

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/2340

3 March 1965

Limited Distribution

CONTRACTING PARTIES
Twenty-Second Session

Original: English

UNITED STATES AGRICULTURAL ADJUSTMENT ACT

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

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Introduction

This report is submitted in accordance with a Decision of the CONTRACTING PARTIES of 5 March 1955. It includes a brief review of the current situation with respect to Section 22 import regulations, and descriptions of steps taken in the United States to solve the problem of agricultural surpluses. These steps are along the same general line as in recent years. Finally, the report outlines by commodities the supply position and related data on farm products for which Section 22 regulations are currently in effect.

Background

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

1. any modifications or removal of restrictions effected during the reporting period;
2. restrictions currently in effect;
3. reasons why such restrictions (regardless of whether covered by this waiver) continue to be applied, and;

4. steps taken during the reporting period with a view to solution of problem of surpluses of agricultural commodities.

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

Section 22 of the Agricultural Adjustment Act, as amended, has been in effect since 24 August 1935. It directs the President of the United States on the basis of an investigation and report by the United States Tariff Commission to regulate the importation of commodities whenever he finds that such importation renders or tends to render ineffective or materially interferes with any domestic production and marketing control programmes, price support, or other programme or operation relating to agricultural commodities undertaken by the Department of Agriculture.

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

Current Situation

There are now in effect import regulations under Section 22 on wheat and wheat products, cotton of certain specified staple lengths, cotton waste and cotton picker lap, peanuts, and certain manufactured dairy products. All of these commodities are subject to continuing regulation.

During the period from the last report to 1 September 1964, there has been no action taken by the President under the provisions of Section 22.

Steps taken to Solve the Problem of Agricultural Surpluses

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

Acreage allotments and marketing quotas were in effect for cotton and peanuts. In the absence of marketing quotas for 1964 crop wheat, legislation was enacted providing for marketing allocations. The latter, like marketing quotas, are based on a determination of marketing requirements and serve to limit acreage planted.

Operations under the Soil Bank conservation reserve programme continued. Under this programme farmers agreed to withdraw general cropland from production. Contracts in effect during 1964 relate to about 167,000 farms and cover about 17.5 million acres of cropland. Each acre of cropland in the conservation reserve reduces the acreage available for production.

Price support levels for commodities regulated under Section 22 for 1954, 1963, and 1964 are shown in the following table:

Price Support Levels: Section 22 Commodities

Commodity	Unit	Support Price ¹			Support level		
					as % of parity		
		1954	1963	1964	1954	1963	1964
Wheat	bu.	\$2.24	\$1.82 ²	\$1.30 ²	90	75 ²	52 ²
Cotton, upland ³	lb.	.3403	.3247	.30 ⁴	90	81	72
Cotton, extra long staple	lb.	.6552	.5317	.4925	90	65	66
Peanuts	lb.	.122	.112	.112	90	80	79
Dairy products:							
Butterfat	lb.	.562	.581	.58	75	75	75
Mfgr. milk	cwt.	3.15	3.14	3.15	75	75	75

¹National average rate.

²Represents national average loan rates. For 1963, producers participating in programme also received a payment of 18 cents per bushel. For 1964, participating producers also received marketing certificates for their proportionate share of domestic and export requirements. The face value of these certificates was fixed at 70 cents and 25 cents per bushel, respectively (see commodity section for discussion).

³Basis middling 1 inch, average location.

⁴Additional price support payments of 3.5 cents per pound in form of PIK certificate if acreage planted for harvest does not exceed the farm domestic allotment.

The above paragraphs summarize briefly steps taken which were directed toward influencing the supply side of the surplus problem. Previous reports have noted the influence natural forces have upon the harvest in any season, as well as the highly significant effects of technological improvements in production.

Growing conditions through mid-August 1964 were relatively good but soil-moisture deficiencies in the Great Plains States and some areas of the Mississippi Valley threatened good crop development. The all crops production index, reflecting the August Crop Report of the United States Department of Agriculture, was 111 on 1 August - one point below the record high of 112 for 1963, but four points above the index of 107 for both 1961 and 1962. Indicated yields per acre were slightly below the 1963 level but above yields in 1962.

Positive Efforts to Increase Consumption

The surplus problem has been summarized in the previous section of this report. A brief statement of the efforts to increase consumption of agricultural commodities, both at home and abroad, follow:

1. Fluid Milk Programmes. The United States Government continues to operate two programmes specifically directed at increasing milk consumption through which the costs are shared. These are the Special, and the Military and Veterans Administration Milk Programmes.

During the past year, the Special Milk Programme of the Government continued to expand. This programme now embraces the distribution of milk through approximately 92,000 schools and institutions. It also pays a part of the cost of nearly 3.0 million half pints (1.6 billion pounds) of milk, purchased by children in these schools and institutions throughout the United States. Legislation provides for the continuation of this programme through 1 July 1967.

The Military and Veterans Administration Milk Programme also encourages increased consumption of fluid milk. Under this programme, to stimulate expanded use of milk, United States Armed Forces and Veterans Hospital patients increased their consumption of milk over the standard ration by more than 600 million pounds annually. This increase in fluid consumption reduces the quantity of milk used for the manufacture of dairy products and correspondingly reduces purchases by the Commodity Credit Corporation (CCC) for price support purposes. The CCC pays about half the cost of milk representing above-normal purchases.

In addition, 26.5 million pounds of butter, 3.2 million pounds of cheese, and 36 thousand pounds of non-fat dry milk were transferred to military agencies by CCC under this programme during the dairy marketing year ended 31 March 1964.

2. The National School Lunch Programme. This programme is designed to provide school children with a well-balanced lunch constituting at least one third of their daily nutritional requirements. During fiscal year 1964 the Federal Government purchased, under Section 6 of the National School Lunch Act as amended, 253 million pounds of food valued at about \$59 million for distribution to schools participating in this programme. In fiscal year 1963, such purchases amounted to 287 million pounds valued at \$59 million.

In addition to this Section 6 food distribution, the Federal Government made cash grants in aid to the States totalling nearly \$121 million in fiscal year 1964. In fiscal year 1963, these cash grants amounted to \$108.6 million. Federal donations represent only part of the programme cost since local contributions and children's payments greatly exceed the Federal payments.

3. Donations to schools, needy persons and institutions in the United States. Under this programme, the distribution of food has been expanded both in terms of the number of persons benefiting and the volume and variety of foods distributed to them. During the twelve months ending 30 June 1964 an estimated 1.9 billion pounds of surplus foods costing over \$370 million was donated through domestic outlets. This compares with 1.9 billion pounds costing \$354 million in the preceding fiscal year. Beneficiaries of these surplus foods included about 18 million school children, 1.4 million needy persons in charitable institutions and more than 6 million needy persons in family units in participating States, territories, and possessions. The foods donated included dry beans, beef products, butter, cheese, cornmeal, cranberries, dried eggs, flour, lard, chopped meat, non-fat dry milk, peanut butter, peaches, canned pork, rice, rolled wheat and frozen turkeys.

4. The Food Stamp Programme. Prior reports commented upon a pilot food stamp programme under which eligible families pay an amount for food coupons that they would normally be expected to spend for foods included in the programme. In return they receive coupons of greater value to enable them to buy additional foods. The coupons are used to buy any food - produced in the United States - out of regular commercial supplies at authorized retail outlets. Coupons cannot be used to purchase non-food items, alcoholic beverages or tobacco. Retailers in turn redeem the coupons at face value at banks or through participating wholesalers.

Evaluation studies of the original eight pilot areas showed that retail food store sales increased at an average of 8 per cent after the inauguration of the pilot programmes. Household food consumption surveys in two of the eight pilot areas showed that participating families made significant increases in the value of food consumed under the programme.

During the fiscal year 1964, the pilot programme was progressively expanded until it was operating in forty-three counties and cities in twenty-two States. In June 1964, about 360,000 participants paid \$3,725,000 for coupons and received free an additional \$2,315,000 worth, meaning that the recipients paid about 62 cents for every dollar of coupons they received. The United States Government's total contribution to the programme for fiscal year 1964 was \$28.6 million in bonus coupons. Participants paid an additional \$44.8 million.

Action was taken by the United States Congress to place the Food Stamp Programme on a continuing basis so as to permit its progressive expansion to those areas of the country which desire to participate. This action was accomplished through the passage of the Food Stamp Act of 1964 (PL 88-525).

The Act authorizes the appropriation of funds for a three-year period: \$75 million for fiscal year 1965, \$100 million for fiscal 1966 and \$200 million for fiscal 1967. It has been estimated that the annual cost of such a programme would be \$375 million when it has been expanded to all areas which desire to participate.

5. Activities carried on under Public Law 480. A special assistant to the President serves as Director of the Food for Peace Programme and co-ordinates other operations under Public Law 480. The Food for Peace Director is seeking additional and improved ways to make available United States food abundance for the undernourished people throughout the world.

The major elements of Public Law 480 are as follows:

(a) Sales of Surplus Agricultural Commodities for Foreign Currencies (Title I). Under this authority the United States sells to other friendly governments, for foreign currencies, surplus agricultural commodities under procedures designed to insure that the amounts are additional to those which the foreign countries concerned could purchase with foreign exchange, with due safeguards against disruption of world prices of agricultural commodities or normal patterns of commercial trade. During the year ending 30 June 1964, thirty-seven agreements and amendments were entered into with twenty-two countries under this programme, involving a total export market value (including certain ocean transportation costs) of \$615.5 million. Actual shipments during that year had an export market value of about \$1.0 billion (excluding ocean transportation costs).

Currency accruing from Title I sales is used principally for loans and grants for economic development in the recipient country. The market development and research activities financed with part of the currencies allocated to United States uses provide an additional stimulus to total consumption of agricultural products.

(b) Famine Relief and Other Assistance (Title II). The United States, under this authority, grants surplus agricultural commodities for the feeding of refugees and victims of disaster, for child feeding, and for economic development projects. These grants are made in a way which will not displace or interfere with sales that otherwise would be made.

During the year ending 30 June 1964, commitments undertaken amounted to \$293 million on the basis of the cost of commodities (including authorized transportation costs). Commodities exported included: bread grains, coarse grains, fats and oils, dry beans, and milk and milk products.

The CCC cost of commodities shipped under Title II was \$150 million.

(c) Donations to Needy Persons in Foreign Countries (Title III). Under this authority donations are made to United States non-profit voluntary agencies such as CARE, or intergovernmental agencies such as UNICEF which, in turn, are responsible for arranging for the distribution in foreign countries to needy people to supplement their usual diets.

The people of the United States donated over three billion pounds of food to needy persons in 112 countries and territories during the year ending 30 June 1964. The export market value of this food was \$195 million (excluding ocean transportation). The foods donated included non-fat dry milk, butter, butter oil, cheese, corn cornmeal, shortening, Vegetable oils, wheat, and wheat products (flour, bulgur, and rolled wheat).

Foods donated under both Title II and Title III during 1963 reached an estimated 81 million needy people overseas including almost 40 million school children.

(d) Barter (Title III). The United States, under this authority, barter surplus agricultural commodities for (1) materials which are less expensive to store or less subject to deterioration, and of which the United States does not domestically produce its requirements; (2) materials, goods, equipment, or services required in connexion with foreign economic and military assistance programmes; (3) materials, equipment, or services required in substantial quantities for offshore construction programmes; and (4) materials to meet requirements of other Government agencies. Approximately 120 countries and territories have received agricultural commodities under the barter programme through 30 June 1964. Agricultural commodities exported under barter contract during the year ending 30 June 1964 totalled approximately \$112 million at export market prices.

(e) Long-Term Dollar Credit Sales (Title IV). By authority of this Title, the President may enter into agreement with the governments of friendly nations, and the Secretary of Agriculture may enter into agreements with the United States or foreign private trade, for the long-term supply and dollar credit sales of United States surplus agricultural commodities. Major objectives of this title are the use of such agricultural commodities and the financial resources made available through their sale on a deferred payment basis to assist in the economic development of friendly countries, and the maintenance or expansion of United States dollar exports of such commodities to such countries. Agreements may provide for the delivery of commodities over period of up to ten years and for credit to be extended over periods of up to twenty years. Although a number of proposed agreements with the private trade have been taken under consideration, all Title IV agreements signed through 30 June 1964 have been agreements with the governments of friendly nations. During the year ending 30 June 1964, fourteen agreements and amendments were entered into with eleven countries for the sale of agricultural commodities having an export market value (including certain ocean transportation costs) of \$118 million. Commodities actually exported had an export market value of about \$47 million (excluding ocean transportation).

(f) World Food Programme. The World Food Programme (WFP) was established by the United Nations (UN) and the Food and Agriculture Organization (FAO) of the UN in April 1962. It is operating on an experimental basis for a period of three years which commenced on 1 January 1963. Its purpose is to clarify to what extent and in what manner food aid can be used on a multilateral basis in the developing countries to (1) stimulate economic and social development; (2) assist in preschool and school feeding, and (3) meet emergency needs.

The United States pledged \$40 million in commodities and \$10 million in cash and shipping services. Contributions of commodities and ocean freight services are undertaken under the authority of Title II of Public Law 480 with WFP treated as an intergovernmental organization. Although the WFP contributions are on the basis of world market value, they are charged to Title II on the basis of the CCC cost. The cash contribution is being provided from AID appropriations and is limited to a maximum of \$6 million.

Through 30 June 1964, the United States has contributed \$12.5 million worth of commodities to the WFP.

(g) Market development. As a means of increasing utilization, the Department of Agriculture is giving additional emphasis to research and promotional activities to develop new and expanded uses for farm products, both at home and abroad, especially those which are in surplus supply. In performing these responsibilities, it is co-operating with private organizations and groups undertaking programmes to expand the utilization of agricultural commodities. Up to 5 per cent of foreign currencies generated by Title I sales may be used to maintain or expand present export markets or to develop new markets abroad for United States agricultural commodities.

During January-June 1964, local currency contributions worth \$6.8 million were approved for thirty-nine new market development projects under the co-operative and trade fair programmes. Also forty-one marketing and utilization research grants were awarded totalling \$1.4 million.

Within the United States, the Department of Agriculture is continuing to use its "plentiful food" programme to expand markets for foods which are in plentiful supply. The purpose of this programme is to increase movement of these foods through established channels of trade. This programme is operated in co-operation with food distribution, industry, and public information media. Experience under the programme has indicated that increased merchandising and informational emphasis on food items which may be in temporary surplus, or even a glut on the market, stimulate sales, demand, and consumption to the benefit of the farmer, distributor, and consumer.

Wheat and Wheat Products

1. Section 22 quotas in effect

The import quotas established under Section 22 for wheat classified as fit for human consumption and certain wheat products (flour, semolina, crushed and cracked wheat, and similar products) remain the same in 1964-65 as in 1963-64. As explained in previous reports, the annual import quotas for wheat and for wheat products are on a continuing basis.

The quotas in effect for the quota year beginning 29 May 1964, as in previous years, are 800,000 bushels of wheat and 4 million pounds of wheat products. Separate quotas continue in effect for individual countries at the same levels indicated in previous reports. There are no quantitative import restrictions on wheat classified as unfit for human consumption (feed wheat). Registered or certified seed wheat for planting purposes and wheat for experimental purposes, may be imported exquota under stipulated conditions.

2. Need for continuing import quotas on wheat

The United States Government has continued to carry out extensive measures for the solution of the wheat surplus problem. Despite the many steps that have been taken to stabilize production and bring supplies into better balance with requirements, a serious imbalance continues in the domestic supply position. Supplies of wheat available for export from other areas, at prices fixed by government marketing agencies, also remain at relatively high levels. Though the 1964 wheat programme is changed considerably from those in effect from 1954 through 1963, the effect of the modification is yet indeterminate. Under these circumstances it is necessary to maintain import quotas on wheat and wheat products in order to prevent imports from materially interfering with the domestic production adjustment and price programmes. The conditions which make it necessary to continue these import restrictions are explained in more detail below.

(a) Programmes - The maintenance of price support for wheat is mandatory every year under Title I of the Agricultural Act of 1949, as amended. Acreage allotment and marketing quota programmes, under which wheat acreage was drastically curtailed, were continuously in effect from 1954 through 1963. Although producers did not approve marketing quotas on wheat for harvest in 1964, the acreage allotment programme continued in effect; and, in the absence of marketing quotas, legislation was enacted providing for marketing allocations based on a determination of marketing requirements.

Principal provisions of the 1964 wheat programme include: (1) farm allotments determined on the basis of a minimum national allotment of 49.5 million acres; (2) a voluntary acreage diversion programme; and (3) price support for producers who comply with the provisions of the programme.

The price support programme for wheat, under provisions of the Food and Agriculture Act of 1962 and the Agricultural Act of 1964, involves the use of marketing certificates to maintain and improve farmers' incomes. Certificates are earned by eligible producers on their pro rata share in the national marketing allocations for (a) United States food purposes and (b) export.

Under the 1964 programme, domestic marketing certificates would be issued to participating producers to cover 45 per cent of the normal wheat production of the farm allotment; the same proportion would be covered by export marketing certificates. Certificates cannot be issued, however, for more than the normal production of the actual acres a producer plants for harvest. The fixed value for the 1964 domestic marketing certificates is 70 cents per bushel and for export marketing certificates 25 cents per bushel.

The price support level for 1964 wheat is \$2.00 per bushel when accompanied by domestic marketing certificates; \$1.55 per bushel when accompanied by export marketing certificates; and \$1.30 per bushel when not accompanied by certificates.

To be eligible for price support on wheat, a producer must restrict production to his acreage allotment, based on a national allotment of 49.5 million acres, and comply with other programme provisions. The principal other provisions include maintaining the normal acreage in conserving use and increasing such acreage by the difference between his allotment based on 49.5 million acres and what it would be if based on 55 million acres, compliance with all other allotments established for the farm, and compliance with the wheat allotment on any other farm in which he has an interest in any wheat produced.

The 1964 wheat programme is designed to achieve the same general purposes as the 1963 programme. Although the two programmes differ substantially in detail, the fundamental change is the shift from a mandatory to a voluntary type of programme. Acreage allotments and determinations of marketing requirements are continued. Similarly, participation in an acreage diversion programme continues to be a condition of price support eligibility. Further, and importantly, a substantial imbalance continues to exist between the supply of and outlet for United States wheat.

Nevertheless, the present programme differs significantly from that of previous years. More information with respect to the impact of the differences on prices, production and trade patterns will be available after the current marketing year. Such additional information will be reflected in the next report.

(b) Supply situation - The United States continues to be confronted with supplies of wheat well in excess of requirements. The United States total supply in 1964-65 is now estimated at about 2,190 million bushels, based on the August 1964 Crop Report, 148 million bushels less than in 1963-64. This quantity of wheat has accumulated in the United States despite the many Government-sponsored programmes which have been in effect to reduce acreage and to expand utilization. These adjustment programmes to date have been offset to a substantial extent by unprecedentedly high yields per acre during recent years.

The 1964-65 supply is made up as follows: The beginning carryover on 1 July 1964, of 900 million bushels, 295 million less than on 1 July 1963. In recent years the Commodity Credit Corporation (CCC) has owned or controlled about 90 per cent of the United States carryover; and this was true also on 1 July 1964, when the CCC had 833 million bushels in inventory.

The United States carryover of wheat on 1 July 1965 is expected to be about 880 million bushels. This would be the fourth consecutive year in which the wheat carryover declined. Production in 1964 is now estimated at 1,285 million bushels. This production is slightly less than anticipated domestic requirements and total exports including those under the various foreign aid and other programmes in 1964-65. The 1964 crop came from 55 million planted acres, compared with 79 million planted acres in 1953 (the year before acreage allotments and marketing quotas were put into effect). Imports of millable wheat and of wheat flour under the quota referred to above, plus imports of wheat unfit for human consumption including seed wheat for planting purposes (both outside the quota) are estimated at 5 million bushels during 1964-65.

(c) Utilization - domestic disappearance in 1964-65 is estimated at about 635 million bushels. Exports of wheat, including flour may total 675 million bushels, compared with a total of about 642 million in 1962-63, and 860 in 1963-64.

(d) Price-support loans on 1964 wheat through 31 October 1964, cover a larger volume (152 million bushels) than on 1963 crop wheat (138 million bushels) through 31 October 1963. It is expected that about 115 million bushels of the 1964 wheat placed under support will be delivered to CCC during April-June 1965. The CCC acquired about 90 million bushels during 1963-64 and 220 million bushels during 1962-63.

The CCC owned 833 million bushels of wheat on 1 July 1964, all acquired by deliveries from farmers under price support operations. Dispositions of wheat by CCC during 1964-65 may be almost 200 million bushels, compared with about 350 million bushels disposed of in 1963-64. Thus, it is anticipated that CCC stocks, which increased annually from 1957-1961, will decline slightly during 1964-65.

3. Steps taken with a view to the solution of the surplus problem

Steps taken by the United States with a view to solution of the problem of the wheat surplus, generally have been mentioned above. In somewhat more detail, they are as follows:

(a) Tight acreage limitations in effect. For the 1964 wheat crop farm acreage allotments were at the minimum provided by law. Further, the minimum national acreage allotment was reduced from 55 million acres to 49.5 million acres under provisions of the Agricultural Act of 1964. Legislation also provided incentives for further reducing the acreage by an amount up to an additional 20 per cent of the allotment or up to 15 acres if this is larger.

The national acreage allotment serves as a basis for determining the size of the acreage allotted to States, counties, and individual farms. The minimum 49.5 million acre national allotment is 37 per cent below the acreage seeded to wheat in 1953, prior to the imposition of production control programmes.

Wheat continues to be ineligible for support if produced on federally-owned land in violation of provisions which generally are included in leases for such land to prevent the production thereon of surplus crops.

(b) A soil conservation reserve programme has been in effect each year since 1956. Although authority to enter into such contracts expired as of 31 December 1960, farmers during 1964 are withholding about 17.5 million acres of cropland from production under this programme.

(c) Disposal operations aimed at increasing outlets for wheat are being continued by the United States Government during the 1964-65 marketing year. These include donations of wheat and flour for domestic relief under Section 416 of the Agricultural Act of 1949, as amended, and donations of wheat and flour for overseas relief under Titles II and III of Public Law 480. Wheat for export under the subsidy programme, including shipments under Title I of Public Law 480, will continue to be obtained generally from free market supplies instead of from sales of CCC-owned stocks, and payments on wheat export subsidies generally will be made in kind pursuant to the basic change made in the wheat programme effective 4 September 1956. This programme is aimed at encouraging wheat marketings through private trade channels.

Cotton and Cotton Waste

1. Section 22 quotas in effect

Import quotas are in effect under Section 22 for upland type cotton, long staple cotton, and designated cotton waste during the 1964-65 cotton marketing year. There have been no changes in import quotas for these products during the past year. The 1964-65 import quotas for cotton, which continue in effect each year unless changed, are as follows:

(a) Upland cotton - Cotton under 1-1/8 inches (other than rough or harsh under 3/4 inch) - 14,516,822 pounds annually during the quota year beginning 20 September.

(b) Long staple cotton - Cotton 1-1/8 inches and longer:

(1) 39,590,778 pounds annually during the quota year beginning 1 August, for cotton having a staple length of 1-3/8 inches or more.

- (2) 6,065,642 pounds annually for cotton having a staple length of 1-1/8 inches or more but less than 1-3/8 inches: Provided that of such 6,065,642 pounds not more than 1,500,000 pounds shall consist of rough or harsh cotton, white in colour, and having a staple length of 1-5/32 inches or more but less than 1-3/8 inches, and not more than 4,565,642 shall consist of other cotton.

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

(d) Cotton picker lap - Cotton products produced in any stage preceding the spinning into yarn (cotton picker lap) - 1,000 pounds annually during the quota year beginning 11 September.

The import quotas in effect on cotton 1-1/8 inches or more in staple length are on a global basis. Quotas in effect on cotton under 1-1/8 inches and on designated cotton waste are on a country basis.

2. Need for continuing import quotas on cotton and cotton waste

During the 1963 crop season, the United States Government continued its extensive efforts to deal with the cotton surplus problem. It had in operation several programmes, including a price support programme, an acreage allotment and marketing quota programme, conservation reserve programme, and related surplus operations. Despite the progress made as a result of these programmes, it is necessary to continue import quotas on cotton and cotton waste in order to meet the requirements of Section 22 provisions. These programmes and the conditions which made necessary the continuation of import regulations are explained in detail below.

Upland Cotton

Programmes - The Agricultural Act of 1964, applicable to the 1964 and 1965 crops of upland cotton, is designed in major part to eliminate the two-price system and thus encourage increased consumption, to reduce the burdensome surplus overhanging the market, and to maintain the income of cotton producers. In addition to price supports tied to acreage allotments and special payments to users, the law authorizes \$10 million for a special research programme to develop measures for reducing the production cost of cotton.

The basis minimum national acreage allotment of 16.0 million acres proclaimed under legislation existing 11 October 1963 is continued for 1964. Producers electing to plant within the national allotment are eligible for price support loans of 30 cents per pound, gross weight, basis Middling-1 inch cotton at average location. This compares with the 1963 crop price support rate of 32.47 cents per pound.

Producers wishing to plant acreage in 1964 in addition to the national allotment, for production for export only, are eligible to apply for a maximum 5 per cent increase in their allotment. Such producers will be required to furnish proof of export of the cotton produced on the excess acreage; however, they will not be eligible for price support or export payments, but will be eligible for the basic price support of 30 cents per pound on cotton produced within the national allotment.

A voluntary national domestic acreage allotment, estimated to be the acreage required to produce the quantity of cotton needed for domestic consumption, was established within the 1964 national allotment. This acreage is 67 per cent of the national allotment, or 10.7 million acres, and is distributed to farms in the same manner as the national allotment, except that farms with allotments of 15 acres or less, the voluntary allotment is either 15 acres or the farm allotment determined on the basis of the national allotment, whichever is the smaller.

Producers electing to plant within the voluntary allotment will receive a price support payment calculated by multiplying the normal yield established for the farm, times 3.5 cents per pound, times the acreage planted for harvest. Thus, for such farms, the effective price support rate is 33.5 cents per pound.

The Secretary of Agriculture is authorized to make payments to domestic users in such amounts and subject to such terms and conditions as he determines will eliminate the inequities due to the difference in the cost between domestic and foreign users of such cotton. Between 11 April 1964 and 1 August 1964, the Secretary elected to make such payments to mills at the rate of 6.5 cents per pound on all bales opened by them. Beginning 1 August 1964 payments in kind will be made at the same rate to other users or handlers who furnish satisfactory assurance that such cotton, or an equal quantity, will be consumed domestically or exported.

Supply situation for upland cotton - Total supply for the 1964-65 marketing year is estimated at 26.9 million bales, compared with 26.2 million bales for 1963-64. The 1964 acreage for harvest is estimated at 13.9 million acres. This compares with 14.1 million acres in 1963.

Carryover - Carryover 1 August 1964 is estimated at 12.1 million bales, compared with 11.0 million bales in 1963.

Production - The 1964 crop is estimated (August Crop Report) at 14.6 million bales, compared with 15.1 million in 1963.

Imports - Imports in 1964-65 are expected to be about 50,000 bales, same as imported in 1963-64.

Disappearance - Total disappearance in 1964-65 is estimated at 14.8 million bales, compared with 14.0 million in 1963-64.

Price support activity - CCC stocks on 1 August 1964 are estimated at 10.2 million bales, compared with about 8.1 million on 1 August 1963. During the marketing year ending 31 July 1964 cotton placed under loan amounted to 8.0 million bales of which 2.0 million were redeemed.

Long staple cotton¹

Programmes - Price support for extra-long staple cotton is required by law at not more than 75 per cent nor less than 60 per cent of the parity price. The minimum loan rate for eligible qualities of 1964 crop extra-long staple cotton is based on the average rate of 49.25 cents per pound, net weight, for American Egyptian cotton, 44.25 cents per pound, net weight, for Sea Island cotton and 39.25 cents per pound, net weight, for Sealand cotton.

Acreage allotments and marketing quotas were continued for the 1964 crop of these growths. When marketing quotas are in effect any producer who does not comply with his farm acreage allotment is denied price support on such cotton, and must pay a penalty (the higher of 50 per cent of the 15 June parity price of 50 per cent of the support price) on his excess extra-long staple cotton. The 1964 acreage allotment was 112,500 acres, of which 109,800 acres were planted, compared with 149,880 acres allotted and 143,800 acres planted in 1963.

Supply situation for extra-long staple cotton - Legislation directed that 50,000 bales of domestic extra-long staple cotton in the United States stockpile of strategic materials be transferred to CCC in 1957 and sold for unrestricted use at not less than 105 per cent of the current support price plus reasonable carrying charges, or the current market price as determined by CCC. Beginning 1 August 1961, the minimum sales price was increased to 115 per cent of the current support price. Subsequently legislation directed that the remaining American Egyptian cotton in the national stockpile be transferred to CCC in 1962 and sold under these same terms. This cotton enters the United States supply only in quantities sold by CCC. As of 1 August 1964, 46,660 bales of this cotton remained in CCC stocks.

The 1964-65 supply is made up as follows:

Carryover - The carryover on 1 August 1964, was estimated at about 183,000 bales, excluding unsold cotton released from the stockpile. This compares with 92,000 bales on hand a year earlier.

¹Extra-long staple cotton means cotton of the Barbados species having a staple length of 1 3/8 inches or longer. For purposes of statistical comparison, references herein to extra-long staple cotton are related to the import quota of 39,590,778 pounds noted in section 1.b(1). The quota of 6,065,642 pounds, described in section 1.b.(2), as cotton having staple length of 1 1/8 inches or more but less than 1 3/8 inches, is upland cotton, even though it is included in the "long staple" category of the import quota.

Production - The 1964 crop is estimated (August Crop Report) at 125,500 bales, compared with 161,000 bales in 1963.

Imports - Imports of extra-long staple cotton in 1964-65 are estimated to equal the import quota of 82,500 bales (39,590,778 pounds). The import quota for 1963-64 was filled on opening day. Roughly three fourths of imports are from (United Arab Republic) and the remainder from Peru, Sudan, and others.

Disappearance - Disappearance in 1964-65 is expected to be around 180,000 bales, consisting of about 140,000 bales consumed and about 40,000 exported. These estimates are difficult because of (1) inability to forecast domestic consumption under price support levels for American Egyptian cotton nearly 4.0 cents per pound lower than the 1963-64 level, (2) substantial deterioration of the quality of the 1963 American Egyptian crop, (3) considerably higher prices paid for imported Egyptian and Peruvian Cotton, and (4) inability to estimate the volume of American Egyptian exports in 1964-65 under the recently announced export programme.

Price support activity - It is too early to forecast a specific quantity of extra-long staple cotton which might be pledged and/or acquired by CCC under the 1964-65 price support programme.

3. Steps taken to reduce the surplus of cotton

During the 1964-65 season, efforts to reduce the surplus of cotton will continue. These efforts have been largely along the lines of adjustment of production through the use of acreage allotments and marketing quota, and market promotion and export sales programmes.

Reduction of production - The United States Government is continuing the above efforts in 1964 to reduce production. The national acreage allotments were established at 16.2 million acres for upland cotton and 112,500 acres for extra-long staple based on the minimum prescribed by law. This compares with 26.9 million planted acres in 1953, the last year without acreage allotments and marketing quotas for cotton.

Price support - The basic price support for the 1964 crop of upland cotton was fixed at a national average of 30 cents per pound for Middling-1 inch cotton and for extra-long staple at 49.25 cents per pound. This reflects 72 per cent of the April 1964 parity for upland and 66 per cent of the April 1964 parity for extra-long staple.

Market stabilization and surplus disposal operations - The United States Government has continued to market stocks of cotton owned by CCC in such a manner as to avoid disrupting domestic and foreign markets, while at the same time, cutting back domestic production, and encouraging increased utilization of cotton. Under the export sales policy the CCC makes United States cotton available for export in such a manner as to keep it competitive in foreign markets.

As explained earlier, payments in kind at an initial rate of 6.5 cents per pound will be made to any users, handlers, or shippers of cotton other than producers who furnish satisfactory assurance that the cotton, or an equal quantity of other cotton, will be consumed domestically or exported on and after 1 August 1964. This provision of the Agricultural Act of 1964 is designed to eliminate the two-price system for cotton by making United States cotton available for domestic use at a price which is not in excess of the price at which such cotton is made available for export.

The Department announced on 6 August 1964, that as of 1 August, the minimum sales prices of upland cotton owned by CCC would be 105 per cent of the current loan rate, plus reasonable carrying charges. This reduction from 115 per cent to 105 per cent of the current loan rate for upland cotton was authorized by the Agricultural Act of 1964.

The Department also announced on 9 July 1964, that a sales-for-export programme for domestically grown extra-long staple cotton would begin shortly.

Dairy Products

Section 22 quotas currently in effect

During 1963-64 import controls under Section 22 were continued without change on butter, cheese of certain types and varieties, dried milk products, butteroil and other articles, with certain exception, containing 45 per cent or more butterfat.

The quotas in effect are: dried cream - 500 pounds; butter - 707,000 pounds; dried whole milk - 7,000 pounds; dried buttermilk - 496,000 pounds; malted milk and compounds - 6,000 pounds; dried skim milk - 1,807,000 pounds; Blue-mold cheese - 5,016,999 pounds; Cheddar cheese - 2,780,100 pounds; Edam and Gouda cheese - 9,200,400 pounds; Italian-type (cows' milk) cheese - 11,500,100 pounds; butteroil and butter substitutes - 1,200,000 pounds; articles containing 45 per cent or more butterfat - 0.

Reasons why such restrictions continue to be applied

The Agricultural Act of 1949, as amended, requires price support for milk and butterfat to producers at such a level, between 75 and 90 per cent of parity, as will assure an adequate supply. The Act specifies that such support be carried out by loans or purchases of milk and its products. The support level is 75 per cent of parity, the minimum permissible level, for the 1964-65 marketing year. The support prices are \$3.15 per hundred pounds for manufacturing milk, and 58.0 cents per pound of butterfat.

In carrying out the support programme for the marketing year which ended on 31 March 1964, the Department of Agriculture purchased 6.4 per cent of the milk fat and 11.9 per cent of the non-fat solids in the milk and cream marketed by farmers.

The net expenditure by the Commodity Credit Corporation for dairy support programmes during this period approximated \$377 million. This does not include expenditures under the Special Milk Programme of approximately \$99 million.

The utilization of Government-owned dairy products during the 1963-64 marketing year (1 April-31 March) compared with 1962-63 were as follows:

	Butter ¹		Cheese ²		Non-fat dry milk	
	1962-63	1963-64	1962-63	1963-64	1962-63	1963-64
	Million Pounds					
Commercial	.2	.5	2.4	1.7	-	1.1
domestic sales						
Animal feed sales	-	-	-	-	23.5	60.1
Commercial export sales:						
Dollar sales	8.7	85.1	1.4	1.8	96.7	133.9
Foreign currency	.7	1.1	.2	.5	17.0	9.0
Barter sales	1.4	11.3	-	-	33.7	40.9
Title IV	-	2.6	-	-	-	-
Total	(10.8)	(100.1)	(1.6)	(2.3)	(147.4)	(183.8)
Non-commercial						
export sales	-	-	-	2.8	.3	192.9
US Army transfers	31.1	38.8	2.7	3.2	-	-
Veterans Admin. transfers	2.8	2.5	-	-	-	-
Donations:						
Domestic	163.5	168.5	153.3	124.9	192.8	181.4
Foreign	51.9	236.2	39.3	-	606.8	618.5
AID-P.L.480 (Title II)	2.1	11.7	.3	-	83.0	37.6
Total utilizations	262.4	558.3	199.6	134.9	1053.8	1275.4

¹Includes butter equivalent of butteroil and ghee.

²Includes process Cheddar cheese.

Donations for domestic and foreign school lunch and Welfare uses are by far the principal outlets.

In addition payments on the export of 1.6 million pounds of butter and 251.8 million pounds of non-fat dry milk were made under the Payment in Kind Programme.

Uncommitted stocks on 30 June 1964, in millions of pounds were: Butter - 118; cheese - 20; and non-fat dry milk - 92 million pounds.

During the calendar year 1963, United States milk production for forty-eight States was 124.6 billion pounds, 1.2 billion pounds below 1962. Milk production per cow was 7,545 pounds compared with 7,391 pounds in 1962. Total milk production for 1964 will probably exceed the 1963 level by about a billion pounds. During the first six months of 1964 production of milk was 600 million pounds above the corresponding period in 1963. The increase is due to higher production per cow and the added day of production due to leap year.

Milk consumption gained 0.4 billion pounds in 1963

Domestic civilian disappearance of milk in all products during calendar 1963 was 117.1 billion pounds (milk equivalent), compared with 116.7 billion in 1962. This gain was attributable to the increase in commercial consumption of fluid products, cheese, and frozen products and to increased use of milk through welfare programmes, and the national school lunch and special programmes.

Dairy purchases by CCC recorded on a delivery basis, for the marketing years 1956-63 were as follows:

Marketing year be- ginning 1 April	Production Mil. lb.	Deliveries to CCC			Milk equiv. of deliveries	
		Butter Mil. lb.	Cheese Mil. lb.	Non-fat dry Milk Mil. lb.	Quantity Mil. lb.	Percent of Milk production percent
1956-57	124,734	154.4	197.2	736.1	5,100	4.1
1957-58	124,309	215.1	248.3	907.4	6,891	5.5
1958-59	123,245	150.2	34.7	825.8	3,557	2.9
1959-60	122,632	135.2	50.3	856.8	3,390	2.8
1960-61	122,865	154.4	.2	837.2	3,305	2.7
1961-62	125,895	434.9	191.3	1,275.4	11,180	8.9
1962-63	125,470	347.1	136.9	1,278.8	8,791	7.0
1963-64	125,134	291.1	121.8	922.8	7,482	6.0

¹ Does not include Payment-in-Kind.

These data show that during the dairy marketing year ending 31 March 1964 deliveries of butter, cheese, and non-fat dry milk to CCC were lower than during the previous year by 56.0, 15.1 and 356.0 million pounds, respectively. The substantial reduction in dry milk deliveries was due primarily to increased exports under the Payment-in-Kind programme which totalled 252 million pounds in 1963-64 compared with 24 million pounds in 1962-63.

Deliveries to the Government and Payment-in-Kind exports for which certificates were issued during April, May, and June 1964 and the corresponding months in 1963 were as follows:

Item	Deliveries		PIK exports		Total	
	1963	1964	1963	1964	1963	1964
	Million pounds					
Butter	147.2	135.4	--	15.9	147.2	151.3
Non-fat dry milk	345.6	215.1	54.0	146.0	399.6	361.1
Cheese	31.9	36.9	-	-	31.9	36.9

Peanuts

1. Section 22 quotas in effect

No changes were made in 1963-64 in the import quota established for peanuts under Section 22. The peanut quota of 1,709,000 pounds, shelled basis, during any twelve months beginning 1 August (a) is on a continuing basis; that is, it continues in effect from year to year unless modified; (b) includes peanuts whether shelled, unshelled, blanched, salted, prepared, or preserved (including roasted peanuts but not including peanut butter); and, (c) is global, that is, no specific country quotas are established.

2. Reasons why such restrictions continue to be applied

Import controls on peanuts are being continued in 1964-65 to prevent imports from materially interfering with United States Government programmes and operations relating to peanuts. During the 1964 crop season there is an acreage allotment and marketing quota programme for peanuts and a peanut price support programme which includes the Government's commitment to purchase farmers' stock, cleaned and shelled peanuts from shellers co-operating in a quality improvement programme. Storage and disposal operations also are a part of the price support programme. These are described in more detail below.

(a) Programmes - Price support for peanuts is mandatory each year under Title 1 of the Agricultural Adjustment Act of 1949, as amended, at a level of 75 to 90 per cent of parity when producers have approved marketing quotas. For 1964 the preplanting level of support has been announced at a national average of \$224 per short ton. This represents 79 per cent of the March 1964 parity. The support level in relation to parity is determined in accordance with the law which provides that minimum support be within the range of 75 to 90 per cent of parity according to the relationship of the expected total supply to the normal supply.

On 11 December 1962 peanut farmers voted in a referendum to determine whether they desired marketing quotas for the 1963, 1964 and 1965 marketing years. The quotas were approved by 96.9 per cent of the farmers voting in the referendum. A favourable vote of two thirds or more is required to place the quotas in effect.

The national acreage allotment of 1,612,612 acres established for 1964 is the 1,610,000 acres minimum authorized by law adjusted upward by 2,612 acres for Valencia peanuts in accordance with provisions of the Agricultural Adjustment Act of 1938, as amended. This allotment is almost the same as that for 1963.

(b) Supply situation - The United States is confronted with a surplus situation on peanuts. Despite the programme to limit production and dispose of surplus, peanut supplies in 1964-1965 in the United States are expected to exceed domestic food and farm use. Data on United States peanut production domestic consumption and exports as edible peanuts, and acquisitions under price support are shown in the table below for each of the marketing years 1950-64.

Year beginning 1 August	Production	Imports	Domestic consumption and exports ¹	Stocks end of year	Acquired under Price Support
Million pounds, Farmers Stock Basis					
1950	2,035	0	1,891	347	835
1951	1,659	-	1,594	412	540
1952	1,356	-	1,348	420	106
1953	1,574	-	1,711	283	269
1954	1,008	180	1,267	204	0
1955	1,548	5	1,390	367	268
1956	1,607	5	1,552	427	354
1957	1,436	2	1,528	337	108
1958	1,814	2	1,657	496	383
1959	1,588	1	1,690	395	246
1960	1,786	2/	1,841	340	299
1961	1,740	3	1,725	358	231
1962	1,810	3	1,804	366	303
1963 ³	2,022	2	1,943	400	368
1964 (unofficial estimate)	1,939	2	-	-	-

¹Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss and shrinkage.

²Less than 500,000 pounds.

³Preliminary.

Source: The Fats and Oils Situation, published five times yearly by Economic Research Service, USDA.

The total supply of peanuts in the United States for 1964-65 is expected to be about 2,341 million pounds compared with an average supply of 2,208 million pounds for the five years 1959-63. The composition of the supply for 1963 and recent years may be seen in the above table.

(c) Price support activity - The price support activity carried out by CCC in the 1963-64 marketing season and announced for the 1964-65 marketing season provides that farmers may receive price support through farm-stored loans, direct sales of peanuts to CCC, and warehouse loans through peanut grower associations. During the 1963-64 marketing year 338 million pounds of farmers stocks were placed under loan, of which 63 million pounds were redeemed. For the 1964-65 year it is anticipated that the quantity placed under loan will approximate only 100 million pounds because the quality improvement programme will enable producers to sell larger quantities of farmers stock through regular trade channels.

Through the 1964-65 price support programme CCC and the peanut industry are co-operating to improve the quality of peanuts used for food products. Shellers who buy from producers only high quality 1964 crop farmers stock peanuts eligible for price support and sell into the edible market only high quality shelled or cleaned peanuts produced from such farmers stock, will be eligible to sell to CCC the lower grade and inedible quality kernels obtained in the milling process. This programme moves lower quality peanuts through CCC for diversion into oil. CCC will also purchase from such shellers the farmers stock, cleaned and shelled peanuts which may be in excess of demands in the market place. CCC's willingness to purchase these peanuts will encourage the movement of good peanuts through regular trade channels and assure manufacturers of an adequate supply.

3. Steps to solve the problem of surplus

The positive measures taken by the United States with a view to the solution of the problem of surpluses have followed two principal approaches:

(a) Acreage in peanut production has been reduced sharply under the acreage allotments and marketing quotas to the adjusted minimum specified by law. The national acreage allotment serves as a basis for determining the size of the individual farm allotments. The national basic allotment of 1,610 thousand acres for 1964 is less than one half of the 3,296 thousand acres from which peanuts were picked and threshed in 1948, the last year in which acreage allotments were not in effect. Despite this reduction in acreage, peanut farmers voted overwhelmingly in December 1962 for continuation of acreage allotments for the three years 1963, 1964 and 1965. When acreage allotments are in effect any producer who knowingly exceeds his farm allotment is denied price support on any peanuts produced on that farm. In addition, the marketing quota regulations require that the farmer pay a penalty of 75 per cent of the loan rate on the excess quantity produced.

(b) For many years excessive quantities of peanuts acquired by CCC under the price support programmes have been sold for crushing into oil or for export as raw peanuts. However, beginning in the spring of 1964, CCC has also sold peanuts for processing and export as salted peanuts, roasted peanuts, and peanut butter. During the 1963-64 marketing year, CCC sold about 267 million pounds, farmers stock basis, of peanuts for domestic crushing and export. Of this quantity approximately 120 million pounds were exported.