

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

L/3737

25 August 1972

Limited Distribution

Original: English

UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Sixteenth 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 situation with respect to the commodities currently subject to Section 22 import regulations, and description 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 problems 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 such regulation 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.

The President recently took further Section 22 action on imports of the so-called "pricebreak" cheeses. Proclamation No. 4138 effective 6 June 1972 modified the import controls applying to Swiss or Emmenthaler, Gruyere-process and certain cow's milk cheeses classified as "Other" cheeses by continuing the purchase price concept, but at a higher level and in flexible form. This action followed a sharp rise of non-quota imports priced at 47 cents per pound or more, f.o.b. country of origin; a Tariff Commission finding that these increased imports were materially interfering with the dairy price support programme; and the Tariff Commission's unanimous recommendation that absolute quotas on all imports of these cheeses replace the controls in which quota status was determined by the purchase price.

After a thorough review of the Tariff Commission's report and recommendations, and consultations with all interested parties, the President retained the purchase price concept but at a higher level. The President also specified the calendar year 1970 as the representative period for the determination of the new quotas, rather than the calendar years 1963 through 1965 as recommended by the Tariff Commission.

The new pricebreak level is now aligned with the support programme price for Cheddar cheese on a flexible basis. It is defined as the Commodity Credit Corporation (CCC) purchase price plus 7 cents, rounded to the nearest whole cent, and will change as the Cheddar cheese purchase price changes. Since the current purchase price is 54.75 cents per pound, the pricebreak initially is 62 cents.

The President's action retains the original intent of the pricebreak mechanism, which was to maintain unrestricted entry for the fancy gourmet-type table cheeses. The new features take due account of the fact that price levels change and reduce the possibilities for traders to avoid the controls by adjusting prices.

No other actions have been made on Section 22 quotas since the last report.

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 the 1971 crop of extra-long staple cotton and peanuts; acreage allotments and marketing allocations were in effect for wheat as were acreage allotments for upland cotton. Marketing allocations, like marketing quotas, are based on marketing requirements and serve to limit acreage planted. Compliance with acreage allotments and marketing quotas for extra-long staple cotton and peanuts is a condition of price support and other programme benefits. Marketing quotas - but no acreage allotments were suspended for the 1971-73 crops of upland cotton.

Acreage diversion programmes are also used to balance production of various commodities including wheat and upland cotton with demand. In addition, cropland devoted to most principal crops continues to be withheld from production under cropland adjustment programmes.

The preceding 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 110 (1967-100), the "all crop" production index for 1971 was 112, or 8 per cent above the previous record of 104 for 1969.

Price support levels for commodities regulated under Section 22 are shown on the following table for 1969 through 1971.

Positive Efforts to Increase Consumption

During the past several years, great efforts have been made to improve nutrition among children and low-income families through greatly expanded food assistance programmes. The emphasis and commitment now are to assure everyone access to a nutritionally adequate diet.

1. Child Food Service. The basic programme is the National School Lunch Program designed to provide children with a meal that meets at least one third of their daily nutritional requirements. During fiscal year 1971, it is estimated that the Federal Government purchased, under Section 6 of the National School Lunch Act, as amended, about 276 million pounds of food valued at \$64 million - nearly the same as the previous year.

In addition to the purchased foods, the Federal Government made cash grants-in-aid to the States of more than \$710 million in fiscal 1971, compared with slightly over \$438 million in fiscal 1970.

Price Support Levels: Section 22 Commodities

Commodity	Unit	Support price		
		1969	1970	1971
Wheat			(Dollars)	
Loan rate	bu.	1.25	1.25	1.25
Domestic Marketing Cert.		1.52 ^{1/}	1.57 ^{1/}	1.63 ^{2/}
Average price to participant ^{3/}		1.89	2.08	1.86
Cotton, upland				
Loan rate	lb.	.2025 ^{4/}	.2025 ^{4/}	.1950 ^{5/}
Payments		.1473 ^{6/}	.1680 ^{6/}	.1500 ^{7/}
Cotton, extra-long				
Staple	lb.			
Loan rate		.4000	.4050	.3840
Payment		.0888	.0929	.1269
Peanuts	lb.	.1238	.1275	.13425
Dairy products ^{8/}				
Butterfat	lb.	.686	.715	^{9/}
Manufacturing milk	cwt.	4.28	4.66	4.93

^{1/} Represents 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 43 per cent of production for the 1969 crop and 48 per cent for 1970.

^{2/} Represents the difference between the price received for the first five months (July-November) of the marketing year 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 33 per cent of production for the 1971 crop, representing the domestic allocation of 535 million bushels.

^{3/} The season average price received by programme participants reflects the national average price and the marketing certificate value.

^{4/} Basis Middling 1 inch, gross weight, average micronaire, at average location.

^{5/} Basis Middling 1 inch, net weight, micronaire 3.5 through 4.9, at average location.

^{6/} Earned on the farm's domestic allotment, which is 65 per cent of the farm allotment.

^{7/} Earned on the farm base acreage allotment, if planted.

^{8/} Implemented through a standing offer to purchase Cheddar cheese, butter and non-fat dry milk, in cartons, from processors at prices designed to return the support price for manufacturing milk and butterfat on an annual national average basis.

^{9/} The mandatory requirement to support butterfat has been suspended for three years beginning with the 1971-72 marketing year.

There were some 23.7 million children participating in the lunch programme in fiscal year 1971 and about 26.1 per cent of the meals were served free or at reduced prices.

Federal support of the school breakfast programme during fiscal 1971 amounted to \$20.2 million, not counting the value of donated foods. About 756,000 children participated and over 77 per cent of the meals were served free or for a nominal charge.

Approximately \$366 million were used by the States to expand free and reduced price lunch and breakfast programmes, and for equipment to be used to initiate or expand food service in schools.

Under new authority, assistance is available to day-care centres, settlement houses and summer recreational projects to begin or expand food service. Federal funds available totalled about \$21.0 million in fiscal year 1971 plus donated foods. Some 652,000 children participated, primarily during the summer months when schools are closed.

2. Special Milk Program. The United States Government continued to operate the Special Milk Program designed to increase the consumption of fluid milk among children by sharing the cost of each half pint of milk served. In fiscal year 1971, some 2.6 billion half pints of milk were served under this programme in participating schools, summer camps and child care institutions.

3. Donations to schools, needy persons and institutions. Foods donated for domestic use to improve the diets of school children and needy persons during fiscal year 1971 were up more than 7.8 per cent in volume and nearly 9.2 per cent in value from the previous year. Such donations totalled nearly 2.3 billion pounds in fiscal 1971, compared with 2.1 billion in 1970. Cost of the food amounted to some \$560 million in 1971, as against \$513 million in 1970, due largely to greater availability of highly nutritious items such as meats, dairy products, poultry products and a variety of canned fruits and vegetables and vegetable juices.

Beneficiaries of these foods included 25 million school children, 1.3 million needy persons in charitable institutions and 4.0 million persons in low-income families. The foods donated included: apple juice, canned green beans, dry beans, beef products, butter, cheese, canned corn, cornmeal, egg mix, flour, canned and frozen fowl, grapefruit juice, lard/shortening, canned chopped meat, non-fat dry milk, evaporated milk, beverage mix milk, rolled oats, orange juice, peanut butter, dried peas, canned peas, dehydrated potatoes, canned prunes and prune juice, raisins, rice, corn syrup, canned tomatoes, canned tomato juice, canned tomato paste, rolled wheat.

4. The Food Stamp Program. Under this programme, low-income families certified as in need of food assistance by State and local welfare agencies, purchase food coupons in amounts based on family size and income. They receive food coupons of greater monetary value to improve their food purchasing power and the quality of their diets. The coupons are spent, like cash, for the purchase of any food except for imported items clearly marked as such. Participants shop in any authorized retail store. Coupons cannot be used to purchase non-food items, alcoholic beverages or tobacco products. Retailers in turn redeem the coupons at face value at banks or through participating wholesalers.

During the fiscal year 1971, the programme was further expanded until it was operating in 2,026 counties and cities, compared with 1,747 the previous fiscal year. An average of 9.4 million participants paid \$1.2 billion for coupons and received free an additional \$1.5 billion.

Wheat

1. Section 22 quotas in effect

No changes were made 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) since the last report. 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. There are no quantitative import restrictions on wheat and wheat products classified as unfit for human consumption. 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 the income of wheat producers. These programmes include acreage allotments, diversion of acreage from wheat to conserving uses, marketing allocations and price support. The latter involves a Government commitment to make loans on or purchase wheat, but such commitment applies only to production by participants in the production adjustment programme. 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 prior years. These are explained in more detail below.

(a) Programmes

Price support for wheat is mandatory under the Agricultural Act of 1949, as amended, and national domestic acreage allotments are mandatory under the Agricultural Adjustment Act of 1938, as amended. The latter also provides for domestic market allocations. Compliance with the acreage allotment and participation in any diversion programme for wheat are conditions of eligibility for price support.

The price support programme for wheat harvested in 1971 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 1971 crop programme requirements. The rate for 1972 is \$1.25 per bushel.

These participating producers also receive marketing certificates valued at the difference between the national average price received by farmers during the first five months of the marketing year 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.

Processors of wheat for food purposes must buy certificates on wheat they process for domestic food use. These certificates are purchased from the CCC at a cost which equals the difference between the national average loan level (\$1.25 per bushel) and \$2.00 per bushel. The Government cost involved in the marketing certificate arrangement is thus reduced proportionately.

The national domestic acreage allotment represents the acreage required to produce the amount of wheat used for domestic food purposes or 535 million bushels, whichever is larger. The domestic allotment was 19.7 million acres for 1971 and is 18.7 million for 1972.

(b) Supply situation

The United States continues to be confronted with supply adjustment problems for wheat. For 1970-71 wheat supplies totalled 2,256 million bushels and for 1971-72 the projected total supply approximates 2,371 million bushels. Total

¹Parity for wheat during July 1971 was \$2.88 per bushel.

utilization for 1970-71 was 1,526 million bushels of which 518 million bushels were for domestic food. Stocks as of 1 July 1971, the end of the 1970-71 marketing year, totalled 730 million bushels. With expanded supplies abroad and declining exports the carryover is expected to be significantly higher on 30 June 1972.

(c) Price support activity

The price support programme carried out by CCC in 1970-71 and in effect for 1971-72 provides that farmers participating in the wheat programme may receive price support through loans on farm or warehouse-stored wheat and make direct sales of wheat to CCC. Loans on 1970 wheat covered 255 million bushels. In addition, 179 million bushels from prior crops were under resale, i.e., extended loan, as of 30 June 1971. Loans on the 1971 crop totalled 428 million bushels through March 1972.

The CCC owned 370 million bushels of wheat on 1 July 1971, mostly acquired by deliveries in settlement of loans to farmers under price support operations. Dispositions of wheat by CCC during 1970-71 totalled about 91 million bushels, compared with about 30 million in 1969-70.

In addition to loans and purchases, price support activity involves the issuance of marketing certificates under the wheat allocation programme. Certificates issued under the 1970-71 programme represent the farmer's proportionate share of the national marketing allocation for domestic food purposes for the programme year. The use of certificates, in combination with substantially lower loan rates than prior to 1964 serves to maintain income to producers who participate in the voluntary production adjustment programme and effectively discourages farmers from increasing their wheat acreage.

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 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 requirements 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.

In addition to the regulation of imports, two other approaches have been used to bring the supply and requirements of wheat in balance.

(a) Measures to adjust acreage

The voluntary certificate type programme is based on the setting aside of acreage from the production of wheat, i.e., diversion of cropland from wheat to soil conserving uses. A wheat producer, to be eligible for price support loans and marketing certificates (price support payments) in 1971 had to set aside an acreage equivalent to 75 per cent of his domestic acreage allotment. For 1972 the qualifying set-aside is 83 per cent of the farm domestic allotment. In addition, to prevent excessive production of wheat in 1972, farmers have the option of setting aside additional wheat cropland. The payment rate per acre for such additional voluntary set-aside is 94 cents per bushel times the farm's established yield. This type of programme controls the acreage devoted to wheat but weather 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 for domestic relief under Section 416 of the Agricultural Act of 1949, as amended; donations for overseas relief under Public Law 480; sales for foreign currency and/or credit under Title I of Public Law 480, for which wheat continues to be obtained generally from free market supplies, instead of from sales of CCC-owned stocks; barter; and the use of export payments as necessary to compete in world markets. Conversely, where United States wheat prices are below world price levels, exporters are required to pay an inverse subsidy calculated to reflect the difference between the domestic price and the world price for the class of wheat involved.

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 1971-72 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 (other than linters) - Cotton under 1 1/8 inches (other than rough or harsh under 3/4 inch) - 14,516,193 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 during the quota year beginning 1 August, for cotton having a staple length of 1 1/8 inches or more but less than 1 3/8 inches: provided that of such 6,065,642 pounds not more than 1,500,000 pounds shall consist of rough or harsh cotton, white in colour, and having a staple length of 1 5/32 inches or more but less than 1 3/8 inches, and not more than 4,565,642 pounds shall consist of other cotton within the 1 1/8 inch or more and under 1 3/8 inch category.
- (c) Cotton waste - Cotton card strips made from cotton having a staple length of less than 1 3/16 inches, comber waste, lap waste, sliver waste, and roving waste - 5,482,509 pounds annually during the quota year beginning 20 September.
- (d) Cotton picker lap - Cotton products produced in any stage preceding the spinning into yarn (cotton picker lap) - 1,000 pounds annually during the quota year beginning 11 September.

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

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

During the 1971 crop season, the United States had in operation price support, production adjustment, and related surplus disposal programmes. It is necessary to continue import quotas on cotton and cotton waste in order to prevent material interference with the Department of Agriculture's programmes for cotton. These programmes and the conditions which made it necessary to continue import regulations are explained below.

(a) Upland cotton

- (1) Programmes. The 1971 crop season is the first year of operation of the three-year upland cotton programme provided by the Agricultural Act of 1970, enacted on 30 November 1970. This Act amended sections relative to upland cotton in the Agricultural Act of 1938, as amended, and the Agricultural Act of 1949, as amended, that

included those concerned with allotments; marketing quotas and penalties; sale, lease, and transfer of allotments; producer referendums; price support methods; and CCC upland cotton sales policy. The 1970 Act initiated a cropland set-aside approach as a means of obtaining the needed production adjustment, established a national upland cotton production goal, and established an annual payment limitation of \$55,000 per person. The payment limitation does not apply to loans. The programme is voluntary.

The 1970 Act suspends quotas and penalties - but not acreage allotments - for the 1971-73 crop years. The national base acreage allotment for upland cotton is 11.5 million acres for the 1972 crop, unchanged from 1971. In general the programme provides payments to participating producers on the basis of the average yield of acreage planted within the farm base acreage allotment.

To be eligible for benefits, each producer participating in the 1971 and 1972 farm programmes must maintain in soil conserving uses an acreage at least equal to the farm's conserving base, and must set-aside from crop production additional cropland equal to 20 per cent of the farm base acreage allotment.

The 1972 crop national average loan rate for upland cotton is 19.50 cents per pound, net weight, at average location in the United States, the same as the 1971 rate. The 1972 rate was established under provisions of the 1970 Act to reflect, for middling 1-inch upland cotton (micronaire 3.5 through 4.9), 90 per cent of the average world price for the two-year period ending 31 July 1971.

All cotton production of a participating producer is eligible for the loan. Such a producer is also eligible to receive a set-aside payment equal to the difference between (a) the higher of 35 cents or 65 per cent of the parity price for upland cotton as of 1 August of the applicable marketing year, and (b) the average market price for middling 1-inch cotton, micronaire 3.5 through 4.9, in the designated spot markets during the first five months of the marketing year (beginning 1 August); however, by law, the payment rate cannot be less than 15 cents per pound. The payment is made on the basis of the acreage planted within the farm base acreage allotment and the payment yield for the farm.

Small farm provision. Producers on small farms with allotments of ten acres or less, or with payment production from the farm base allotment of 5,000 pounds or less may receive a bonus payment under certain conditions. The payment will be increased by 30 per cent

if the producer (a) lives on the farm, and (b) derives his principal income from cotton produced on the farm. Just as for larger producers, cotton must be planted to be eligible for payments. The small farmer is of course also eligible for the regular loan on his entire production.

- (2) Supply situation for upland cotton. Total supply for the 1971-72 marketing year is estimated at 14.4 million bales, as of April 1972, compared with 15.9 million bales for 1970-71. The 1971 acreage for harvest is estimated at 11.4 million acres. This compares with 11.1 million acres in 1970, and 11.0 million acres in 1969.

Carryover. Carryover on 1 August 1971 was estimated at 4.2 million bales, compared with 5.7 million bales in 1970.

Production. The 1971 crop is estimated (March 1972 Ginnings Report) at about 10.1 million bales, the same as in 1970. However, 1971 bales were heavier than 1970 bales and the production of 480 pound net weight bales was up 300,000 bales over 1970.

Imports. Imports of upland cotton in 1971-72 are expected to be about 10,000 bales, about the same as in 1970-71.

Disappearance. Disappearance in 1971-72 is expected to be around 11.1 million bales compared with 11.7 million bales in 1970-71.

- (3) Price support activity. CCC stocks under loan or in inventory on 30 June 1971 (the end of the fiscal year) were 0.6 million bales, compared with about 3.4 million on 30 June 1970. During the marketing year ending 31 July 1971, cotton placed under loan amounted to 2.4 million bales, of which only about 9,700 bales were not redeemed. During the 1971-72 season through 21 April 1972, about 1.2 million bales have been placed under loan and about 684,000 bales have been redeemed.

(b) Long staple cotton¹

- (1) Programmes. Total price support, including both loan and payment, for extra long staple cotton is required by law at not less than 65 nor more than 90 per cent of the effective parity price. The loan

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.

rate for eligible qualities of 1971 crop extra long staple cotton is based on the average rate of 38.40 cents per pound, net weight. Producers also receive a price support payment of 12.69 cents per pound on their production to provide a total support of 65 per cent of parity. Acreage allotments and marketing quotas were continued for the 1971 crop. When marketing quotas are in effect, any producer who does not comply with his farm acreage allotment is denied price support, 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 1971 acreage allotment was 117,791 acres, of which 101,000 acres are expected to be harvested, compared with 78,398 acres allotted and 74,500 acres harvested in 1970.

- (2) Supply situation for extra long staple cotton. The 1971-72 supply is estimated at about 178,400 bales compared with 190,100 bales in 1970-71. The supply is composed of:

Carryover. The carryover on 1 August 1971 was estimated at about 62,500 bales. This compared with 107,400 bales on hand a year earlier.

Production. The 1971 crop is estimated (March 1972 Ginnings Report) at 95,900 bales, compared with 57,100 bales in 1970.

Imports. Imports of extra long staple cotton in 1971-72 are expected to total about 20,000 bales as compared with 26,000 bales in 1970-71.

Disappearance. Disappearance in 1971-72 is expected to be around 117,000 bales.

- (3) Price support activity. During the 1970-71 season, 25,464 bales of extra long staple cotton were placed under loan and 22,947 bales were redeemed. During the 1971-72 season through 21 April 1972, 39,910 bales have been placed under loan and 11,776 bales have been redeemed.

3. Steps taken to reduce surplus

In addition to the present price support programme, other government programmes designed to attain a better balance in the supply and demand position include CCC sales of its stocks in a manner that should avoid disrupting domestic and foreign markets; and continued emphasis on research and market promotion programmes designed to increase cotton utilization throughout the world.

(a) CCC sales

Under its sales policy CCC makes United States cotton available for unrestricted use at a price competitive in both domestic and foreign markets. Under the 1971 upland cotton programme, the CCC sale price permits new-crop cotton to move through normal trade channels. During the 1970-71 marketing year the CCC sold about 2.7 million bales under its programmes.

(b) Research and market promotion

The United States participates with seven other producing countries in the development of markets for cotton in Japan and consuming countries in Western Europe. Each member country contributes \$1.00 per bale that it exports to Western Europe and Japan. These contributions are used by the International Institute for Cotton in carrying out promotion and research projects in these areas to gain markets for cotton. The IIC member countries and industry co-operators within the consuming countries spend over \$7 million per year in this effort.

Peanuts

1. Section 22 quotas in effect

No changes were made 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 to prevent material interference with United States programmes and operations relating to peanuts. During the 1971 and upcoming 1972 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 1971 the national level of support was \$268.50 per short ton. This represented 75 per cent of the August 1971 parity. The 1972 minimum national level of support has been set at \$279.00 per short ton subject to upward adjustment depending on the parity price and supply percentage as of 1 August 1972. The support level in relation to parity is determined on the basis of the expected total supply to the normal supply. Peanut farmers, in a referendum held during December 1971, voted to continue marketing quotas for the 1972, 1973, and 1974 marketing years.

The national acreage allotment of 1,612,734 acres in 1971 and 1,612,766 acres for 1972 is the 1,610,000 acres minimum authorized by law adjusted upward by 2,734 acres in 1971 and 2,766 acres in 1972 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 fifteen 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 1971-72 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 on the following table, beginning with the 1960 marketing year.

The total supply of peanuts in the United States for 1971-72 is expected to be about 3,459 million pounds compared with an average supply of 2,949 million pounds for the five years 1966-70.

Year beginning 1 August	Production ^{1/}	Imports	Domestic consumption ^{2/} and exports ^{2/}	Stocks end of year	Diversion under price support
Million pounds, Farmers Stock Basis					
1960	1,718	3/	1,774	368	299
1961	1,657	3	1,639	389	231
1962	1,719	2	1,713	397	329
1963	1,942	2	1,931	410	378
1964	2,099	2	2,138	373	523
1965	2,384	1	2,346	412	679
1966	2,410	2	2,452	372	697
1967	2,473	2	2,495	353	659
1968	2,543	2	2,541	357	579
1969	2,529	2	2,529	352	586
1970	2,979	2	2,871	453	1,033
1971 ^{4/}	3,004	2	3,159	300	1,298

^{1/}Data are net weight values

^{2/}Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss and shrinkage.

^{3/}Less than 500,000 pounds

^{4/}Preliminary

Source: The Fats and Oils Situation, Economics Research Service, USDA and ASCS operating data.

(c) Price support activity

The price support programme carried out by CCC in the 1970/71 marketing season (1970 crop) and announced for the 1971 and 1972 crops provide that farmers may receive price support through peanut grower associations. During the 1970/71 marketing year, 878 million pounds of farmers stock peanuts were placed under loan, of which approximately 22 million pounds were redeemed. For the 1971/72 marketing year, it is anticipated that the quantity placed under loan will approximate 1,036 million pounds.

Through the 1971 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 1971 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 United States has followed two principal approaches with a view to the solution of the problem of surplus peanuts.

(a) Acreage in production has for a decade been held to the minimum permitted by law. The national allotment of 1,613 thousand acres for 1971 and 1972 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 and marketing quotas were not in effect. Despite this reduction in acreage, peanut farmers voted in December 1971 for continuation of acreage allotments for the three marketing years 1972, 1973 and 1974. When acreage allotments are in effect, any producer who knowingly exceeds his farm allotment is denied price support on any peanuts produced on that farm. In addition, the marketing quota regulations require that the farmer pay a penalty of 75 per cent of the loan rate on the excess quantity produced.

(b) For many years peanuts acquired by CCC under the price support programmes have been disposed of outside normal commercial market channels at a financial loss, primarily for crushing into oil. During the 1970/71 marketing year, CCC sold about 1,033 million pounds, farmers stock basis.

Dairy Products

1. Section 22 quotas currently in effect

During 1971 import controls under Section 22 of the Agricultural Adjustment Act, as amended, were in effect on the dairy products listed below.

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 - 5,016,099 pounds; Cheddar cheese - 8,812,500 pounds; American-type cheese other than Cheddar - 6,096,600 pounds; natural Canadian Cheddar aged more than nine

months - 1,225,000 pounds; Edam and Gouda cheese - 9,200,400 pounds; cheese and substitutes for cheese containing or processed from Edam and Gouda cheese - 3,151,000 pounds; Italian-type cow's milk cheeses in original loaves - 11,500,100 pounds; Italian-type cow's milk cheeses not in original loaves - 1,494,000 pounds; the following cheeses if having a purchase price under 47 cents per pound f.o.b. country of origin, Swiss or Emmenthaler cheese with eye formation - 4,271,000 pounds, other than Swiss or Emmenthaler with eye formation - 3,289,000 pounds, certain "other" cheeses containing more than 0.5 per cent by weight of butterfat - 25,090,000 pounds, and certain "other" cheeses containing 0.5 per cent or less by weight of butterfat - 8,901,000 pounds; butter oil and butter substitutes - 1,200,000 pounds; articles containing 45 per cent or more butterfat - 0; articles containing 5.5 per cent but less than 45 per cent butterfat classified as "Edible preparations not specially provided for" - 2,580,000 pounds; fluid or frozen milk and cream - 1,500,000 gallons; milk chocolate crumb containing over 5.5 per cent by weight of butterfat - 17,000,000 pounds; ice-cream - 431,350 gallons; chocolate crumb containing 5.5 per cent or less by weight of butterfat - 4,680,000 pounds; and animal feeds containing milk and milk derivatives - 16,300,000 pounds.

As noted under Current Situation at the beginning of this report, the President expanded the quotas on the pricebreak cheeses effective 6 June 1972. Effective 1 January 1973, the annual quotas for these cheeses, if having a purchase price under the effective level, will be Swiss or Emmenthaler cheese with eye formation - 20,420,000 pounds, other than Swiss or Emmenthaler with eye formation - 11,242,000 pounds, and certain "other" cheeses containing more than 0.5 per cent by weight of butterfat - 40,730,000 pounds. The quotas for these cheeses during the remainder of 1972 (6 June-31 December), if having a purchase price of 47 up to 62 cents per pound f.o.b. country of origin, are respectively 9,420,000 pounds, 4,638,000 pounds and 9,123,000 pounds. The annual quota for "other" cheese containing less than 0.5 per cent by weight of butterfat remains unchanged but the new pricebreak mechanism is applicable.

2. Reasons why such restrictions are applied

Import controls on dairy products are applied as required by Section 22 to prevent imports from interfering with the United States Government programmes relating to dairy. There are in effect price support and related programmes designed to stabilize production and bring supplies into better balance with requirements through the stabilization of prices and thus assure the income of domestic dairy producers. The price support programme is operated pursuant to the Agricultural Act of 1949, as amended, which requires that price support for

milk be established at such level between 75 and 90 per cent of parity as will assure an adequate supply. It provides for such support to be carried out by purchases of milk and its products. For the 1971/72 marketing year (1 April through 31 March), the support level was set at \$4.93 per hundred-weight which was 85 per cent of the parity equivalent price for manufacturing milk as of 1 April. The support level for 1972/73 was continued at \$4.93 per hundred-weight which was 79 per cent of the parity equivalent price as of the beginning of the marketing year. The mandatory requirement to support butterfat was suspended for three years beginning with the 1971/72 marketing year.

The related programmes include the Special Milk Program, School Lunch Program and various other programmes, like the Food Stamp Program, all of which, while designed to utilize Government stocks at minimum cost, also serve various welfare and other programmes discussed in more detail at the beginning of this report.

In carrying out the price support and related programmes in the 1971 calendar year, the Department of Agriculture removed 6.6 per cent of the milk fat and 5.0 per cent of the solids non-fat in the milk and cream marketed by farmers. From 1 January 1971 through 31 December 1971, Department of Agriculture removals were 292 million pounds of butter, 91 million pounds of cheese, 456 million pounds of non-fat dry milk, and 111 million pounds of evaporated milk, representing the equivalent of 7.3 billion pounds of milk. The CCC purchase cost was \$407 million as compared with \$328 million during 1970. This does not include expenditures under the Special Milk Program of approximately \$92 million annually.

Through June of the 1972 calendar year the Department of Agriculture removed 213.8 million pounds of butter, 19.2 million pounds of cheese, 236.6 million pounds of non-fat dry milk, and 45.4 million pounds of evaporated milk, at a purchase cost of \$272.9 million.

3. Need for continuing import quotas on dairy products

The United States milk supply continues in excess of domestic use. In calendar year 1971 milk production continued its slow rise from 116.3 billion pounds in 1969. During the calendar year 1971, United States milk production was 118.6 billion pounds, 1.5 billion above 1970 and 2.3 billion pounds above 1969. Milk production per cow was 9,609 pounds compared with 9,385 pounds in 1970 and 9,166 pounds in 1969. Milk production in 1972 is expected to show another modest increase.

Domestic use of all dairy products (civilian and military) decreased from 116.2 billion pounds (milk equivalent) in 1969 to 115.8 billion pounds in 1970 and 115.9 in 1971. This decline is due to the continued downward trend in per capita civilian consumption from 570 pounds in 1969 to 562 pounds in 1970 and 558 pounds in 1971.

World supplies of dairy products, despite sharp declines in recent years, remain in excess of commercial demand and surpluses continue to seek outlets wherever possible. The United States market is the principal target for such excess stocks, although other countries too have found it necessary to maintain and strengthen their import controls during the period under review.

In the absence of import controls, foreign surplus dairy production would flood the United States market, and would replace domestic production to the serious impairment of the dairy price support programme. Such impairment would involve additional CCC purchases, stocks and costs.

Milk production and USDA market removals for the calendar years 1960-71 and January-March 1972 were as follows:

Year	Milk production	USDA market removals				Milk equivalent of removals	Per cent removals of milk production
		Butter	Cheese	Non-fat dry milk	Evaporated milk		
	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>per cent</u>
1960	123,109	144.8	.3	852.8	-	3,101	2.5
1961	125,707	329.4	100.0	1,085.6	-	8,019	6.4
1962	126,251	402.7	212.9	1,386.1	-	10,724	8.5
1963	125,202	307.5	110.9	1,219.2	-	7,745	6.2
1964	126,967	295.7	128.5	1,168.8	-	7,676	6.0
1965	124,173	241.0	48.6	1,098.4	-	5,665	4.6
1966	119,892	25.1	10.8	365.8	-	645	0.5
1967	118,769	265.1	180.5	687.0	-	7,427	6.3
1968	117,234	194.8	87.5	557.8	54.9	5,159	4.4
1969	116,345	187.9	27.7	407.2	107.5	4,479	3.8
1970	117,149	246.4	48.9	451.6	48.4	5,774	4.9
1971	118,640	292.2	90.7	456.2	111.4	7,291 ^{1/}	6.1
1972 Jan.- June	62,404	213.8	19.2	236.6	45.4	4,788 ^{1/}	7.7

^{1/} Includes small purchases of dry whole milk

Uncommitted Government stocks on 23 June 1972 (in millions of pounds) were: butter - 128.4; cheese - 7.1; and non-fat dry milk - 25.4.

Utilizations (commitments to uses) in calendar year 1971 compared with calendar year 1970 were^{1/}:

Item	Butter		Cheese		Non-fat dry milk	
	1970	1971	1970	1971	1970	1971
	(Million pounds)					
Uncommitted supplies as of beginning of year	32.9	36.7	4.1	-	136.6	28.8
Purchases (contract basis)	246.2	324.0	42.9	100.5	447.3	444.3
Utilizations:						
Sales - unrestricted use	-	1.6	-	-	-	-
Sales - restricted use	-	.2	-	-	6.6	^{2/}
Commercial export sales	-	127.7	-	-	33.5	43.3
Non-commercial export sales	-	-	-	-	27.5	35.7
Sales to Department of Defense	.9	2.1	-	-	.9	-
Donations to Department of Defense	30.1	20.0	-	-	-	-
Donations to Veterans Administration	2.1	2.4	-	-	-	-
Donations to Bureau of Prisons	1.9	2.0	-	-	.6	.6
Domestic donations - school lunch and needy	206.6	172.2	47.0	85.6	166.1 ^{3/}	140.5 ^{3/}
Foreign donations	-	-	-	-	324.3 ^{3/}	241.7 ^{3/}
Total utilizations	241.6	328.2	47.0	85.6	559.5	461.8
Uncommitted supplies as of 31 December	36.7	33.4	-	15.3	28.8	14.0

^{1/} Totals may not result from additions and subtractions because of rounding and inventory adjustments.

^{2/} Less than 50,000 pounds

^{3/} Adjusted for commitments in relation to years in which purchase contracts were made.

Milk: Supply and Utilization in all Dairy Products, United States, 1960-71^{1/}

Year	Supply						Utilization						
	Production	Imports	Beginning stocks		Total	Total use	Exports and shipments			Fed to calves	Domestic disappearance		
			Commercial	Government			Commercial ^{2/}	USDA ^{3/}	Total		Military	Food use	
												Total	Civilian consumption
Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.			Mil. lb.
1960	123,109	604	3,730	430	127,873	122,473	887	142	1,029	2,548	2,532	116,364	653
1961	125,707	760	4,192	1,208	131,867	121,974	784	148	932	2,432	2,472	116,128	641
1962	126,251	795	4,992	4,911	136,949	124,793	796	922	1,718	2,330	2,969	117,776	641
1963	125,202	915	4,338	7,818	138,273	128,585	2,122	3,371	5,493	2,245	2,964	117,883	632
1964	126,967	830	4,332	5,556	137,485	132,195	3,478	3,976	7,454	2,152	3,007	119,582	632
1965	124,173	923	4,317	973	130,386	125,930	1,710	648	2,358	2,061	2,819	118,692	620
1966	119,892	2,791	3,918	538	127,139	122,280	907	301	1,208	1,973	2,376	116,723	60
1967	118,769	2,908	4,813	46	126,536	116,284	593	231	824	1,893	2,117	113,450	581
1968	117,234	1,780	4,258	3,994	127,266	120,559	814	957	1,771	1,823	3,295	113,670	577
1969	116,345	1,621	3,983	2,724	124,673	119,329	5/	5/	1,419	1,755	2,696	113,459	570
1970	117,149	1,874	3,798	1,847	124,268	118,473	5/	5/	986	1,726	2,419	113,342	562
1971 ^{4/}	118,640	1,342	3,698	2,697	125,777	120,643	5/	5/	3,048	1,666	2,031	113,898	558
1972													
1973													

^{1/} Milk equivalent, fat solids basis

^{2/} Includes sales for dollars and government-to-government sales

^{3/} Includes PL 480 and AID programmes

^{4/} Preliminary

^{5/} No longer reporter

