of powdered infant formula under Section 4(a) authority for distribution to needy persons.

The expenditures under the Special Milk Programme were approximately $19.8 million in Fiscal Year (FY) 1991. Approximately $19.4 million was spent in FY 1990.

Approximately 177 million half-pints of milk were served during FY 1991 under the Special Milk Programme compared to about 183 million in FY 1990.

Supply situation

Milk production totalled 150.9 billion lb. in MY 1991-92, 1.5 per cent above a year earlier. Cow numbers decreased 0.8 per cent and production per cow increased by 3.7 per cent in MY 1991-92.

Steps taken to balance supply and demand

The 1990 Act amendments to the 1949 Act provide that dairy product purchase estimates will be measured on a total milk solids basis, instead of a milk fat basis. Other provisions are explained as follows: The Secretary of Agriculture is required to: (1) increase the support price at least 25 ¢ per hundredweight (cwt.) if the Department of Agriculture's estimated purchases in each of calendar years 1991-95 does not exceed 3.5 billion lb. milk equivalent, total milk solids basis; (2) make no increase in the support price if USDA's estimated purchases in each of calendar years 1991-95 exceed 3.5 billion lb., but not 5 billion lb. milk equivalent, total milk solids basis, and (3) decrease the support price by 25 ¢ to 50 ¢ cents per cwt. If USDA's estimated purchases in each of calendar years 1991-95 exceed 5 billion lb. milk equivalent. The support price, however, may not be reduced below $10.10 per cwt.

In estimating the level of CCC purchases, the Secretary is instructed to deduct from this figure an amount equal to the difference between the most recent calendar year's dairy imports and average imports during 1986-90.

CCC programme expenditures during calendar years 1992-95 will be limited to the purchase of the equivalent of 7 billion lb. of milk, total solids basis. Purchases above 7 billion lb. will be financed through a producer assessment on milk marketings.

The Secretary has the authority to adjust support purchase prices for butter and non-fat dry milk in such a way that will result in the lowest cost to CCC, or will achieve other objectives considered appropriate. However, these adjustments are limited to not more than two per calendar year.

The Agricultural Reconciliation Act of 1990 also amended the 1949 Act to provide for: (1) a reduction in the price received by producers for all milk marketed for commercial use during the period beginning 1 January 1991, and ending 31 December 1995; (2) a refund of the amounts deducted from the producer's milk proceeds each year, if refund provisions are met.

The reduction provisions are: (1) during calendar year 1991, the price will be reduced 5 ¢ per cwt.; (2) during calendar years 1992 through 1995, the price will be reduced 11.25 ¢ per cwt.; and (3) the 11.25 ¢ reduction will be increased on 1 May of each of the years 1992 through 1995 to compensate for refunds of amounts resulting from the immediately preceding calendar year's reduction.

The refund provisions are: (1) the refund period is the calendar year for which a refund is being requested; (2) the refund amount will be the amount withheld from the producer's milk proceeds during the refund period; (3) producers are eligible to receive refunds of withheld amounts, if evidence is provided that the producer and all dairies in which that producer has an interest did not increase milk marketings in the refund period, when compared to the immediately preceding calendar year; and (4) applications for refunds for a refund period will be accepted from 1 January through 15 March of each subsequent calendar year beginning in 1992 and ending in 1996.

The 1990 Act also includes amendments relating to Federal Milk Marketing Orders and studies of milk inventory management, multiple component pricing, and Minnesota-Wisconsin price series replacement.

<u>Outlook</u>

As of 30 September 1991, the uncommitted inventories were: butter, 494 million lb.; cheese, 26 million lb.; and non-fat dry milk, 230 million lb. This compares with 342 million lb. of butter and 14 million lb. of non-fat dry milk as of 30 September 1989.

The table below summarizes USDA market removals from MY 1986 through 1991.

Milk Production and Market Removals
1986-1991 Marketing Year*

(Million Lb.)

Year	Milk production	USDA market removals				
		Butter	Cheese	NFDM	Evap. milk	Milk equiv. of removals
1986/87	141.5	143.4	236.7	555.9	28.2	5,361[1]
1987/88	144.8	320.2	306.3	364.8	21.4	9,689[1]
1988/89	144.6	420.3	45.7	...	25.7	9,187[1]
1989/90	146.9	384.0[2]	18.7[3]	28.1[4]	31.8	8,377[5]
1990/91	148.6	433.0[2]	96.7[6]	342.6[6]	30.3	10,450[5]
1991/92	150.9	460.3[7]	10.0[7]	118.3[7]	31.9	10,343[5]

[1]Milk equivalent, fat solids basis, is derived by adding the following: lb. of butter times conversion factor of 20.65; lb. of cheese times conversion factor of 9.88; and lb. of evaporated milk times conversion factor of 2.15.

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

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

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

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

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

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

*The marketing year is 1 October through 30 September.

Sugar and Sugar-Containing Articles

Measures taken under Section 22

The 1 ¢ per lb. (2.2 ¢ per kg.) fee on refined sugar and the quotas for sugar containing articles, totalling 94,000 short tons (approximately 85,000 metric tons) remain in effect. These measures are necessary to prevent material interference with the price support programme for sugar administered by the United States Department of Agriculture.

Other import controls

Presidential Proclamation 6179 of 13 September 1990 (effective 1 October 1990) established a tariff-rate quota system under Additional United States Note 3, Chapter 17 of the United States Harmonized Tariff Schedule. The tariff-rate quota is operated under domestic authority which is independent of Section 22. On 27 September 1991, the 1991/92 tonnage of sugar subject to the first tier (low tariff) of .625 ¢/lb., raw value, under the tariff-rate quota was established at 1,385,000 metric tons. On 27 August 1992, the 1992/93 tonnage of sugar subject to the first tier duty was set at 1,231,000 metric tons. Imports from Caribbean Basin Initiative (CBI) beneficiary countries and GSP beneficiary countries remain duty free for the first tier. Imports of sugar above the first tier tonnage are subject to the second tier tariff of 16 ¢/lb., raw value. Additional sugar is allowed low tariff entry into the United States (or duty free if it is of CBI or GSP country origin) under the condition that it be re-exported in either refined or further processed form.

Support programmes

The 1990 Act amended the 1949 Act to establish a support programme for domestically-grown sugar cane and sugar beets for the 1991 through 1995 crops. Support is provided through a programme of non-recourse loans at such levels as the Secretary of Agriculture determines appropriate, but not less than 18 ¢ per lb. for raw cane sugar. Beet sugar shall be supported through non-recourse loans at such levels as the Secretary determines is fair and reasonable in relation to the loan level for raw sugar cane. The raw cane sugar and refined beet sugar loan levels for the 1991 crop was established at 18.0 and 22.85 ¢ per lb., respectively. The 1992 levels are 18.0 and 23.33 ¢ per lb., respectively.

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

Steps taken to balance supply and demand

The United States is a net importer of sugar, with imports regulated as described above. Domestic consumption of sugar in the United States has increased steadily during the past few years from 7.7 million short tons in 1985/86 to a forecast 8.9 million short tons in 1992/93. The 1990 Act does not provide for regulation of the marketing of domestically-produced raw cane and refined beet sugar if imports of raw cane sugar are estimated by the USDA to be above 1.25 million short tons in any one marketing year in the 1991/95 period.