

RESTRICTED

L/4600

8 December 1977

Limited Distribution

GENERAL AGREEMENT ON TARIFFS AND TRADE

Original: English

UNITED STATES AGRICULTURAL ADJUSTMENT ACT

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

Contents

	<u>Page</u>
Introduction	1
Background	1
Current situation	2
Steps taken to balance agricultural production with demand	3
Cotton and cotton waste	5
Peanuts	7
Dairy products	9

INTRODUCTION

This report is submitted in accordance with a decision of the CONTRACTING PARTIES of 5 March 1955 and covers the period from October 1976 through October 1977. It includes a brief review of the situation with respect to the commodities currently subject to Section 22 import regulations, and descriptions of steps taken in the United States to balance production with demand; these steps follow the pattern of recent years. Finally, the report outlines the supply position and related data on the commodities for which Section 22 controls 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 of the Agricultural Adjustment Act, as amended (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 a solution of the problem of surpluses of agricultural commodities.

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

Section 22 of the Agricultural Adjustment Act, as amended, has been in effect since 24 August 1935. It empowers the President of the United States on the basis of an investigation and report by the United States International Trade Commission (formerly 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 the price support or stabilization programmes relating to agricultural commodities undertaken by the Department of Agriculture. When a condition exists requiring emergency treatment, the President may take action prior to the Commission's investigation and report.

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 restrictions pursuant to Section 22 on cotton of certain specified staple lengths, cotton waste and certain cotton products, peanuts, and certain dairy products. All of these commodities are subject to continuing restrictions.

Since the last report, only one action has been taken under Section 22 authority. On 19 January 1977, the President issued Proclamation No. 4482 which made permanent the import quota of zero pounds on certain dried milk mixtures

which had been temporarily established by Proclamation No. 4423 effective 31 March 1976. The quota applies only to mixtures of dried milks (primarily non-fat dried milk) with other non-dairy ingredients, such as sugar and flour; such mixtures had been especially formulated so as to obtain a non-quota customs classification, thereby circumventing the quotas on dried milks. The quota does not apply to traditional food items which contain small amounts of dried milk, such as chocolate coatings and soup mixes; imports of such articles have not been restricted.

No actions under the Section 22 authority are pending.

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.

The steps taken to influence the supply may be briefly summarized as follows. Acreage allotments and marketing quotas were in effect for the 1976 and 1977 crops of extra long staple cotton and peanuts; acreage allotments were in effect for upland cotton. Compliance with acreage allotments and marketing quotas for extra long staple cotton and peanuts is a condition of price support and other programme benefits and serves to limit acreage planted. However, the 1976 and 1977 acreage allotments for upland cotton do not limit the acreage planted; there is no limit and the allotment is used only to determine the maximum acreage eligible for payment.

As in previous reports, attention is drawn to the important and sometimes critical influence which natural forces have upon the harvest in any season, as well as to the highly significant effects of technological improvements in production.

Price support levels for commodities regulated under Section 22 for 1976 and 1977 are shown in Table 1.

TABLE 1

Price Support Levels: Section 22 Commodities

Commodity	Unit	1976	Support price 1977 (Dollars)
Cotton, upland			
Loan rate ^{1/}	lb.	.3712	.4258
Deficiency payments ^{2/}	lb.	<u>3/</u>	<u>3/</u>
Cotton, extra long staple			
Loan rate	lb.	.7324	.7670
Payments	lb.	.0151	0
Peanuts	.	.2070	.2152
Dairy products			
Manufacturing milk ^{4/5/}	Cwt.	7.71 8.13 8.26	8.26 9.00

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

^{2/}Farm deficiency payments, if made, will be calculated on the quantity of cotton determined by multiplying the acreage planted within the farm base acreage allotment by the payment yield established for the farm. If 90 per cent or more of the allotment is planted, the entire allotment will be used in this calculation.

^{3/}The Agriculture and Consumer Protection Act of 1973 established guaranteed or "target" prices for upland cotton. For 1976, the target price was 43.20 cents per pound; for 1977, it is 47.80 cents per pound. Deficiency payments are made only if the average market price received by farmers during the applicable calendar year is lower than the target price. No deficiency payments were made under the 1976 programme; none are expected to be made under the 1977 programme.

^{4/}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 on an annual national average basis.

^{5/}On 1 April 1976, the price support was increased to \$8.13; on 1 October 1976, it was increased to \$8.26. On 1 April 1977, the support price was increased to \$9.00. The increases were in accordance with the Agricultural Act of 1949, as amended.

COTTON AND COTTON WASTESection 22 Quotas in Effect

Import quotas continue for upland-type cotton, long staple cotton, and certain cotton waste and cotton products.

Need for continuing import quotas

During the 1976 and 1977 crop season, the United States has had in operation price support, production adjustment, and related surplus disposal programmes and thus restrictions were continued. It is necessary to continue import quotas on cotton, cotton waste and certain cotton products in order to prevent material interference with the Department of Agriculture's programmes for cotton. In this connexion, indications are that the 26 per cent larger United States crop forecast for 1977, as compared with 1976 - together with a less than optimistic outlook for mill use and exports - will result in a carryover on 1 August 1978, more than 75 per cent larger than a year earlier. Also, it is expected that substantial quantities of the 1977 crop will be placed under Commodity Credit Corporation (CCC) loan by producers. Under present market conditions, it is possible that significant quantities of the cotton placed under loan will eventually be forfeited by producers. Thus, CCC would again be faced with surplus problems and costly disposal operations. The elimination of import quotas could trigger larger imports of cotton, thereby forcing additional quantities into the CCC loan programme and further aggravating the situation for domestic cotton producers and programmes.

(a) 1977 cotton programme

The 1977 programme for extra long staple cotton is essentially the same as the 1974, 1975 and 1976 programmes. The 1977 upland cotton programme continues several new concepts provided in the Agriculture and Consumer Protection Act of 1973. The Act provides a four-year programme (1974-1977) for wheat, feed grains and upland cotton. The upland cotton programme is part of an overall farm programme designed to encourage the expansion of needed farm production to meet domestic and foreign demand while protecting farm income earned from the marketplace.

The 1973 Act introduced the concept of guaranteed or "target" prices. The target price for 1977 crop upland cotton is 47.80 cents per pound. If the average market price received by farmers during the 1977 calendar year is at or above the 47.80 cents per pound target price, no deficiency payments will be made. If the average price is below the target level, payments will be made on the deficiency. The 1973 Act limits total payments to any person under one or more of the annual programmes for cotton, wheat, or feed grains to \$20,000.

There is no cropland set-aside requirement for upland cotton in 1977. The 1977 national allotment for upland cotton was set at 11 million acres, same as in 1974, 1975 and 1976; it reflects the minimum provided under the law. Size of the allotment does not restrict planting; there is no limit on planted acreage. The 1977 allotment will be used only to determine the maximum acreage eligible for payment. The law requires that the allotment be set at a level that the secretary determines necessary to maintain adequate supplies, but cannot be less than 11 million acres, as noted above.

The decision to eliminate the set-aside requirement for upland cotton was made in line with a legislative directive which provides that a set-aside for cotton will be required as a condition for programme benefits if the secretary determines that the total supply of agricultural commodities will likely be excessive in the absence of a set-aside. Elimination of the cotton set-aside made more acreage available for planting other crops that are in demand.

Programme activity

(1) Upland cotton. CCC stocks under loan or in inventory on 31 July 1977 (the end of the marketing year), were 0.3 million bales, compared with about 0.1 million on 31 July 1976, and about 0.9 million on 31 July 1975. Beginning with the 1971 crop, loans mature ten months from the first day of the month in which the loan is made, rather than on 31 July as was the case in prior years. During the 1976/1977 season, about 0.9 million bales were placed under loan, and through 12 October 1977 all but 33,000 bales had been redeemed. During the 1977/1978 season through 12 October 1977, about 56,200 bales had been placed under loan, of which about 3,000 bales had been redeemed.

(2) Extra long staple cotton. As with upland cotton, loans mature ten months from the first day of the month in which the loan is made. During the 1976/1977 season, 10,549 bales were placed under loan, and through 12 October 1977 all but 138 bales had been redeemed. No loans on the 1977 crop had been made through 12 October 1977.

Supply situation

(1) Upland cotton. The carryover on 1 August 1976 totalled 3.6 million bales. Production in 1976 increased significantly from 1975, totalling about 10.5 million bales as compared with about 8.2 million in the previous year. Thus, the total supply in 1976-1977 approximated 14.2 million bales or 0.3 million above a year earlier. Disappearance (domestic consumption and exports) totalled about 11.4 million bales in 1976 as compared with 10.5 million in 1975. Offtake in 1976 was also above 1975 production by about 0.9 million bales, resulting in a 0.7 million bale decrease in the carryover. The 1 August 1977 carryover is reported at about 2.9 million bales. The October estimate of 1977 crop production was 13.2 million bales, up 2.7 million from 1976.

(2) Extra long staple cotton. The carryover on 1 August 1976 totalled about 66,000 bales. Production in 1976 increased moderately from 1975, totalling 64,000 bales as compared with 55,000 in the previous year. Imports in 1976 totalled 19,000 bales, significantly less than 1975 imports of 56,000 bales. Thus, total supply approximated 149,000 bales or about 21,000 below a year earlier. Disappearance (domestic consumption and exports) totalled about 84,000 bales, substantially less than 1975; about 16,000 bales were unaccounted for. The net result was a carryover on 1 August 1977, estimated at about 49,000 bales, 17,000 bales below a year earlier. The October estimate of the 1977 crop extra long staple production was 93,800 bales, up substantially - 29,800 bales - from 1976.

(3) Steps taken to balance supply and demand. In addition to acreage allotments and marketing quotas, other government programmes designed to attain a better balance in the supply and demand position include: (1) CCC sales of its stocks in a manner that should avoid disrupting domestic and foreign markets and (2) continued emphasis on research and market promotion programmes designed to increase cotton utilization throughout the world. These programmes remain basically the same as previously reported.

PEANUTS

Section 22 Quotas in Effect

No changes were made in the import quota for peanuts.

Need for continuing the import quota

Import controls on peanuts are being continued to prevent material interference with United States programmes and operations relating to peanuts.

Programmes

The programme for 1976 and 1977 remains the same as last reported and again the national acreage allotment is near the minimum permitted by law.

Programme activity

During the 1976/1977 marketing year, 854 million pounds of farmers' stock peanuts were placed under loan, of which approximately 13 million pounds were redeemed. For the 1977/1978 marketing year, it is anticipated that the quantity placed under loan will approximate 790 million pounds, with 20 million pounds redeemed.

Supply situation

During the 1976 crop year, the United States continued to be confronted with a surplus situation on peanuts. Annual data on peanut production, consumption, exports, stocks and acquisitions under the price support programme since the 1967 marketing year are shown below.

Year beginning 1 August	Production ^{1/}	Imports	Domestic consumption and exports ^{2/}	Stocks end of year	Diversion under price support ^{3/}
(Million pounds, farmers' stock basis)					
1967	2,473	2	2,495	353	650
1968	2,543	2	2,541	357	581
1969	2,535	1	2,540	353	586
1970	2,979	2	2,881	453	1,033
1971	3,005	2	3,068	392	1,204
1972	3,275	2	3,240	429	1,158
1973	3,474	1	3,351	553	858
1974	3,668	1	3,138	1,084	410
1975 ^{4/}	3,857	1	3,886	1,056	1,170
1976 ^{4/}	3,751	1	4,192	616	1,235

^{1/} Data are net weight values.

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

^{3/} Included in Domestic consumption and exports; may include diversions of previous crop.

^{4/} Preliminary.

The total supply of peanuts in the United States for 1977/78 is expected to be about 3,725 million pounds, compared with an average supply of 4,309 million pounds for the five years 1972-76.

Steps taken to balance supply and demand

The United States has followed two principal approaches with a view to solving the problem of surplus peanuts. (1) Acreage in production has for twenty years been held to the minimum permitted by law; and (2) peanuts acquired by the CCC under the price support programmes have been disposed of outside normal commercial market channels at a financial loss primarily for crushing into oil and donation of oil and other products under Section 416 programmes (domestic distribution) and Public Law 480 programmes (food aid). Government net realized losses were an estimated \$151.0 million in fiscal year 1977, including \$13.8 million under the Public Law 480 programme and \$33.6 million under domestic donation programme.

Under the domestic donation programmes, distribution of peanut products to schools and other outlets continued. During the fiscal year 1977 about 29.5 million pounds of peanut oil, 37.0 million pounds of peanut oil shortening, and 43.5 million pounds of margarine made from peanut oil were furnished. In addition, 5.6 million pounds of peanut granules and 14.0 million pounds of whole roasted peanuts were provided, as well as 3.6 million pounds of peanut butter. These products have been well accepted and their distribution will be continued. Also, donations of refined oil through the Public Law 480 programme amounted to 16.9 million pounds.

DAIRY PRODUCTS

Section 22 Quotas in Effect

Since the last report, no new quotas have been added to the quotas previously in effect. All of the existing quotas continued without change. As noted in the Current Situation, the quota on dried milk mixtures was made permanent.

As detailed in Table 1, the domestic support price for manufacturing milk was increased twice during the reporting period. These increases resulted in increases in the Commodity Credit Corporation purchase price for Cheddar cheese and, consequently, in the "pricebreak" which determines whether or not imported cheeses falling under certain tariff classifications are subject to quota. Effective 1 April 1977, the Cheddar cheese purchase price was increased from 92.50 cents per pound to 98.00 cents per pound; this necessitated an increase in the "pricebreak" from \$1.00 per pound to \$1.05 per pound; the increase in the "pricebreak" became effective 5 May 1977.

Need for continuing import quotas

(a) Programmes. The price support programme, which is operated pursuant to the Agricultural Act of 1949, as amended, 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, reflect changes in cost of production, and assure a level of farm income adequate to meet future needs. The Food and Agriculture Act of 1977 increased the minimum level of support to 80 per cent of parity through 31 March 1979. The 1977 Act also requires the support price be adjusted semi-annually to reflect any estimated change in the parity index during the semi-annual period.

During the 1976/77 marketing year, the support price was subject to quarterly review. As a result of the review for the October-December quarter, the support price was increased to \$8.26 per hundredweight, effective 1 October 1976. The quarterly review took place in September, at which time \$8.26 was estimated to be 80 per cent of parity as of 1 October 1976.

Effective 1 April 1977, the support price was increased to \$9.00 per hundred-weight, 82.3 per cent of the parity equivalent price. Effective 1 October 1977, the marketing year was changed from 1 April-31 March to 1 October-30 September. The price support level of \$9.00 was continued for the 1977/78 marketing year and was again estimated to be 82.3 per cent of the parity equivalent price.

(b) Programme activity. In carrying out the price support and related programmes in the 1976 calendar year, the Department of Agriculture removed 1.1 per cent of the milk fat and 1.7 per cent of the solids-not-fat in the milk and cream marketed by farmers. USDA removals in calendar year 1976 were 39 million pounds of butter, 38 million pounds of cheese, 258 million pounds non-fat dry milk and 22 million pounds of evaporated milk. The CCC purchase cost was \$233 million, compared to \$380 million in 1975.

In addition, the expenditures under the Special Milk Programme were \$144 million for the fiscal year ending 30 June 1976, \$26 million during the transition quarter, July-September 1976, and \$110 million during fiscal year 1977 (1 October 1976-30 September 1977). (The United States fiscal year changed from a July-June basis to an October-September basis effective 1 October 1977.)

Removals during 1977 have been at a much higher rate. During the first nine months of the calendar year, the Department of Agriculture had removed 210 million pounds of butter, 146 million pounds of cheese, 424 million pounds of non-fat dry milk and 11 million pounds of evaporated milk, at a purchase cost of \$630 million. The short-term outlook is for continuance of removals at rates well above the levels of recent years.

(c) Supply situation. During 1976, milk production recorded an increase over the same month in 1975 for every month. Prices of butter and cheese remained above support levels through the middle of the year, however, as consumer demand continued strong and as commercial inventories were replenished. Thereafter, wholesale prices of dairy products declined contraseasonally, due to substantial increases in production and stocks as well as to a decline in the consumption of butter. Prices of non-fat dry milk remained close to the support purchase level throughout the year.

In calendar year 1977 milk production continued to increase every month to near record levels. Because of depressed prices, barrel cheese was added to the list of products purchased by the Commodity Credit Corporation in order to support the price of milk. Although wholesale prices of butter, block cheese, barrel cheese and non-fat dry milk were close to CCC purchase prices, manufacturing milk prices remained below the support price.

World supplies of dairy products continue to be in excess of commercial demand. The resultant surpluses continue to seek outlets wherever possible. In the absence of import controls, these surpluses would replace domestic production to the serious impairment of the dairy price support programme.

Steps taken to balance supply and demand

There are several programmes available which are used as adjuncts to the price support programme and which serve to attain an effective balance between supply and demand. These include: (a) the Special Milk Programme designed to increase the consumption of fluid milk among children by reimbursing State agencies and private institutions for the milk served; (b) CCC purchases on a competitive bid basis of butter, cheese, and non-fat dry milk in special forms and in consumer-size packages, especially for use in various food distribution programmes, such as the programmes for school lunch and institutions; and (c) the use of excess CCC stocks for various foreign programmes, including emergency aid, donations, grants, and sales under United States aid programmes such as Public Law 480. In fiscal year 1976/1977, 2.26 billion half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Programme.

The following tables summarize USDA market removals from 1960 through September 1976, and utilization during 1975, 1976 and the first nine months of 1977.

(Million lb.)

Year	Milk production	USDA market removals				Milk equivalent of removals	Per cent removal of milk production (%)
		Butter	Cheese	Non-fat dry milk	Evaporated milk		
1960	123,109	144.8	0.3	852.8	-	3,101	2.5
1961	125,707	329.4	100.3	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	126,957	295.7	128.5	1,168.8	-	7,676	6.0
1965	124,180	241.0	48.6	1,098.4	-	5,665	4.6
1966	119,912	25.1	10.8	365.8	-	645	0.5
1967	118,732	265.1	180.5	687.0	-	7,427	6.3
1968	117,225	194.8	87.5	557.8	54.9	5,159	4.4
1969	116,108	187.9	27.7	407.2	107.5	4,479	3.9
1970	116,962	246.4	48.9	451.6	48.4	5,779	4.9
1971	118,532	292.2	90.7	456.2	111.4	7,251 ^{1/}	6.1
1972	119,904	233.7	30.4	345.0 ^{2/}	97.0	5,345 ^{1/}	4.5
1973	115,385	97.7	3.2	36.8	53.7	2,185 ^{1/}	1.9
1974	115,553	32.7	60.3	265.0	28.3	1,345	1.2
1975	115,326	63.4	68.2	394.5	24.5	2,035	1.8
1976	120,356	39.4	38.0	157.1	21.8	1,236	1.0
1977 Jan.- Sept.	93,994	209.9	146.3	395.5	11.5	5,805	6.2

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

^{2/} Includes 9.6 million pounds, Title I export sales.

Uncommitted Government stocks on 30 September 1977 were 633.9 million pounds of non-fat dry milk.

Utilization (commitments to uses) in January-September 1976 compared with January-September 1977 were^{1/} :

(Million lb.)

Item	Butter		Cheese		Non-fat dry milk	
	Jan.- Sept. 1976	Jan.- Sept. 1977	Jan.- Sept. 1976	Jan.- Sept. 1977	Jan.- Sept. 1976	Jan.- Sept. 1977
Uncommitted supplies as of beginning of year	-	33.9	-	18.5	424.8	397.2
Purchases (contract basis)	0.4	189.2	10.9	122.5	188.6	424.1
Utilizations:						
Sales - unrestricted use	-	-	<u>2/</u>	<u>2/</u>	77.4	28.4
Sales - restricted use	-	<u>2/</u>	-	-	4.6	4.4
Non-commercial export sales	-	-	-	-	-	0.6
Sales to Department of Defense	-	-	-	-	-	0.4
Domestic donations:						
Schools and needy	0.4	51.9	13.5	69.2	15.4	25.4
Bureau of Prisons	-	1.4	-	0.8	-	0.2
Department of Defense	-	6.6	-	1.2	-	-
Veterans Administration	-	0.4	-	-	-	-
Foreign donations:						
As dairy product	-	-	-	-	92.6	108.0
Furnished as an ingredient for CSM (corn-soya-milk)	-	-	-	-	17.8	20.0
Total utilizations	0.4	60.3	13.5	71.2	207.8	187.4
Uncommitted supplies as of 30 September	-	162.2	-	69.7	401.1	633.9

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

^{2/} Less than 50,000 pounds.

Utilizations (commitments to uses) in calendar year 1976 compared with calendar year 1975 were^{1/}:

(Million lb.)

Item	Butter		Cheese		Non-fat dry milk	
	1975	1976	1975	1976	1975	1976
Uncommitted supplies as of beginning of year	8.9	-	3.4	-	183.6	424.8
Purchases (contract basis)	84.1	60.1	56.2	61.8	407.8	258.2
Utilizations:						
Sales - unrestricted use	20.7	-	-	^{2/}	14.7	101.1
Sales - restricted use	3.0	-	-	-	1.8	5.4
Domestic donations - school lunch and needy	69.5	26.2	58.3	44.0	42.8	23.5
Foreign donations:						
As dairy product	-	-	-	-	107.7	124.5
Furnished as an ingredient in corn-soya-milk	-	-	-	-	2.2	25.6
Total utilizations	93.2	26.2	58.3	44.0	169.2	280.1
Uncommitted supplies as of 31 December	-	33.9	-	18.5	424.8	397.2

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

^{2/}Less than 50,000 pounds.