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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Twelfth 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 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. Since the last report there has been further action by the President under the provisions of Section 22. On 30 June 1967, after a Tariff Commission investigation and report to him, the President issued Proclamation No. 3790 expanding the quotas presently in effect on Cheddar cheese; and imposing quotas on other American-type cheeses, frozen cream, and certain articles containing 5.5 to 45 per cent butterfat. This action was made necessary because of increased import volume of certain dairy products not subject to quotas.

Imports of dairy products in 1966 totalled about 2.7 billion pounds of milk equivalent as compared with about .9 billion pounds in 1965. About 1.8 billion pounds of this increase was made up of articles placed under the new quota restrictions. These products were designed and produced only for the United States market to avoid the existing quotas and entered in such large quantities as to materially interfere with the price support programme. Until the new quotas were announced imports of these articles during 1967 were at the rate of about twice the 1966 level.

Steps Taken to Balance Agricultural Production with Demand

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. For wheat, acreage allotments and marketing allocations continued to be in effect for the 1967 crop. Marketing allocations, like marketing quotas, are based on marketing requirements and serve to limit acreage planted. Compliance with acreage allotments and marketing quotas is a condition of price support and other programme benefits.

Acreage diversion programmes also are used to balance production of various commodities with demand. In the case of cotton, legislation provides a minimum below which the acreage allotment may not be established; however, under an annual voluntary diversion programme, which provides diversion and price support payments to participating cotton growers, nearly 5 million additional acres are diverted from production. The Cropland Adjustment Programme established in 1966, offers farmers an opportunity to take land devoted to most principal crops out of production under longer-term contracts than the annual commodity programmes. In addition, cropland continues to be withheld from production under the conservation reserve programme. Conservation reserve contracts still in effect during 1967 cover about 11 million acres of cropland, and reduce the area available for production by that amount.

Price support levels for commodities regulated under Section 22 are shown below for 1966 and 1967.

Price Support Levels: Section 22 Commodities

Commodity	Unit	Support price	
		1966	1967
(dollars)			
Wheat	bu.		
Loan rate		1.25	1.25
Domestic Marketing Cert. ¹		1.32	1.36
Total or blend ²		1.84	1.73
Cotton, upland	lb.		
Loan rate ³		.2100	.2025
Payment		.0942 ⁴	.1153 ⁴
Cotton, extra long			
Staple	lb.	.4925	.4700
Peanuts	lb.	.1135	.1135
Dairy products			
Butterfat	lb.	.68	.68
Mfgr. milk	cwt.	4.00	4.00

¹Represents the difference between the loan rate and the parity price as of the beginning of the marketing year. Certificates issued to individual producers for their proportionate share of requirements for domestic food purposes, which were approximately 45 per cent of production for 1966 and 35 per cent for the 1967 crop.

²Represents a co-operator's issued receipts from loan plus certificate.

³Basis middling 1 inch, "average location".

⁴Earned on the farm's domestic allotment, which is 65 per cent of the farm allotment, by growers participating in a programme involving the diversion of at least 12.5 per cent of their farm allotment on all but small farms.

The above paragraph summarizes briefly steps taken to influence the supply. 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.

With a composite index of yield per acre of 123 (1957-59=100), the all crops production index for 1967 is estimated at 118, or three points above the 1965 record level of 115. (The 1966 index was 112.)

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 congressional action has permitted Military to maintain the same rate of consumption 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 100,000 schools and institutions. It also pays a part of the cost of over 3.2 billion half pints (1.6 billion pounds) of milk purchased by children in these schools and institutions throughout the United States.

The military purchases have stimulated the expanded use of milk. The United States Armed Forces 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.

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 1967 the Federal Government purchased, under Section 6 of the National School Lunch Act, as amended, 238 million pounds of food valued at about \$59 million for distribution to schools participating in this programme. In fiscal year 1966, such purchases amounted to 245 million pounds valued at \$58 million.

In addition to this Section 6 food distribution, the Federal Government made cash grants in aid to the States totalling slightly over \$149 million in fiscal year 1967. In fiscal year 1966, these cash grants amounted to \$140 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. During fiscal year 1967 foods costing over \$247 million were donated through domestic outlets. This compares with \$267 million in the preceding fiscal year. Beneficiaries of these surplus foods included about 21 million school children, 1.3 million needy persons in charitable institutions and more than 3.7 million needy persons in family units in participating States, territories and possessions. The foods donated included dry beans, beef products, butter, cheese, cornmeal, dried eggs, flour, lard, chopped meat, non-fat dry milk, 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 expenditures, 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 store sales increased an average of 3 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 1967, the programme was progressively expanded until it was operating in 838 counties and cities. In fiscal year 1967, almost 2 million participants paid \$190 million for coupons and received free an additional \$105 million worth, meaning that the recipients paid about 64 cents for every dollar of coupons they received.

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 1967-68 cotton marketing year. There have been no changes in import quotas for these products during the past year. The 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 $1 \frac{5}{32}$ inches or more but less than $1 \frac{3}{8}$ inches, and not more than 4,565,642 pounds shall consist of other cotton.

- (c) Cotton waste - Cotton card strips made from cotton having a staple length of less than $1 \frac{3}{16}$ 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 $1 \frac{1}{8}$ inches or more in staple length are on a global basis. Quotas in effect on cotton under $1 \frac{1}{8}$ inches and on designated cotton waste are on a country basis.

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

During the 1966 and 1967 crop seasons, the United States Government continued its extensive efforts to deal with the cotton surplus problem. It has had in operation, price support, production adjustment, and related surplus disposal programmes. Despite the tremendous progress made, the problem still exists and 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 make it necessary to continue import regulations are explained below.

Upland cotton programme. The 1967 crop season was the second year of operation of the Four-Year Upland Cotton Programme provided by the Food and Agriculture Act of 1965. This programme involves direct payments to farmers as an incentive to plant less than the acreage allotted on the basis of the statutory national minimum allotment of 16.0 million acres. Through this programme about 33 per cent of the allotment acreage on participating farms was diverted from cotton in 1967 as compared with 30 per cent in 1966.

The 1967 programme is essentially the same as in 1966. The 1967 price support loan rate for middling 1 inch cotton, at average location, is 20.25 cents per pound, gross weight. To be eligible for the price support loan farmers - except small ones - must reduce their planted acreage a minimum of 12.5 per cent of their allotted acreage. They may, however, divert up to a maximum of 35 per cent. In addition to the price support loan, co-operating farmers, i.e. those reducing their acreage and complying with other programme provisions, are eligible to receive (a) a diversion payment of 10.78 cents per pound on the projected production for the diverted acreage and (b) a price support payment of 11.53 cents per pound on the projected production for the acreage planted within the domestic allotment.

Small farms - farmers with 10 acres or less of cotton or those whose projected production is 3,600 pounds or less - are exempt from mandatory acreage reduction. If they plant within their allotment, they are eligible for a price-support loan and receive a diversion payment as if they had reduced their acreage 35 per cent. Moreover, they are eligible for additional payments if they actually divert a portion of their allotment.

Although the present programme permits cotton farmers to plant in excess of their allotments, such acreage may not exceed 250,000 acres for the entire United States. Those electing this alternative are ineligible for price support and other programme benefits. In addition, they must export their entire cotton production. Less than 40,000 acres were signed for in 1966 under this option. Participation in 1967 again was small.

Supply situation for upland cotton. Total supply for the 1967-68 marketing year is estimated at 20.4 million bales, compared with 26.3 million bales for 1966-67. The 1967 acreage for harvest is estimated at 8.5 million acres. This compares with 9.5 million acres in 1966 and 13.5 million in 1965.

Carry-over. Carry-over 1 August 1967 is estimated at 12.2 million bales, compared with 16.6 million bales in 1966.

Production. The 1967 crop is estimated (August crop report) at 8.1 million bales compared with 9.6 million bales in 1966.

Imports. Imports in 1967-68 are expected to be about 35,000 bales, same as in 1966-67.

Disappearance. Total disappearance in 1967-68 is estimated at 13.7 million bales, compared with 14.0 million bales in 1966-67.

Price-support activity. CCC stocks on 1 August 1967 are estimated at 5.8 million bales, compared with about 12.1 million bales on 1 August 1966. During the marketing year ending 31 July 1967, cotton placed under loan amounted to 3.1 million bales, about one half of which 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 1967 crop extra-long staple cotton

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 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.

is based on the average rate of 47.00 cents per pound, net weight, for American-Egyptian cotton, or 2.25 cents lower than a year earlier. Acreage allotments and marketing quotas were continued for the 1967 crop. 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 1967 acreage allotment was 70,500 acres, of which 67,500 acres are expected to be harvested, compared with 81,400 acres allotted and 78,000 acres harvested in 1966.

Supply situation for extra-long staple cotton. The 1967-68 supply is estimated at about 405,000 bales compared with 445,000 bales in 1966-67. The supply is composed of carry-over, crop and imports. These items follow:

Carry-over. The carry-over on 1 August 1967 was estimated at about 255,000 bales including unsold cotton released from the stockpile. This compared with 288,500 bales on hand a year earlier.

Production. The 1967 crop is estimated (September crop report) at 67,800 bales, compared with 72,900 bales in 1966.

Imports. Imports of extra-long staple cotton in 1967-68 are estimated to equal the import quota of 82,500 bales (39,590,778 pounds). Imports are primarily from United Arab Republic and Peru.

Disappearance. Disappearance in 1967-68 is expected to be around 170,000 bales, consisting of about 140,000 bales consumed and about 30,000 exported.

Price support activity. During the 1966-67 season, 38,063 bales of extra-long staple cotton were placed under loan and 16,108 bales were redeemed.

3. Steps taken to reduce the surplus of cotton

During the 1966-67 season, efforts to reduce the surplus of cotton were continued. These efforts consisted of production adjustment through acreage allotments and diversion payments and demand expansion through market promotion and sales programmes.

Production reduced. The United States Government, by continued use of acreage allotments, coupled with a diversion programme for upland cotton, encouraged United States producers to reduce cotton acreage in 1966. Planted acreage of upland cotton dropped from 14.1 million in 1965 to 10.3 million and was the smallest planted acreage in nearly 100 years. The reduced acreage resulted in a crop of only 9.5 million bales compared with 14.8 million bales harvested in 1965.

Acreage planted in 1967 was further reduced because of heavy producer participation in the acreage diversion programme and the current crop is expected to total only 8.1 million bales.

The 1966 national acreage allotment for extra-long staple cotton was 81,400 acres and production totalled 72,900 bales. In 1967, the allotment is 70,500 acres and production is estimated at 67,800 bales.

Price support reduced. The basic price support for the 1966 crop of upland cotton was set at 21 cents per pound for middling 1 inch, at average location. This compares with 29.00 cents in 1965. In 1967, the price support is 20.25 cents per pound.

The minimum loan rate of 47 cents for the 1967 crop of extra-long staple cotton is 2.25 cents a pound below the preceding year.

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 its sales policy, CCC makes United States cotton available for unrestricted use at a price which is competitive in both domestic and foreign markets, but not less than the higher of 110 per cent of the loan rate or the market price.

Under the present programme for upland cotton the Commodity Credit Corporation makes its stocks of cotton available at prices which permits new-crop cotton to move in an orderly manner largely through normal trade channels. The CCC in 1967-68 will continue to exchange cotton payment-in-kind certificates for rights in the PIK pool established in connexion with the marketing of certificates for producers, and to satisfy barter contracts.

In 1966-67, CCC sold 7.8 million bales of cotton under this programme. Sales for delivery in 1967-68 began in April and by the end of August amounted to about 3.0 million bales.

The Department continues the sales for export programme for domestically grown extra-long staple cotton as per announcement of 9 July 1964.

Dairy Products

1. Section 22 quotas currently in effect

During 1966-67 import controls under Section 22 of the Agricultural Adjustment Act, as amended, were continued on certain dairy products. The products and the annual quotas were as follows:

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 (cow's milk) cheese - 11,500,100 pounds; butteroil and butter substitutes - 1,200,000 pounds; articles containing 45 per cent or more butterfat - 0.

In April 1967, the President directed the Tariff Commission to investigate the effect of increased imports of other dairy products on the Department's price support programme for manufacturing milk and butterfat. On 30 June 1967, the President acted on the Tariff Commission's report and, effective 1 July 1967, restricted annual imports of fluid or frozen milk and cream to 1,500,000 gallons and articles with 5.5 per cent but less than 45 per cent butterfat classified as "edible preparations not specially provided for" to 2,580,000 pounds. These quotas are non-licensed and assigned to specified countries of origin.

In addition, American-type cheese, other than Cheddar, was limited to 6,095,600 pounds, and the annual Cheddar cheese quota was increased by 7,257,400 pounds to 10,032,400 pounds. Of the latter increase 1,225,000 pounds are restricted to Cheddar cheese made from unpasteurized milk and aged nine months or more and is on a global, first-come, first-served, basis. The remaining 6,032,400 pounds are licensed with the previous quota among historical and new business Cheddar importers and allocated to specified countries of origin. The American-type, other than Cheddar, quota is licensed among historical and new business importers of this type of cheese, and allocated to specified countries of origin.

2. Reasons why such restrictions are applied

Import controls on dairy products are being continued to prevent imports from materially interfering with United States Government programmes and operations relating to dairy. 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 dairy producers.

The Agricultural Act of 1949, as amended, requires price support for milk and butterfat 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. For the 1967-68 marketing year, the support level is 87 per cent of parity for manufacturing milk and 81 per cent for butterfat in farm-separated cream. The support prices are \$4.00 per hundred pounds for manufacturing milk, and 68.0 cents per pound of butterfat.

In carrying out the price support and related programmes in the marketing year which ended on 31 March 1967, the Department of Agriculture removed 2.4 per cent of the milkfat and 4.2 per cent of the solids non-fat in the milk and cream marketed by farmers. The net expenditure by the GOC for these programmes for the marketing year ending 31 March 1967, approximated \$182 million. This does not include expenditures under the Special Milk Programme of approximately \$97 million. From 1 April 1967 through 30 September 1967, purchases were 162 million pounds of butter, 119 million pounds of cheese, and 380 million pounds of non-fat dry milk, representing the equivalent of 4.7 billion pounds of milk on about 8.6 per cent of farm marketings. Expenditures were \$244 million.

The utilization of Government-owned dairy products during the 1966-67 marketing year (1 April-31 March) compared with 1965-66 was as follows:

	Butter ¹		Cheese ²		Non-fat dry milk	
	1965-66	1966-67	1965-66	1966-67	1965-66	1966-67
			Billion pounds			
Commercial domestic sales	35.3	-	-	-	4.7	-
Animal feed sales	-	-	-	-	6.4	0.7
Commercial export sales						
Dollar sales	10.8	-	1.2	-	48.7	-
Foreign currency	0.7	-	-	-	7.4	-
Barter sales	1.3	-	-	-	2.0	-
Title IV	-	-	-	-	-	-
Total	12.8	-	1.2	-	58.1	-
Non-commercial export sales	1.1	-	-	-	119.5	16.6
US Army transfers)						
) 30.6			1.7		6.4	
Veterans Admin., transfers)						
Donations						
Domestic	120.6	57.3	12.5	44.4	127.8	166.3
Foreign	0.1	6.1	-	-	377.6	115.4
AID-PL 430 (Title II)			-	-	73.3	215.6
Total utilizations	200.5	57.4	15.4	44.4	767.8	514.6

¹Includes butter equivalent of butteroil and ghee.

²Includes process Cheddar cheese.

Milk production and USDA market removals for the marketing years 1956-67 were as follows:

Marketing year beginning 1 April	Production	USDA market removals			Milk equiv. of removals	
		Butter	Cheese	Non-fat dry milk	Quantity	Per cent of milk marketings
	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Mil. lb.</u>	<u>Per cent</u>
1956-57	124,734	154.4	197.2	736.1	5,100	4.6
1957-58	124,309	215.1	248.3	907.4	6,890	6.1
1958-59	123,245	150.2	34.7	825.8	3,556	3.3
1959-60	122,675	135.2	50.3	856.8	3,388	3.1
1960-61	123,211	154.4	.2	837.2	3,305	3.0
1961-62	126,345	434.9	191.2	1,275.4	11,180	9.5
1962-63	125,811	347.1	136.9	1,303.0	8,810	7.5
1963-64	126,188	292.7	121.8	1,174.7	7,538	6.4
1964-65	126,890	352.5	134.6	1,223.0	8,945	7.5
1965-66	122,186	161.7	21.2	885.3	3,687	3.3
1966-67	120,333	109.1	39.9	420.4	2,722	2.4
Apr.-Sept. 67 ¹	62,700	162.4	118.7	380.1	4,651	8.6

¹Preliminary.

Uncommitted Government stocks on 31 August 1967, (in millions of pounds) were: butter - 133; cheese - 46; and non-fat dry milk - 122 million pounds. Stocks of butter, cheese and non-fat dry milk are sharply above year-earlier levels. This reflects increased CCC purchases of dairy products this year under the dairy support programme.

During the calendar year 1966, United States milk production was 120.2 billion pounds, 3.9 billion pounds below 1965. Milk production per cow was 8,513 pounds compared with 8,304 pounds in 1965. Domestic use of milk in all products (civilian and military) during calendar year 1966 was 119.4 billion pounds (milk equivalent), compared with 121.5 billion in 1965. Per capita civilian use of milk fell from 616 pounds in 1965 to 602 pounds in 1966.

3. Need for continuing import quotas on dairy products

Largely because of imports it was necessary for CCC to acquire about 7 billion pounds milk equivalent from January through September 1967 at a cost of approximately \$357 million. This compares to acquisitions of 3.2 billion pounds, milk equivalent, for the same period in 1966.

Without the new restrictions, 1967-68 imports would have at least continued at the annual rate of 4.4 billion pounds milk equivalent experienced during January-June 1967, and CCC removals would have been at least 2½ billion pounds greater than presently projected. Since August prices have been below year earlier levels and are expected to continue so through the remainder of the 1967 calendar year. Prices would have declined further in the absence of the import restrictions which are now in effect.

Peanuts

1. Section 22 quotas in effect

No changes were made in 1966-67 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 1967-68 to prevent material interference with United States Government programmes and operations relating to peanuts. During the 1967 crop season there is an acreage allotment and marketing quota programme and a price-support programme for peanuts. The latter includes the Government's commitment to purchase 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 at not less than 75 per cent of parity under the Agricultural Adjustment Act of 1949, as amended, when producers have approved marketing quotas. For 1967 the national level of support is \$227 per short ton. This represents 75.2 per cent of the August 1967 parity. The support level in relation to parity is determined on the basis of the expected total supply to the normal supply. 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 97.5 per cent of the farmers voting in the referendum. A favourable vote of two thirds or more is required to place such quotas in effect.

The national acreage allotment of 1,612,780 acres established for 1967 is the 1,610,000 acres minimum authorized by law adjusted upward by 2,780 acres for Valencia peanuts in accordance with provisions of the Agricultural Adjustment Act of 1938, as amended. This national allotment is almost the same as it has been each year for the last ten years.

(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 1967-68 are expected to exceed domestic food and farm use. Annual data on peanut production, consumption, exports, stocks and acquisitions under the price support programme are shown below, beginning with the 1956 marketing year.

Year beginning 1 August	Production	Imports	Domestic consumption ¹ and exports	Stocks end of year	Acquired under price support
million pounds, farmers stock basis					
1956	1,657	5	1,552	427	334
1957	1,436	2	1,528	337	198
1958	1,614	2	1,557	495	383
1959	1,523	1 ²	1,625	395	245
1960	1,718	2	1,773	340	299
1961	1,657	3	1,643	358	231
1962	1,719	2	1,713	556	305
1963	1,942	2	1,930	380	358
1964 ³	2,099	2	2,140	341	554
1965 ³	2,384	1	2,343	383	700
1966 ³	2,411	2	2,410	386	700

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, Economics Research Service, USDA.

The total supply of peanuts in the United States for 1967-68 is expected to be about 2,943 million pounds compared with an average supply of 2,111 million pounds for the five years 1962-66.

(c) Price support activity

The price support activity carried out by CCC in the 1966-67 marketing season and announced for the 1967-68 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 1966-67 marketing year, 532 million pounds of farmers stocks were placed under loan, of which approximately 75 million pounds were redeemed. For the 1967-68 year it is anticipated that the quantity placed under loan will approximate 500 million pounds.

Through the 1967 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 1967-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 measure 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 for a decade been held to the minimum permitted by law. The national allotment of 1,113 thousand acres for 1967 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 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 allotments 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 disposed of at a loss, primarily for crushing into oil or for export as raw peanuts. During the 1966-67 marketing year, CCC sold about 700 million pounds, farmers stock basis, for domestic crushing and export.

Wheat

1. Section 22 quotas in effect

No changes were made in 1966 nor are any contemplated in 1967 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 pounds 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. The latter involves a Government 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 programme is a condition of eligibility for participation in the price support programme.

The price support programme for wheat harvested in 1967 and also in 1968 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. The same

national average loan rate - \$1.25 per bushel - has been announced for the 1968 programme. 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 year¹ on their marketing allocation. The latter represents the amount of wheat estimated to be used during the marketing year for food products for consumption in the United States. For 1967 and 1968 the national marketing allocation is equivalent to 35 and 40 per cent, respectively, of the projected yield of farm allotments.

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 (in 1967 and 1968, \$1.25 per bushel) and \$2.00 per bushel. The government cost involved in the marketing certificate arrangement is thus reduced proportionately.

The national wheat acreage allotment established for 1967 was 68.2 million acres, and an allotment of 59.3 million acres has been announced for the 1968 crop. 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 maintenance of the farm's conserving base, i.e., the acreage in grass and other soil-conserving uses in 1959-60; planting within the farm acreage allotment; 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.

(b) Supply situation

The United States continues to be confronted with supply adjustment problems for wheat. For 1966-67 wheat supplies totalled about 1,848 million bushels and for 1967-68 the total supply will be about 2,023 million bushels or 175 million more than 1966-67. Total utilization for 1966-67 was 1,422 million bushels of which 520 million bushels were used for domestic food purposes. Utilization for 1967-68 is estimated to be about 1,478 million bushels of which 525 million bushels will be for food. Increased acreage for harvest and increased yields will result in an all wheat production for 1967-68 of about 1,500 million bushels, an all time record. Carryover stocks during the marketing year 1967-68 are expected to increase about 120 million bushels above the 426 million bushels as of 1 July 1967. Acreage allotment for the 1968 crop has been reduced 13 per cent from the acreage allotment level for the 1967 crop.

¹Parity for wheat during September 1967 was \$2.61 per bushel.

(c) Price support activity

The price support activities carried out by CCC in 1966-67 and announced for 1967-68 provides 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 1966 wheat through 30 June 1967, covered 132 million bushels. In addition, 58 million bushels from prior crops were under resale, i.e., extended loan. The CCC acquired about 28 million bushels during 1965-66 and 12.5 million bushels during 1966-67.

The CCC owned 340 million bushels of wheat on 1 July 1966, all acquired by deliveries from farmers under price support operations. Dispositions of wheat by CCC during 1966-67 may be about 180 million bushels, compared with about 330 million bushels disposed of in 1965-66.

In addition to loans and purchases, price support activity involves the issuance of marketing certificates under the wheat allocation programme. Certificates issued under the 1966-67 programme represent the farmer's proportionate share of the national marketing allocation for domestic food purposes and for the programme year. 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 manage the supply

The goal of the current wheat programme is to maintain a wheat supply that is adequate to meet domestic, export and carryover (reserve) requirements. The level of supply in relation to requirements has a direct effect on United States wheat prices and wheat producers' income. A number of important unpredictable and largely uncontrollable factors influence both the supply and the requirement in any year. Domestic supplies are the result of controllable acreage but uncontrollable weather. Requirements are affected not only by the vagaries of the domestic economy and total grain production but importantly by world-wide grain production and requirements.

To manage the supply and requirements effectively, as many as possible of the various factors that affect either of them must be controlled. In addition to export and import controls two other approaches have been followed.

(a) Measures to adjust acreage

The present voluntary certificate type programme is based on acreage limitations. A wheat producer to be eligible for price support loans and marketing certificates must limit his wheat acreage to his acreage allotment. The total of the farm allotments, the national average allotment, is determined

annually to provide, with normal weather, projected requirements. For instance for the 1966 crop, the national allotment was 47.8 million acres, for the 1967 crop it was increased to 68.2 million acres and for the 1968 crop the allotment has been reduced to 59.3 million acres.

This type of programme has effectively controlled the acreage devoted to wheat but weather frequently results in supply variability.

(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.