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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

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

The following report, dated 2 February 1994, has been received from the representative of the United States. The report covers the period October 1992 to November 1993.

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

1993

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 1992 through September 1993. 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: 1992-1993

Commodity	Support Price ($ per unit)	
	1992	1993
Cotton, upland (lb.)		
Loan rate[1]	0.5235	0.5235
Deficiency payment[2]	0.2030	[3]
Cotton, extra long staple (ELS) (lb.)		
Loan rate	0.8815	0.8812
Deficiency payment[2]	0.1765	[3]
Peanuts (lb.)		
Quota loan	0.3375	0.3375
Additional loan	0.0655	0.0655
Dairy products (cwt.)		
Mfg. Milk[4]	10.10	10.10
Sugar (lb./raw value)		
Raw cane sugar loan rate[5]	0.18	0.18
Beet sugar loan rate[5]	0.2333	0.2362

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

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

[3]Has not been determined. Advance deficiency payments were issued under the 1993 upland cotton programme based on a projected final deficiency payment rate of $0.2005. No advance payments were made for 1993 crop ELS cotton. The 1993 crop final deficiency payment rate for upland cotton will be determined in February 1994. For ELS cotton, it will be determined in May 1994.

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

[5]National weighted average loan rate.

Production, Consumption, Trade and CCC Acquisition and Stock Data
(million pounds)

Commodity	Production	Imports	Consumption	Exports	Acquisitions CCC	Stocks CCC
Cotton[1] (August - July Production Year)						
1988/89	7,397	2	3,735	2,951	32[2]	44[3]
1989/90	5,854	1	4,204	3,693	0[2]	13[3]
1990/91	7,442	2	4,155	3,741	0[2]	0[3]
1991/92	8,455	6	4,612	3,190	6[2]	0[3]
1992/93	7,785	0	4,920	2,496	22[2]	6[3]
Milk[4] (January - December Production Year)						
1988	145,152	2,394	142,919[5]	1,487	9,070[6]	4,122[7]
1989	144,239	2,498	139,823[5]	3,265	9,358[6]	4,916[7]
1990	144,284	2,690	142,634[5]	3,330	8,951[6]	7,993[7]
1991	148,526	2,618	142,684[5]	1,931	10,134[6]	11,629[7]
1992	152,041	2,520	141,748[5]	5,257	10,093[6]	10,535[7]
Peanuts[8] (August - July Production Year)						
1988/89	3,981	2	3,285	688	560[9]	0
1989/90	3,990	2	3,145	989	295[9]	0
1990/91	3,603	27	2,[illegible]95	652	433[9]	0
1991/92	4,927	2	3,560	997	1,070[9]	0
1992/93	4,284	2	3,040	951	436	0
Sugar (October - September Production Year)						
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	14,476	4,384	17,652	1,260	0	0
1992/93	15,662	4,080	18,134	972	0	0

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

[2]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 1993.

[3]As of July respective marketing year.

[4]Milk equivalent, fat basis.

[5]Does not include milk fed to calves.

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

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

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

[9]Excludes immediate buybacks of additional loan peanuts.

Cotton and Cotton Products

Quotas

Import quotas continued 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 cents per pound, the same as for 1990. If the weighted average price received by farmers for upland cotton during calendar year 1993 equals or exceeds 72.9 cents per pound, 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 or (b) the higher of - (1) 70 per cent of the loan rate, or (2) the adjusted world price (AWP) in effect for the week in which the loan redemption occurs. The minimum loan repayment rate is 70 per cent of the loan rate. Whenever the AWP falls below 70 per cent of the loan rate, commodity certificates or cash payments are issued to eligible first handlers of upland cotton. The first handler payment is based on the difference between 70 per cent of the loan rate and the AWP, multiplied by the quantity of cotton sold during the week in which a payment rate is in effect. The first handler programme is designed to make United States cotton available to the world market at competitive prices.

During the initial ten-month loan period, whenever loan collateral is redeemed and the AWP is below the loan rate, the Commodity Credit Corporation (CCC) 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 authorizing payments to producers who, although eligible to obtain loans, agree to forego obtaining loans whenever the AWP is less than the loan rate. The loan deficiency payment rate is equal to the difference between the loan rate and the loan repayment rate in effect during the week in which the application for payment is filed. Loan deficiency payments for the 1991, 1992 and 1993 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 cents for four consecutive weeks. The payment rate equals the difference in the fourth week between the United States Northern Europe price, minus 1.25 cents, 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 cents 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 1993, the loan rate is 88.12 cents per pound and the target price is 105.70 cents 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 24-25 grams per tex) in the designated spot markets for the preceding month exceeds 130 per cent of the average spot price for the preceding thirty-six months. During the 1992/93 season, about 8.3 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 or 1992/93 seasons. One hundred and forty-two thousand bales of ELS cotton were placed under loan during the 1992/93 season.

Supply situation - 1992 crop

1. Upland cotton

The carry over on 1 August 1992 totalled 3.6 million bales. Production in 1992 declined to 15.7 million bales as compared with about 17.2 million in the previous year. The decrease was due largely to the ARP requirement which was 10 per cent in 1992/93 compared with 5 per cent the previous season. The total supply in 1992/93 was 19.3 million or 200,000 less than a year earlier. Disappearance (domestic consumption and exports) decreased slightly in 1992 to 15.1 million bales from the previous year's level of 15.9 million bales. The 1 August 1993, carry over was 4.5 million bales. The average United States yield for the 1992 crop of upland cotton was 693 lbs/harvested acre, up about 7 per cent from the previous year's level of 650 lb.

2. ELS cotton

The carry over on 1 August 1992, was 121,000 bales. Production in 1992 increased about 28 per cent to 508,000 bales from 398,000 bales a year earlier. The total supply in 1992 reached 629,000 bales compared to 480,000 bales the previous year. Disappearance (domestic consumption and exports) totalled 392,000 bales, 29,000 more than in 1991; about 31,000 bales were unaccounted for. The net result was a carry over on 1 August 1993, estimated at about 206,000 bales, 85,000 bales above a year earlier. The yield for 1992 dropped from last year's 903 lb. per harvested acre to 846 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 cents 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 1993 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 price support for 1993-crop quota peanuts is $674.93 per short ton, unchanged from 1992. 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 1993 crop peanuts must be the 1992 crop support level adjusted for any increase in national average production costs (excluding the cost of land), not to exceed 5 per cent. In the event of a cost reduction, the support remains at the level set for the preceding year.

As required by the Agricultural Adjustment Act of 1938, as amended (the 1938 Act), the national poundage quota is set at a quantitative level to domestic edible, seed, and related uses, but not less than 1.35 million tons. The 1993 poundage quota was set at 1.496 million tons, as compared to 1.540 million tons in 1992.

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 oil[illegible] protein meals, and the demand for peanuts in foreign markets is also considered in establishing the support price for additional peanuts. For 1993, the support level was set at $131.09 per short ton, unchanged from 1992.

Programme activity

During the 1992/93 crop year (August-July), 436 million lb. of farmers' stock peanuts were placed under loan, of which approximately 57 million lb. were redeemed or bought back for domestic edible use. CCC net realized losses on the peanut programme were about $83 million for FY 1992, and $95 million for 1992.

Supply situation

Growers harvested 1,650,000 acres of peanuts in 1993, 1 per cent below 1992. Production in the 1993/94 marketing year is estimated at 3,258 million lb. as compared to 4,284 million lb. in 1992/93. Growers are expected to receive a season average price of 31 cents per pound in 1993/94 compared to 30 cents per pound in 1992/93.

The total supply of peanuts in the United States for 1993/94 marketing year is estimated to be 4,610 million lb., compared with an average supply of 5,341 million lb. in the previous marketing year.

Steps taken to balance supply and demand

The Agriculture and Food Act of 1981 amendments to the 1938 Act and the 1949 Act which were effective for the 1982 through the 1985 peanut crops provided methods for achieving a balance between supply and demand which were maintained in amendments in the 1985 Act and the 1990 Act. This legislation took two principal approaches: (1) setting the national poundage quota at the 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 on the following page.

Peanut Production, Consumption, Exports, Stocks and Acquisitions
Marketing Years (August-July) 1980-1992

Year beginning 1 August	Prod.[1]	Imports	Domestic consumption and exports[2]	Stocks end of year	Acquisitions under price support[3]
	Million pounds				
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	1,070
1992	4,284	2	3,991	1,350	436

[1]Data are net weight values.

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

[3]Included in Domestic Consumption and Exports.

Dairy Products

Quotas

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

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

For 1993, 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: low fat cheese from New Zealand, Australia and Sweden (HTS 9904.10.57); blue mould cheese from Argentina (HTS 9904.10.27); Italian-type cheese, not in original loaves, from Argentina (HTS 9904.10.45); Swiss-Emmenthaler cheese from Finland, Iceland, Argentina and Australia (HTS 9904.10.48); Gruyere processed cheese from Finland (HTS 9904.10.51); Italian-type cheese, in original loaves, from Argentina (HTS 9904.10.42); other cheese, NSPF, from Argentina and Iceland (HTS 9904.10.54); sweetened condensed milk from Denmark (HTS 9904.10.06); and chocolate crumb from Australia (HTS 9904.10.63). The utilization rate for quota cheese requiring import licences was 87 per cent in 1992.

Support programmes

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

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

Programme activity

In carrying out the price support and related programmes in the 1992-93 marketing year (MY), CCC removed from the market, a 5.4 per cent of milkfat and 3.1 per cent of solids-not-fat milk equivalent marketed by farmers. Removals of milkfat included 52.9 million lb. butter, 11.1 million lb. of cheese, and 337.8 million lb. of non-fat dry milk and 41.7 million lb. of dry whole milk exported under the Dairy Export Incentive Programme (DEIP).

USDA's net purchases, milkfat basis, for MY 1992-93 were about 8.1 billion lb. milk equivalent, compared to 10.3 billion lb. in MY 1991-92. CCC's net purchases under the price support programme totalled 460.8 million lb. of butter, 15.5 million lb. of cheese, and 355.2 million lb. of non-fat dry milk. In addition to purchases under the price support programme, USDA purchased 43.9 million lb. of processed American cheese and 17.8 million lb. of Mozzarella cheese at market prices for domestic distribution under various entitlement programmes. USDA also purchased 27.7 million lb. of evaporated milk, 5.6 million lb. of concentrated liquid infant formula and 521 thousand lb. of powdered infant formula under Section 4(a) authority for distribution to needy persons.

The expenditures under the Special Milk Programme were approximately $19.5 million in Fiscal Year (FY) 1992. Approximately $19.8 million was spent in FY 1991.

Approximately 174 million half-pints of milk were served during FY 1992 under Special Milk Programme, compared to about 177 million in FY 1991.

Supply situation

Milk production totalled 152.0 billion lb. in MY 1992-93, 0.7 per cent above a year earlier. Cow numbers decreased 1.2 per cent and production per cow increased 1.2 per cent in MY 1992-93.

Steps taken to balance supply and demand

The 1990 Act amendments to the 1949 Act provide that dairy product purchase estimates will be measured on a total milk solids basis, instead of a milkfat basis. Other provisions are explained as follows: The Secretary of Agriculture is required to: (1) increase the support price at least 25 cents per hundredweight (cwt.) if the Department of Agriculture's estimated purchases in each of calendar

years 1991-1995 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 cents per cwt.; (2) during calendar years 1992 through 1995, the price will be reduced to 11.25 cents per cwt.; and (3) the 11.25 cents 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 1 Jan 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.

Outlook

As of 30 September 1993, the uncommitted inventories were: butter, 262 million lb.; no cheese; and non-fat dry milk, 16 million lb. This compares with 378 million lb. of butter, 2 million lb. of cheese, and 5 million lb. of non-fat dry milk as of 30 September 1992. The table on the following page summarizes USDA market removals from MY 1987 through 1992.

Milk Production and Market Removals 1988-1992 Marketing Year*

		USDA market removals (million lb.)				
Year	Milk production	Butter	Cheese	NFDM	Evap. milk	Milk equiv. of removals
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	31.9	10,343[5]
1992/93	152.0	345.9[8]	15.5[8]	355.2	27.7	8,069[5]

*The marketing year is 1 October through 30 September.

[1]Milk equivalent, fat solids basis, is derived by adding the following: pounds of butter times conversion factor of 20.65; pounds of cheese times conversion factor of 9.88; and pounds 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 Sec.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: pounds of butter times conversion factor of 21.8 lb. of cheese times conversion factor of 9.23; and pounds 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 whole milk exported under DEIP.

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

Sugar and Sugar-Containing Articles

Measures taken under Section 22

The 1 cent per lb. (2.2 cents per kilogram) 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 cents/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. On 11 May 1993, the period for the 1992/93 tariff rate quota was extended from 30 September 1993, to 30 September 1994. The quota level was increased from

1,231,000 metric tons to 2,268,000 metric tons effective 1 October 1993. Imports from Caribbean Basin Initiative (CBI) beneficiary countries, beneficiary countries under the Andean Trade Preference Act, 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 cents/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 cents 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 1992 crop was established at 18.0 and 22.33 cents per lb., respectively. The 1993 levels are 18.0 and 23.62 cents per lb., respectively.

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

Steps taken to balance supply and demand

The United States is a net importer of sugar, with imports regulated as described above. Domestic consumption of sugar in the United States has increased steadily during the past few years from 7.7 million short tons in 1985/86 to a forecast 9.095 million short tons in 1993/94. The 1990 Act does not provide for regulation of the marketing of domestically produced raw cane and refined beet sugar if imports of raw cane sugar are estimated by USDA to be above 1.25 million short tons in any one marketing year in the 1991/95 period. Marketing allotments were imposed on 1 July 1993, for fiscal year 1993 and applied to all sugar and crystalline fructose marketed in the United States from 1 October 1992, through 30 September 1993. The overall allotment quantity was 7,770 thousand short tons. The beet sugar allotment was 4,149.2 thousand short tons and the cane sugar allotment was 3,620.9 thousand short tons. The overall marketing allotment for crystalline fructose manufactured from corn was 159,757 short tons. The implementation of marketing allotments means that any sugar beet processor or sugarcane processor who markets sugar or pledges sugar as collateral for a price support loan in excess of the processor's allocation shall be liable to the CCC for a civil penalty in an amount equal to three times the United States market value of that quantity exceeding allocation. Allotments have not been reimposed for fiscal year 1994 as of 30 September 1993.