

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Eleventh 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 the problem of surpluses of agricultural commodities.

As in previous years, and in keeping with the language of the waiver, all imported commodities currently subject to regulation under Section 22 are reviewed in this report, whether or not 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 programme, 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 January 1966, 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. Legislation enacted in 1964 providing for marketing allocations for the 1964 wheat crop were continued for the 1965 crop. Marketing allocations, like marketing quotas are based on 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 1966 relate to about 125,000 farms and cover about 13.4 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, 1964 and 1965 are shown in the following table:

Price Support Levels: Section 22 Commodities

Commodity	Unit	Support Price <sup>1</sup>			Support level as % of parity		
		1954	1964	1965	1954	1964	1965
Wheat	bu.	\$2.24	\$1.30 <sup>2</sup>	\$1.25 <sup>2</sup> <sub>4</sub>	90	52 <sup>2</sup>	60 <sup>2</sup>
Cotton, Upland <sup>3</sup>	lb.	.3403	.30	.29	90	72	69
Cotton, extra long staple	lb.	.6552	.4925	.4925	90	66	66
Peanuts	lb.	.122	.112	.112	90	79	77
Dairy Products:							
Butter-fat	lb.	.562	.58	.594	75	75	75
Mfgr. milk	cwt.	3.15	3.15	3.24	75	75	75

<sup>1</sup>National average rate.

<sup>2</sup>Represents national average loan rates. For 1965, as in 1964, participating producers received marketing certificates for their proportionate share of domestic and export requirements. The face value of these certificates in 1965 was fixed at 75¢ and 30¢ per bushel, respectively (see commodity section for discussion).

<sup>3</sup>Basis middling 1 in., average location.

<sup>4</sup>Additional price support payments of 4.35¢ per lb. in form of payment-in-kind certificate if acreage planted in 1965 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.

Despite minor setbacks from frost and hurricane damage, 1965 was a record harvest year. The "all crop" production index of 117 is 7 points (6 per cent) above last year and 5 points above the previous high in 1963. The composite index of yields per acre was 123 - 6 per cent above the previous high of 116 in 1963.

Positive Efforts to Increase Consumption

A brief statement of the efforts to increase consumption of agricultural commodities through food assistance programmes, both at home and abroad, follows:

1. Fluid Milk Programme

The United States Government continues to operate the Special Milk Programme specially directed at increasing milk consumption through which the costs are shared. Although the Military and Veterans Administration Milk Programme was terminated on 30 June 1965, the Congressional action has permitted these agencies to purchase fluid milk at the same rate as under the terminated programme.

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 billion half pints (1.6 billion lbs.) of milk which were purchased by children in these schools and institutions throughout the United States. Legislation provides for the continuation of this programme through 1 July 1967. In addition, legislation enacted in 1965 authorizes the Secretary of Agriculture to purchase dairy products at market prices to meet programme requirements for schools, domestic relief distribution, community action, foreign distribution, and other programmes.

The Military and Veterans Administration purchases have stimulated the expanded use of milk. United States Armed Forces and Veterans Hospital Patients increased their consumption of milk over the standard ration by more than 500 million lbs. annually. This increase in fluid consumption reduces the quantity of milk which otherwise would be available for the manufacture of dairy products and correspondingly reduces purchases by the Commodity Credit Corporation (CCC) for price support purposes.

In addition, 42.7 million lbs. of butter and 4.4 million lbs. of cheese were transferred to military agencies by CCC during the dairy marketing year ending 31 March 1965. Through 31 December 1965 of the 1965-66 marketing year the CCC had transferred 24.8 million lbs. of butter, 1.7 million lbs. of cheese and 0.4 million lbs. of non-fat dry milk.

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 1965 the Federal Government purchased, under Section 6 of the National School Lunch Act, as amended, 311 million lbs. of food valued at about \$59 million for distribution to schools participating in this programme. In fiscal year 1964, such purchases amounted to 257 million lbs. valued at \$59 million.

In addition to this Section 6 food distribution, the Federal Government made cash grants in aid to the States totalling slightly over \$130 million in fiscal year 1965. In fiscal year 1964, these cash grants amounted to \$120.8 million. Federal donations represent only part of the programme cost since local contributions and children's payment 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 1965, approximately 2.0 billion lbs. of food costing over \$469 million was donated through domestic outlets. This compares with 1.9 billion lbs. costing \$370 million in the preceding fiscal year. Beneficiaries of these surplus foods included about nineteen million school children, 1.3 million needy persons in charitable institutions and more than 5.8 million needy persons in family units in participating States, territories and possessions. The foods donated included dry beans, bulgur, beef products, butter, cheese, corn meal, date pieces, dried eggs, flour, lard, chopped meat, non-fat dry milk, canned olives, peanut butter, pears, dried peas, plums, dried prunes, rice and rolled wheat.

4. The Food Stamp Programme

Prior reports commented upon a pilot Food Stamp Programme under which low-income families certified as in need of food assistance by State and local welfare agencies, purchase food coupons in amounts that reflect their normal level of food expenditure, based on family size and income. They receive coupons of greater value to improve the level of their diets. The coupons are spent like cash to buy any food - produced in the United States - out of regular commercial supplies at local stores authorized to redeem the coupons. 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 stores sales increased 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 1965, the pilot programme was progressively expanded until it was operating in 110 counties and cities in twenty-nine States. In June 1965, about 633,000 participants paid \$6,651,000 for coupons and received free an additional \$3,989,000 worth, meaning that the recipients paid about 62¢ for every dollar of coupons they received. The United States Government's total contribution to the programme for the fiscal year 1965 was \$32.5 million in bonus coupons. Participants paid an additional \$53.0 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 areas of the country which desire to participate. This action was accomplished through the passage of the Food Stamp Act of 1964. 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. It is anticipated that about 1.3 million people in forty States and the District of Columbia will be in the programme by 30 June 1966.

5. Activities carried on under Public Law 480

A Special Assistant responsible to the Secretary of State directs the Food-for-Peace Programme and co-ordinates other operations under Public Law 480. The Food-for-Peace Programme is directed toward seeking additional and improved ways to make available United States food abundance for the under-nourished 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 sold 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 1965, twenty-eight agreements and amendments were entered into with eighteen countries under this programme, involving a total export market value (including certain ocean transportation costs) of \$682.2 million. Actual shipments during that year had an export market value of about \$1,128 million (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 to promote economic and community 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 1965, commitments undertaken amounted to \$236 million on the basis of the cost of the commodities including authorized transportation costs.

The commodities actually exported under Title II included: bread grains, coarse grains, fats and oils, dry beans, and milk and milk products.

The CCC cost of these exports was \$72.4 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 2.7 billion lbs. of food to needy persons in 113 countries and territories during the year ending 30 June 1965. The export market value of this food was \$164 million (excluding ocean transportation). The foods donated included non-fat dry milk, butter, butter-oil, ghee, corn, cornmeal, milo, beans, vegetable oils, wheat, and wheat products (flour, bulgur and rolled wheat).

Foods donated under both Title II and Title III during fiscal 1965 reached an estimated 42 million needy people overseas plus about 46 million school children.

(d) Barter (Title III)

The United States, under this and other authorities such as the CCC Charter Act, barter surplus agricultural commodities for (1) materials to meet requirements of other Government agencies; (2) materials which are less expensive to store or less subject to deterioration, and of which the United States does not domestically produce its requirements; (3) materials, goods, equipment, or services required in connexion with foreign economic and military assistance programmes; and (4) materials, equipment, or services required in substantial quantities for off-shore construction programmes. Approximately 122 countries and territories have received agricultural commodities under the barter programme through 30 June 1965. Agricultural commodities exported under barter contracts during the year ending 30 June 1965 totalled approximately \$129.9 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 periods of up to ten years and for credit to be extended over periods of up to twenty years.

During the year ending 30 June 1965, seventeen agreements and amendments were entered into with ten countries for the sale of agricultural commodities having an export market value (including certain ocean transportation costs) of \$212.9 million. Commodities actually exported had an export market value of about \$150.3 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 United Nations in April 1962. This programme was operated on an experimental basis for a period of three years ending 31 December 1965; however, the United States pledged \$130 million for its continuation over the next three years. This amount is in addition to the balance remaining of that pledged in 1963. The purpose of this programme 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 the pre-school and school feeding, and (3) meet emergency needs.

For the next three years the United States has pledged \$92 million in commodities and \$33 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.

Through 31 December 1965, the United States has shipped more than \$13.3 million worth of commodities to fifty-two countries as the United States contribution to WFP projects.

(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.

In fiscal year 1965, local currency contributions worth about \$15 million were approved for eighty market development projects under the co-operative and trade fair programmes. Also sixty-one marketing and utilization research grants were awarded totalling nearly \$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 merchandizing 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.

### 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 1965-66 cotton marketing year. There have been no changes in import quotas for these products during the past year. The 1965-66 import quotas for cotton, which continue in effect each year unless changed, are as follows:

- (a) Upland cotton - Cotton under 1 1/8 ins. (other than rough or harsh under 3/4 in.) - 14,516,822 lbs. annually during the quota year beginning 20 September.
- (b) Long staple cotton - Cotton 1 1/8 ins. and longer:
  - (1) 39,590,778 lbs. annually during the quota year beginning 1 August, for cotton having a staple length of 1 3/8 ins. or more.
  - (2) 6,065,642 lbs. annually for cotton having a staple length of 1 1/8 ins. or more but less than 1 3/8 ins: Provides that of such 6,065,642 lbs. not more than 1,500,000 lbs. shall consist of rough or harsh cotton, white in colour, and having a staple length of 1 5/32 ins. or more but less than 1 3/8 ins., 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 ins., comb waste, lap waste, sliver waste and roving waste - 5,482,509 lbs. 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 lbs. annually during the quota year beginning 11 September.

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

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

During the 1964 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 was necessary to continue import quotas on cotton and cotton waste in order to meet the requirements of Section 22 provisions. The implications of the new support programme, which will not go into effect until 1 August 1966, are not yet clear with respect to the question of the continuing need for import quotas. These programmes and the conditions which make necessary the continuation of import regulations are explained in detail below.

Upland cotton

Programmes - The Agricultural Act of 1964, applicable from the date of enactment on 11 April 1964, through 31 July 1966, was 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 authorized \$10 million for a special research programme to develop measures for reducing the production cost of cotton.

The basic minimum national acreage allotment of 16.0 million acres proclaimed under legislation existing 11 October 1963 was continued for 1965. Producers electing to plant within the national allotment in 1965 were eligible for price support loans of 29¢ per lb., gross weight, basis Middling 1 in. cotton at average location. This compared with the 1964 crop price support rate of 30.00¢ per lb.

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 1965 national allotment. This acreage was about two thirds of the national allotment. Producers electing to plant within the domestic allotment received a price support payment calculated by multiplying the normal yield established for the farm, times 4.35¢ per pound, times the acreage planted for harvest. Thus, for such farms, the effective price support rate was 33.35¢ per lb.

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 domestic cotton users at the rate of 6.5¢ per lb. on all bales opened by them. Beginning 1 August 1964 payments in kind were made at the same rate to cotton handlers (mills, exporters, and others who have entered into agreements with CCC) who furnished satisfactory assurance that such cotton, or an equal quantity, was consumed domestically or exported. On 1 August 1965, the PIK rate was reduced to 5.75¢ per lb. to reflect the lower price support for the 1965 crop. This rate is expected to be continued through 31 July 1966. The rate in effect at that time will also be available on eligible cotton in inventory as of midnight, 31 July 1966 to cotton handlers.

The provisions of the Agricultural Act of 1964 relating to payments on cotton will expire on 31 July 1966, and at that time it will be replaced by the "Food and Agricultural Act of 1965". The new law will be effective for the 1966 through 1969 crops of upland cotton. It continues the one-price programme, maintains the national acreage allotment of 16.0 million acres, and retains the domestic allotment concept. But the new law differs from the Agricultural Act of 1964 in several respects. Producers who co-operate by planting less than their allotted acreage will receive direct payments. At the same time, price support loans are dropped below world price levels in an effort to allow cotton to move freely into domestic and export markets.

The new programme establishes a domestic allotment within the farm allotment of not less than 65 per cent of the farm allotment but, except for small farms, a reduction of 1966 of at least 12.5 per cent from each farm's allotment is required for participation in the programme. Producers may divert up to 35 per cent of their farm allotment. The payment rate on all diverted acreage for the 1966 crop will be 10.5¢ per lb. on the projected production of the diverted acreage. (Small farms - those with allotments of 10 acres or less or those whose projected production is 3,600 lbs. or less are exempt from the mandatory acreage reduction. They will receive the same price support provided to other producers and a diversion payment as if they had reduced their acreage 35 per cent. Also they may receive additional payments if they actually divert a portion of their allotment.)

The loan rate for Middling 1 in. cotton at average location is set at 21¢ per lb. for the 1966 crop, compared with 29¢ in 1965. For each of the crops in 1967 through 1969, the loan rate may not exceed 90 per cent of the estimated world market price during each marketing year. Direct payments are provided to producers on a quantity of cotton determined by multiplying the projected yield for the farm by the acreage permitted to be planted. The direct payment rate for the 1966 crop will be 9.42¢ per lb.

The new legislation also permits holders of 1965 acreage allotments to plant cotton in excess of their 1966 allotments without penalty, provided they are willing to forego all price support and payments. However, total acreage planted outside farm allotments may not exceed 250,000 acres for the entire United States, and producers who elect this alternative must export their entire cotton production.

Supply situation for upland cotton - Total supply for the 1965-66 marketing year is estimated at 29.1 million bales, compared with 27.3 million bales for 1964-65. The 1965 acreage for harvest is estimated at 13.5 million acres. This compares with 14.0 million acres in 1964.

Carryover - Carryover 1 August 1965 is estimated at 14.0 million bales, compared with 12.1 million bales in 1964.

Production - The 1965 crop is estimated (December Crop Report) at 15.0 million bales, compared with 15.1 million in 1964.

Imports - Imports in 1965-66 are expected to be about 35,000 bales, same as imported in 1964-65.

Disappearance - Total disappearance in 1965-66 is estimated at 12.8 million bales, compared with 13.1 million in 1964-65.

Price support activity - Commodity Credit Corporation stocks on 1 August 1965 are estimated at 11.4 million bales, compared with about 10.2 million on 1 August 1964. During the marketing year ending 31 July 1965, cotton placed under loan amounted to 7.3 million bales of which about 2.5 million were redeemed.

#### Long staple cotton<sup>1</sup>

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 1965 crop extra long staple cotton is based on the average rate of 49.25¢ per lb., net weight, for American Egyptian cotton, 44.25¢ per lb. net weight, for Sea Island cotton and 39.25¢ per lb. net weight, for Sealand cotton.

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

Acreage allotments and marketing quotas were continued for the 1965 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 or 50 per cent of the support price) on his excess extra long staple cotton. The 1965 acreage allotment was 77,758 acres, of which 74,700 acres were harvested, compared with 112,500 acres allotted and 107,100 acres harvested in 1964. The 1966-67 acreage allotment is 81,400 acres. Marketing quotas will be in effect, and the average price support rate will remain unchanged from 1965.

Supply situation for extra long staple cotton - Legislation in 1957 directed that 50,000 bales of domestic extra long staple cotton in the United States stockpile of strategic materials be transferred to CCC and sold for unrestricted use at not less than the higher of 105 per cent of the current support price plus reasonable carrying charges, or the domestic 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 plus reasonable carrying charges. 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 31 December 1965, 40,642 bales of this cotton remained in CCC stocks.

The 1964-65 supply is made up as follows:

Carryover - The carryover on 1 August 1965 was estimated at about 259,300 bales, including unsold cotton released from the stockpile. This compares with 255,200 bales on hand a year earlier.

Production - The 1965 crop is estimated (December Crop Report) at 85,800 bales, compared with 119,900 bales in 1964.

Imports - Imports of extra long staple cotton in 1965-66 are estimated to equal the import quota of 82,500 bales (39,590,778 lbs.). Roughly three quarters of imports are from United Arab Republic and the remainder almost entirely from Peru and Sudan.

Disappearance - Disappearance in 1965-66 is expected to be around 185,000 bales, consisting of about 155,000 bales consumed and about 30,000 exported.

Price support activity - During the 1964-65 season, 52,120 bales of extra long staple cotton was placed under loan and 23,114 bales were redeemed.

3. Steps taken to reduce the surplus of cotton

During the 1965-66 season, efforts to reduce the surplus of cotton were continued. These efforts are 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 - In the above efforts to reduce the surplus of cotton, the United States continued acreage allotments in 1965. The national acreage allotment for upland cotton was maintained at 16.0 million acres, the same as in 1964, and the minimum prescribed by law. The national acreage allotment for extra long staple cotton was reduced from 112,500 acres in 1964 to 77,758 acres in 1965. In comparison, 26.9 million acres were planted to cotton in 1953, the last year without acreage allotments and marketing quotas.

Price support - Price support for the 1965 crop of upland cotton was announced at an average of 29¢ per lb., gross weight, basis Middling 1 in. cotton and for extra long staple at an average of 49.25¢ per lb. net weight. This reflects 69 per cent of the November 1965 parity for upland and 66 per cent of the November 1965 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 mentioned earlier, payments-in-kind at a rate of 5.75¢ per lb. are being made in 1965-66 to cotton handlers who furnish satisfactory assurance that the cotton, or an equal quantity of other cotton, has been or will be consumed domestically or exported before 1 August 1966. This provision of the Agricultural Act of 1954 was designed to make United States cotton available for domestic use at a price not in excess of the price at which such cotton is made available for export. Payments on eligible cotton in inventory, as of midnight, 31 July 1966 to cotton handlers are designed to eliminate any market disruption that might have arisen in the transition from the present programme to the new one provided for by the Food and Agriculture Act of 1965.

The Department of Agriculture announced on 10 December 1965, various provisions of the upland cotton disposal programme for the 1966-67 marketing year. Under the new programme, the Commodity Credit Corporation will make its stocks of cotton available at prices which will permit new-crop cotton to move in an orderly manner largely through normal trade channels. The CCC in 1966-67 will exchange cotton for

payment-in-kind certificates or for rights in the PIK pool established in connexion with the marketing of certificates for producers, and to satisfy barter contracts, and will sell cotton to satisfy the "short fall", which is the quantity by which domestic use and exports exceed production during the marketing year. First offers under the 1966-67 disposal programme will be opened in March with warehouse receipts to be delivered by CCC only after 31 July 1966. The minimum statutory prices at which cotton can be exchanged is the higher of the loan rate or the market price.

Commodity Credit Corporation will also continue to offer its cotton stocks for unrestricted use. In 1966-67 this cotton will be sold for not less than the higher of 110 per cent of the current loan rate or the market price. This is an increase from 105 per cent which is in effect for this season.

The Department of Agriculture will continue the sales-for-export programme for domestically grown extra long staple cotton announced on 9 July 1964.

#### Dairy Products

##### 1. Section 22 quotas currently in effect

During 1965-66 import controls under Section 22 are continued without change on butter, cheese of certain types and varieties, dried milk products, butter-oil, and other articles, with certain exception, containing 45 per cent or more butter-fat.

The quotas in effect are: dried cream - 500 lbs.; butter - 707,000 lbs.; dried whole milk - 7,000 lbs.; dried butter-milk - 496,000 lbs.; malted milk and compounds - 6,000 lbs.; dried skimmed milk - 1,807,000 lbs.; blue-mould cheese - 5,016,999 lbs.; Cheddar cheese - 2,780,000 lbs.; Edam and Gouda cheese - 9,200,400 lbs.; Italian-type (cow's milk) cheese - 11,500,100 lbs.; butter-oil and butter substitutes - 1,200,000 lbs.; articles containing 45 per cent or more butter-fat - 0.

##### 2. Reasons why such restrictions are applied

The United States Government has continued to carry out extensive measures for the solution of the dairy price and income problem, including marketing orders in fluid milk areas and the price support programme involving the purchase of manufactured dairy products.

The Agricultural Act of 1949, as amended, requires price support for milk and butter-fat to producers at between 75 and 90 per cent of parity. The Act provides for such support to 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 1965-66 marketing year. The support prices are \$3.24 per 100 lbs. for manufacturing milk, and 59.4¢ per lb. of butter-fat.

Under the dairy payment in kind (PIK) programme, Commodity Credit Corporation (CCC) payments were made to exporters of non-fat dry milk, butter, and other high milk-fat products, to enable them to export these products at prices competitive with world prices.

In carrying out the price support and related programmes for the marketing year which ended on 31 March 1965, the Department of Agriculture removed 7.6 per cent of the milk-fat and 12.3 per cent of the non-fat solids in the milk and cream marketed by farmers.

The net expenditure by the CCC for these programmes during this period approximated \$329 million. This does not include expenditures under the Special Milk Programme of approximately \$87 million.

The utilization of Government owned dairy products during the 1964-65 marketing year (1 April - 31 March) compared with 1963-64 was as follows:

	Butter <sup>1</sup>		Cheese <sup>2</sup>		Non-fat Dry Milk	
	1963-64	1964-65	1963-64	1964-65	1963-64	1964-65
			Million Pounds			
Commercial domestic sales	0.5	36.0	1.7	0.3	1.1	--
Animal Feed Sales	--	--	--	--	60.1	12.7
Commercial export sales:						
Dollar sales	85.1	29.3	1.8	2.0	133.9	18.9
Foreign currency	1.1	1.7	.5	1.7	9.0	2.2
Barter sales	11.3	8.6	--	--	40.9	2.4
Title IV	2.6	--	--	--	--	--
Total <sup>3</sup>	(100.1)	(39.6)	(2.3)	(3.8)	(183.8)	(23.5)
Non-commercial export sales	--	--	2.8	2.1	192.9	164.1
US Army transfers	38.8	40.3	3.2	4.4	--	--
Veterans Admin. transfers	2.5	2.5	--	--	--	--
Transfers, Sec.32 (Domestic)	--	106.1	--	91.1	--	48.2
Donations:						
Domestic	168.5	55.2	124.9	44.8	181.4	127.9
Foreign	236.2	4.0	--	--	618.5	383.4
AID-P.L. 480 (Title II)	11.7	2.3	--	--	37.6	33.3
Total Utilizations	558.4	287.0	135.0	146.4	1275.4	793.2

<sup>1</sup>Includes butter equivalent of butter-oil and ghee.

<sup>2</sup>Includes process Cheddar cheese.

<sup>3</sup>Does not include exports from commercial stocks of 115.5 million pounds of butter and 462.5 million pounds of non-fat dry milk under the Payment-in-Kind Programme.

Milk production and USDA market removals<sup>1</sup> for the marketing years 1956-65 were as follows:

Marketing year beginning 1 April	Production	USDA Market Removals <sup>1</sup>			Milk. Equiv. of Removals	
		Butter	Cheese	Non-fat dry Milk	Quantity	Per cent of Milk Marketings
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	per cent
1956-57	124,734	154.4	197.2	736.1	5,100	4.5
1957-58	124,309	215.1	248.3	907.4	6,891	6.1
1958-59	123,245	150.2	34.7	825.8	3,557	3.3
1959-60	122,532	135.2	50.3	856.8	3,390	3.1
1960-61	122,865	154.4	.2	837.2	3,305	3.0
1961-62	125,895	434.9	191.3	1,275.4	11,180	9.5
1962-63	125,470	347.1	136.9	1,303.0	8,791	7.5
1963-64	125,134	292.7	121.8	1,174.7	7,531	6.4
1964-65	126,707	352.5	134.6	1,122.9	8,937	7.6
1965-66 <sup>2</sup>	123,200	160.0	21.2	900	3,700	3.2

<sup>1</sup> CCC purchases (delivery basis) and Payment-in-Kind certificates issued.

<sup>2</sup> Partly forecast.

These partly forecast data show that during the 1965-66 marketing year ending 31 March 1966, removals of butter, cheese, and non-fat dry milk were lower than during the previous year, reflecting decreased production and a slightly increased domestic commercial use. Exports under the Payment-in-Kind Programme were substantially lower primarily because of increased production in Europe.

With market prices currently above support levels, there have been virtually no purchases of dairy products by CCC and government stocks are only nominal. Uncommitted CCC stocks on 4 March 1966, in millions of pounds were: butter - 0.1; cheese - 0; and non-fat dry milk - 3.8 million pounds.

During the calendar year 1965, US milk production was 125.1 billion pounds, 1.9 billion pounds below 1964. Milk production per cow was 8,080 pounds compared with 7,907 pounds in 1964. Domestic use of milk in all products (civilian and military) during calendar year 1965 was 122.4 billion pounds (milk equivalent), compared with 122.6 billion in 1964.

This gain was attributable to the increase in commercial consumption of fluid milk products and ice-cream and other frozen products. However the per capita civilian use of milk in all products fell from 628 lbs. to 623 lbs.

3. Need for continuing import quotas on dairy products

Under the dairy programme, supports have been in the lower part of the permissive range since 1954, and at a minimum legal level since 1 April 1962. Despite the minimum support levels it has been necessary for CCC to remove considerable quantities of milk in the form of dairy products from the market. Even with the reduced production in the current year, 1965/66, it is estimated that 4.0 billion lbs. of milk equivalent, at an estimated cost of \$200 million, will have been removed from the market by CCC. The amount so removed is in excess of removals in three of the previous nine years and represents about two thirds of the average removals in the 1956/57 to 1964/65 periods.

Prior to the 1963-64 marketing year, practically all of the dairy surplus was removed from the domestic market by CCC purchases. However, during the 1964-65 marketing year, drought reduced supplies in Europe increased exports, and much of the surplus was removed directly from commercial stocks through subsidized PIK exports. Therefore, even though CCC purchases were lower, costs to CCC, including PIK export subsidy payments, have remained substantial.

In an effort to solve the continuing United States problem, legislation was enacted in 1965 amending the Agricultural Marketing Agreement Act to authorize additional methods to attack the problem of reducing surplus milk production while maintaining the income of dairy farmers. In addition to providing for purchases of dairy products for domestic and foreign donation programmes, the law now authorizes a change in the pricing procedures in fluid milk markets which would tend to discourage production of surplus milk flowing into dairy products manufacture in these areas. The effect of this modification will not be immediately felt because of the considerable time required by the referendum procedures to amend the Federal Milk Marketing Orders.

In order to prevent imports from interfering with the domestic production, adjustment and price support programmes, it is necessary to retain import quotas on certain manufactured dairy products.

Peanuts

1. Section 22 quotas in effect

No changes were made in 1965-66 in the import quota established for peanuts under Section 22. The peanut quota of 1,709,000 lbs., 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 1965-66 to prevent imports from materially interfering with United States Government programmes and operations relating to peanuts. During the 1965 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 stocks, cleaned and shelled peanuts from shellers co-operating in a quality improvement programme under a marketing agreement. 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 I of the Agricultural Adjustment Act of 1949, as amended, when producers have approved marketing quotas. For 1965 the pre-planting level of support was announced at a national average of \$22<sup>4</sup> per short ton. This represents 77.2 per cent of the August 1955 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 23 November 1965, peanut farmers voted in a referendum to determine whether they desired marketing quotas for the 1966, 1967 and 1968 marketing years. The quotas were approved by 97.7 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 1,613,056 acres established for 1965 is the 1,610,000 acres minimum authorized by law adjusted upward by 3,056 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 1964.

(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 1965-66 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 1950-65.

Year beginning 1 August	Production	Imports	Domestic consumption and exports <sup>1</sup>	Stocks end of year	Acquired under price support
(million lbs., 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	334
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	<u>2</u>	1,841	340	299
1961	1,740	3	1,725	358	231
1962	1,810	3	1,804	366	303
1963	2,022	2	2,010	380	368
1964 <sup>3</sup>	2,205	3	2,244	344	546
1965 <sup>3</sup>	2,490	3	2,430	--	--

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

<sup>2</sup>Less than 5,000,000 lbs.

<sup>3</sup>Preliminary.

**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 1965-66 is expected to be about 2,834 million lbs. compared with an average supply of 2,270 million lbs. for the five years 1960-64.

(c) Price support activity - The price support activity carried out by CCC in the 1964-65 marketing season and announced for the 1965-66 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 1964-65 marketing years, 402 million lbs. of farmers stocks were placed under loan, of which approximately 87 million lbs. were redeemed. For the 1965-66 year it is anticipated that the quantity placed under loan will approximate 465 million lbs.

Through the 1965 crop price support and marketing agreement programmes, the peanut industry, CCC, and the Consumer and Marketing Service of the Department of Agriculture are co-operating to improve the quality of peanuts used for food products. Shellers and the Secretary of Agriculture have entered into marketing agreements which require that shellers buy from producers only high quality 1965 crop farmers stock peanuts eligible for price support and sell only high quality peanuts into the edible market. Under the price support programme, CCC purchases farmers stock and shelled peanuts, including lower quality peanuts ineligible for sale for edible purposes, from shellers who comply with the marketing agreement.

### 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 allotment of 1,615,000 acres for 1965 is less than one half of the 3,296,000 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 November 1965 for continuation of acreage allotments for the three years 1966, 1967, and 1968. When acreage allotments are in effect any producer who knowingly exceeds his farm allotment is denied price support on any peanut 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. During the 1964-65 marketing year, CCC sold about 312 million lbs. farmers stock basis, of peanuts for domestic crushing and export.

Wheat

1. Section 22 quotas in effect

No changes were made in 1964 or 1965 in 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). The quotas of 800,000 bushels of wheat and 4 million lbs. of products during any twelve months, beginning 29 May, are on a continuing basis. That is, separate quotas for wheat and wheat products continue in effect from year to year for individual countries unless modified. 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 ex-quota under stipulated conditions.

2. Reasons why such restrictions continue to be applied

Import controls on wheat and wheat products are being continued to prevent imports from materially interfering with United States Government programmes and operations relating to wheat. There are in effect various programmes designed to stabilize production and bring supplies into better balance with requirements, as well as to stabilize prices and thus the income of domestic wheat producers. These programmes include acreage allotment, acreage diversion to conserving uses, marketing allocation, and price support, which includes the Government's commitment to make loans on or purchase all wheat grown by co-operators. Storage and disposal operations also are a part of the price support programme. These programmes are similar in most respects to, and serve the same purposes as the wheat programmes in effect since 1953. These are explained in more detail below.

(a) Programmes - Price support for wheat is mandatory under Title I of the Agricultural Act of 1949, as amended, and acreage allotments are mandatory under the Agricultural Adjustment Act of 1938, as amended. Market allocations are provided under the Agricultural Adjustment Act of 1938, as amended. Participation in the acreage allotment and marketing allocation programmes is a condition of eligibility for participation in the price support and land diversion programmes.

The price support programme for wheat harvested in 1966 involves the use of loans and marketing certificates. Loans, at a national average of \$1.25 per bushel, are available on all wheat produced by farmers who comply with their acreage allotments and other programme requirements. These producers also receive marketing certificates valued at the difference between the national average loan rate and the parity price at the beginning of the marketing year<sup>1</sup> on their marketing allocation. The latter is the amount of wheat estimated to be used during the marketing year for food products for consumption in the United States. For 1966 the national marketing allocation is equivalent to 45 per cent of the projected yield of farm allotments.

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<sup>1</sup>Parity for wheat during February 1966 was \$2.53 per bushel.

Processors of wheat for food purposes must buy certificates on wheat they handle. These certificates are purchased from CCC at a cost which equals the difference between the national average loan level and \$2.00 per bushel. The cost involved in the marketing certificate arrangements are thus reduced proportionately.

The national wheat acreage allotment established for 1966 is 47.8 million acres. This is the number of allotment acres determined in accordance with the Agricultural Act of 1938, as amended, to be needed to produce estimated requirements. With respect to wheat acreage and land use, participation in the price support programme requires the diversion to conserving uses of an acreage equal to 15 per cent of the farm allotment; the maintenance of the farm's conserving base, i.e., the acreage in grass and other soil-conserving uses in 1959-1960; planting within the farm acreage allotment, or within permitted acreage in the case of farmers who signed to divert additional acreage; and compliance with all other allotments as required by law, including cotton, peanuts, rice, and tobacco on that farm and with wheat allotments on all other farms in which a producer has an interest in the wheat crop. To maximize diversion of cropland from wheat, payments at the rate of 40 per cent of the county price support loan rate times the projected yield for the farm are made to producers for the voluntary diversion of any of their wheat allotment acreage up to the larger of 50 per cent of such farm allotment or 25 acres.

(b) Supply situation - The United States continues to be confronted with supplies of wheat in excess of requirements. Despite the programmes to limit production and dispose of excess, wheat supplies in 1965-66 total about 2,148 million bushels, 45 million bushels less than in 1964-65. This compared with total utilization of 1,375 million bushels in 1964-65, of which 512 million was used for domestic food purposes. With yields 12 per cent above average and the second highest of record, production in 1965 totalled 1,327 million bushels, the largest since 1961. The impact of yields is shown by the fact that in 1965 the acreage harvested was 31 per cent less, but production was 13 per cent greater than in 1953, the year before acreage allotments and marketing quotas were put into effect.

(c) Price support activity - The price support activities carried out by CCC in 1964-65, in effect for 1965-66, and announced for 1966-67 provide that farmers co-operating in the wheat programme may receive price support through loans on farm or warehouse-stored wheat and direct sales of wheat to CCC. Loans on 1965 wheat through 31 December 1965, covered 150 million bushels. In addition 68 million bushels from prior crops were under resale, i.e., extended loan. It is expected that 175 million bushels of the 1965 wheat will be acquired by CCC under the support programme. The CCC acquired about 107 million bushels during 1964-65 and 100 million bushels during 1963-64.

The CCC owned 646 million bushels of wheat on 1 July 1965, all acquired by deliveries from farmers under price support operations. Dispositions of wheat by CCC during 1965-66 may be about 260 million bushels, compared with about 288 million bushels disposed of in 1964-65.

In addition to loans and purchases, price support activity involves the issuance of marketing certificates under the wheat allocation programme. Certificates issued under the 1965 programme represent the farmer's proportionate share of the national marketing allocation for domestic food purposes and exports, and through 31 December 1965, represented \$465 million. The use of certificates, in combination with lower loan rates than prior to 1964, serve to maintain income to producers who participate in the voluntary production adjustment programme and effectively discourage farmers from increasing their wheat acreage while marketing quotas are suspended.

### 3. Steps taken to solve the surplus problem

Steps taken by the United States with a view to solution of the problem of the wheat surplus generally have followed two principal approaches:

(a) Measures to reduce acreage - For the 1965 wheat crop farm acreage allotments were at the minimum permitted 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 payments as an incentive to producers to divert, in addition to the minimum required for participation in the programme, up to 20 per cent of the farm allotment, or enough with the minimum to total 15 acres if this is larger. Nearly 3 million additional acres were signed up for diversion under this provision. Under the 1966 programme the minimum national acreage allotment was further reduced to 47.8 million acres. This is about 36 per cent below the acreage seeded to wheat in 1953, which is the last year prior to the imposition of production control programmes. The 1966 programme, like that for 1965, provides incentives for additional diversion. Wheat continues to be ineligible for support if produced without authorization on federally-owned land.

(b) Disposal operations - For a number of years disposal operations aimed at increasing outlets for wheat have been continuously in effect. These include donations of wheat and flour for domestic relief under Section 416 of the Agricultural Act of 1949, as amended; donations of wheat and flour for overseas relief under Titles II and III of Public Law 480; sales for foreign currency under Title I of Public Law 480, which continue to be obtained generally from free market supplies instead of from sales of CCC-owned stocks; barter; and, as necessary to compete in world markets and encourage wheat marketings through private trade channels, payments-in-kind on wheat exported from commercial stocks.