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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Twenty-First Annual Report by the United States Government under the Decision of 5 March 1955

Contents

REPORT OF THE UNITED STATES GOVERNMENT TO THE CONTRACTING PARTIES ON ACTION UNDER SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT

Introduction

This report is submitted in accordance with a decision of the Contracting Parties of March 5, 1955 and covers the period from October 1977 through October 1978. 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 March 5, 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 August 24, 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 programs 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; certain dairy products; and sugar. These commodities are subject to continuing restrictions.

Since the last report, the only actions taken under the Section 22 authority concerned sugar. On November 11, 1977, the President issued Proclamation Number 4538 imposing import fees on sugar, utilizing the emergency powers of subsection (b) of Section 22. This was the first utilization of the Section 22 authority with respect to sugar, although sugar imports had until December 31, 1974 been subject to import quotas established under the Sugar Act of 1948. Proclamation 4538 established a fee of 50 percent ad valorem on sugars (raw and refined) valued at not more than 6.67 cents per pound. The fee progressively diminished up to values of 10 cents per pound, and no fee was applicable to values over ten cents per pound. Similar fees based on pounds of total sugar were applicable to liquid sugar and other sugar sirups.

By issuance of Proclamation No. 4547 of January 20, 1978, the President modified the fee system in order to better control imports of refined sugar and also to simplify certain administrative problems being experienced by the U.S. Customs Service. Proclamation No. 4547 provided for fixed fees of 2.70 cents per pound for raw sugar and 3.22 cents per pound for refined sugar and for liquid sugar and other sugar sirups; a maximum limit of 50 percent ad valorem applied to both fees.

The aforementioned Section 22 actions, reported in documents L/4612, Add. 1 and Add. 2, were taken because sugar imports were interfering with the Department of Agriculture's price support program for sugar beets and sugar cane. Sugar prices on the international market were depressed because of surplus supplies, and sugar was being imported into the United States in abnormally large quantities at prices substantially below the minimum support prices required by the Food and Agriculture Act of 1977. The purpose of the import fees was to bring market prices up to a level which would attract domestic sugar instead of channeling it into government ownership.

As required by the Section 22 statute, the President's actions were investigated by the International Trade Commission. In its report, the Commission found that imports were interfering with the price support program and recommended an increase in the import fee for raw sugar and quantitative limitations on imports of refined sugar and liquid sugar and other sugar sirups. As of the date of submission of this report, final action by the President was pending regarding the extension, modification or termination of the measures imposed by Proclamation 4547 in light of the Commission's 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.

The steps taken to influence the supply may be briefly summarized as follows. Acreage allotments and marketing quotas were in effect for the 1977 and 1978 crops of extra long staple cotton and peanuts.

Acreage allotments were in effect for 1977 crop upland cotton; a national program acreage -- similar to the previous national acreage allotment -- was established for 1978 crop upland cotton. Compliance with acreage allotments and marketing quotas for extra long staple cotton and peanuts is a condition of price support and other program benefits and serves to limit acreage planted. However, the 1977 national acreage allotment and the 1978 national program acreage for upland cotton do not limit the acreage planted; there is no limit, and the acreage 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.

It should also be noted that the President successfully opposed proposed legislation which would have strongly encouraged expansion of domestic sugar and sweetener production and reduced foreign suppliers' share of the United States Market. Under existing legislation and programs affecting sugar production, the respective shares of domestic and foreign suppliers is expected to continue without fundamental change.

Price support levels for commodities regulated under Section 22 for 1977 and 1978 are shown in Table 1.

TABLE 1 - Price Support Levels: Section 22 Commodities

Commodity	Unit	Support Price 1977 (Dollars)	1978 (Dollars)
Cotton, Upland			
Loan Rate 1/	lb.	.4258	.4800
Deficiency Payment 2/	lb.	3/	3/
Cotton, Extra Long Staple			
Loan Rate	lb.	.7730	.8370
Payments	lb.	0	0
Peanuts - Quota Loan	lb.	.2152	.2100
- Additional Loan	lb.	--	.1250
Dairy Products			
Mfg. Milk 4/ 5/	cwt.	8.26 9.00	9.00 9.43 9.87
Raw cane sugar 6/	lb.	.1350	.1473
Refined beet sugar 6/	lb.	.1557	.1699

1/ For 1977 crop, basis Middling 1-inch, net weight, micronaire 3.5 through 4.9, at average location; for 1978 crop, basis Strict Low Middling 1-1/16", net weight, micronaire 3.5 through 4.9, at average location.

2/ No deficiency payments were made for 1977; for 1978, farm deficiency payments, if made, will be calculated on the acreage of cotton determined by multiplying the acreage planted for harvest on the farm by the national allocation factor. If a producer voluntarily reduces his 1978 plantings by 20 percent below 1977, he will receive deficiency payments on the total planted acreage.

3/ The Food and Agriculture Act of 1977 continued the guaranteed or "target" prices for upland cotton. For 1977, the target price was 47.80 cents per pound; for 1978, it is 52.00 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.

4/ Implemented through a standing offer to purchase Cheddar cheese, butter and nonfat dry milk, in carlots, from processors at prices designed to return the support price for manufacturing milk on an annual national average basis.

5/ On October 1, 1977, the price support was set at $9.00,on April 1, 1978, it was increased to $9.43,on October 1, 1978, the support price was increased to $9.87. The increases were in accordance with the Agricultural Act of 1949, as amended.

6/ Loan rates applicable for the crop of the year indicated.

COTTON AND COTTON WASTE

Section 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 1977 and 1978 crop season, the United States has had in operation price support, production adjustment, and related surplus disposal programs 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 programs for cotton. With a less than optimistic outlook for mill use and only slightly increased exports, it is expected that substantial quantities of the 1978 crop will be placed under Commodity Credit Corporation (CCC) loan by producers. There is a possibility that some of the cotton placed under loan could eventually be forfeited by producers. Thus, CCC could 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 program and further aggravating the situation for domestic cotton producers and programs.

a. 1978 Cotton Program

The 1978 program for extra long staple cotton is essentially the same as the 1975, 1976, and 1977 programs. The Food and Agriculture Act of 1977 continues for upland cotton concepts provided in the Agriculture and Consumer Protection Act of 1973. The 1977 Act provides a four year program (1978-1981) for wheat, feed grains, and upland cotton. The upland cotton program is part of an overall farm program designed to encourage the expansion of needed farm production to meet domestic and foreign demand while protecting farm income earned from the marketplace.

The 1977 Act continues the concept of guaranteed or "target" prices. The target price for 1978 crop upland cotton is 52.00 cents per pound. If the average market price received by farmers during the 1978 calendar year is at or above the 52.00 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 1977 Act limits total payments to any person under one or more of the annual programs for cotton, wheat, or feed grains to $40,000 for the 1978 crop.

There is no cropland set-aside requirement for upland cotton in 1978, but producers will be required to reduce acreage by 20 percent in order to be guaranteed 100 percent target price protection on production from their entire acreage. A voluntary paid diversion program is in effect for 1978 crop upland cotton. Participants who divert an acreage of cropland equal to 10 percent of the 1978 planted acreage, provided the diverted acreage plus the acreage for harvest does not exceed the 1977 planted acreage, will receive 2 cents per pound on the acreage planted.

The 1977 national allotment was 11 million acres, the minimum provided by law. The 1978 national program acreage for upland cotton was set at 10,248,000 acres; such acreage may be revised, but cannot be reduced below the statutory minimum of 10 million acres. Size of the program acreage does not restrict planting; there is no limit on planted acreage. The 1978 acreage will be used only to determine the maximum acreage eligible for payment. The law requires that the acreage be set at a level that the Secretary determines necessary to maintain adequate supplies, but cannot be less than 10 million acres, as noted above.

Program Activity

1) Upland Cotton. CCC stocks under loan or in inventory on July 31, 1978 (the end of the marketing year), were 1.2 million bales, compared with about 0.3 million on July 31, 1977. Beginning with the 1971 crop, loans mature 10 months from the first day of the month in which the loan is made, rather than on July 31 as was the case in prior years; however, the Food and Agriculture Act of 1977 provides that nonrecourse loans for upland cotton shall, upon request of the producer during the tenth month of the loan period, be made available for an additional term of eight months, unless the average price of Strict Low Middling 1-1/16 inch cotton (micronaire 3.5 through 4.9) in the designated spot markets for the preceding month exceeds 130 percent of the average spot price for the preceding 36 months. During the 1977-78 season, about 4.5 million bales were placed under loan, and through October 11, 1978, all but about 678,000 bales

had been redeemed. For the 1978-79 season through October 11, 1978, about 9,000 bales had been placed under loan, none of which had been redeemed.

The Food and Agriculture Act of 1977 also provides that if the average spot price of strict low middling (micronaire 3.5 through 4.9) in the designated report market for a month exceeds 130 percent of the average price of such quality of such cotton for the preceding 36-month period, loans will not be extended, and the President shall proclaim a special global import quota, subject to certain conditions in the Act. Since the spot price has not exceeded 130 percent in 1978, no special quotas have been proclaimed.

2) Extra Long Staple Cotton. As with upland cotton, loans mature 10 months from the first day of the month in which the loan is made. For the 1977 crop, ELS cotton loans may be extended, at the producer's request,for eight months, after the regular maturity date. During the 1977-78 season, 46,418 bales were placed under loan, and through October 11, 1978, 30,834 bales had been redeemed. No loans on the 1978 crop had been made through October 11, 1978.

Supply Situation

1) Upland Cotton. The carryover on August 1, 1977, totaled 2.9 million bales. Production in 1977 increased significantly from 1976, totaling about 14.3 million bales as compared with about 10.5 million in the previous year. Thus, total supply in 1977-78 approximated 17.2 million bales or 3.0 million above a year earlier. Disappearance (domestic consumption and exports) totaled about 11.9 million bales in 1977 as compared with 11.4 million in 1976. Offtake in 1977 was below 1977 production by about 2.4 million bales, resulting in a 2.4 million bale increase in the

carryover. The August 1, 1978, carryover is reported at about 5.3 million bales. The October estimate of 1978 crop production was 10.8 million bales, down about 3.5 million from 1977.

Extra Long Staple Cotton. The carryover on August 1, 1977, totaled about 49,000 bales. Production in 1977 increased from 1976, totaling 112,000 bales as compared with 64,000 in the previous year. Imports in 1977 totaled 4,000 bales, significantly less than 1976 imports of 19,000 bales. Thus, total supply approximated 165,000 bales or about 16,000 above a year earlier. Disappearance (domestic consumption and exports) totaled about 93,000 bales, about 9,000 more than 1976; about 3,000 bales were unaccounted for. The net result was a carryover on August 1, 1978, estimated at about 69,000 bales, 20,000 bales above a year earlier. The October estimate of the 1978 crop extra long staple production was 82,100 bales, down substantially -- 30,100 bales -- from 1977.

3) Steps Taken to Balance Supply and Demand. In addition to acreage allotments, marketing quotas, and other acreage options, additional government programs 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 programs designed to increase cotton utilization throughout the world. These programs 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 U.S. programs and operations relating to peanuts.

Programs

The Food and Agriculture Act of 1977 required changes in the programs for the 1978 through 1981 crops. The 1978 national acreage allotment is set at the new legal minimmm of 1,614,000 acres, 4,000 acres above the 1977 minimum, but about the same as the actual national acreage allotment. This Act established minimum national poundage quotas which are reduced each year from 1,680,000 tons in 1978 to 1,440,000 tons in 1981. Quotas represent the peanuts eligible for domestic edible use and supported at not less than $420 per ton. Peanuts produced on the acreage allotment but in excess of a farm's poundage quota are supported at a lower level. For the 1978 peanut crop the Secretary announced a national poundage quota of 1,680,000 tons supported at $420 a ton net with the additional peanuts supported at $250 a ton net. This compares with a support level of $430.50 a ton gross ($410.50 per ton net after deductions) for the entire 1977 peanut crop. The Secretary may increase the acreage allotment and poundage quota above the statutory minimum if he determines one or both are insufficient to meet expected requirements. The minimum quota support level may be increased at the Secretary's discretion.

Program Activity

During the 1977-78 marketing year, 536 million pounds of farmers' stock peanuts were placed under loan, of which approximately 231 million pounds were redeemed. For the 1978-79 marketing year, it is anticipated that the quantity placed under loan will approximate 631 million pounds, with 10 million pounds redeemed.

Supply Situation

During the 1977 crop year, the U.S. continued to be confronted with a surplus situation on peanuts. Annual data on peanut production consumption, exports, stocks and acquisitions under the price support program since the 1967 marketing year are shown below.

Year Beginning August 1	Production 1/	Imports	Domestic Consumption & 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	3,857	1	3,886	1,056	1,170
1976	3,751	1	4,204	608	1,236
1977 4/	3,726	1	3,754	581	305

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 & Exports; may include diversions of previous crop.

4/ Preliminary.

The total supply of peanuts in the United States for 1978-79 is expected to be about 4,535 million pounds, compared with an average supply of 4,442 million pounds for the five years 1973-77.

Steps Taken to Balance Supply & Demand

Through 1977 the U.S. followed two principal approaches with a view to solving the problem of surplus peanuts: (1) acreage in production, as it has been for 20 years was held to the minimum permitted by law; and (2) peanuts acquired by the CCC under the price support programs were 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 programs (domestic distribution) and Public Law 480 programs (food aid). The new legislation provides methods which should be more effective in balancing supply and demand. CCC net realized losses were an estimated $90 million in fiscal year 1978.

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 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 October 1, 1978, the Cheddar cheese purchase price was increased from 103.25 cents per pound to 106.00 cents per pound; this necessitated an increase in the "pricebreak" from $1.10 per pound to $1.13 per pound.

Need for Continuing Import Quotas

a. Programs. The price support program, 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 percent 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 percent of parity through March 31, 1979. The 1977 Act also requires the support price be adjusted semiannually to reflect any estimated change in the parity index during the semiannual period.

The support price was set at $9.00 per hundredweight, 82.3 percent of the parity equivalent price, as of April 1, 1977. Effective October 1, 1977, the marketing year was changed from April 1-March 31 to October 1-September 30. The price support level of $9.00 was continued for the 1977-78 marketing year and was again estimated to be 82.3 percent of the parity equivalent price. The support price was increased to $9.43, beginning April 1, 1978, as a result of the semiannual adjustment.

b. Program Activity. In carrying out the price support and related programs in the 1977 calendar year, the Department of Agriculture removed 5.3 percent of the milkfat and 4.8 percent of the solids-not-fat in the milk and cream marketed by farmers. USDA removals in calendar year 1977 were 222 million pounds of butter, 148 million pounds of cheese, 462 million pounds of nonfat dry milk and 16 million pounds of evaporated milk. The CCC purchase cost was $689 million, compared to $233 million in 1976.

The expenditures under the Special Milk Program were $110 million during FY 77 (October 1, 1976-September 30, 1977). (The United States fiscal year changed from a July-June basis to an October-September basis effective October 1, 1977.) The expenditures were $138 million in FY 78.

During the first nine months of calendar 1978, the Department of Agriculture had removed 122 million pounds of butter, 40 million pounds of cheese, 270 million pounds of nonfat dry milk and 13 million pounds of evaporated milk, at a purchase cost of $377 million.

c. Supply Situation. During 1977, milk production recorded an increase over the same month in 1976 for every month. 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 nonfat dry milk were close to CCC purchase prices, manufacturing milk prices remained below the support price.

After 29 consecutive months of increases, milk production dropped below year earlier levels in March 1978. Milk production has been about one percent below year earlier levels every month since then. Consumption of milk and dairy products has increased more than two percent during the same time. Consequently, Commodity Credit Corporation's market removals under the price support program have been much lower than a year earlier, and manufacturing milk prices have been above the support price since July.

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 program.

Steps Taken to Balance Supply and Demand

There are several programs available which are used as adjuncts to the price support program and which serve to attain an effective balance between supply and demand. These include: (a) the Special Milk Program 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 nonfat dry milk in special forms and in consumer-size packages, especially for use in various food distribution programs, such as the programs for school lunch and institutions; and (c) the use of excess CCC stocks for various foreign programs, including emergency aid, donations, grants, and sales under U.S. aid programs such as PL 480. In the first nine months of fiscal year 1977-78, 1.77 billion half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Program compared to 1.96 billion during the same period in FY 1977.

The following tables summarize USDA market removals from 1960 through September 1978, and utilization during 1976, 1977 and the first nine months of 1978.

Year	Milk Production	USDA Market Removals: Butter	Cheese	Nonfat dry milk	Evaporated milk	Milk Equivalent of Removals	Percent Removal of Milk Production
	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Percent
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	126,967	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	117,007	246.4	48.9	451.6	48.4	5,779	4.9
1971	118,566	292.2	90.7	456.2	111.4	1/7,251	6.1
1972	120,025	233.7	30.4	2/345.0	97.0	1/5,345	4.5
1973	115,491	97.7	3.2	36.8	53.7	1/2,184	1.9
1974	115,586	32.7	60.3	265.0	28.3	1,345	1.2
1975	115,334	63.4	68.2	394.5	24.5	2,035	1.8
1976	120,269	39.4	38.0	157.1	21.8	1,236	1.0
1977	122,957	221.8	148.2	461.7	15.9	6,080	4.9
1978 Jan.-Sept.	93,279	122.1	39.7	269.7	13.0	2,943	3.2

1/ Includes small purchases of dry whole milk.
2/ Includes 9.6 million pounds, Title I export sales.
Uncommitted Government stocks on September 30, 1978 were 585.1 million pounds of nonfat dry milk.

Utilization (commitments to uses) in January-September 1977 compared with January-September 1978 were: 1/

Item	Butter		Cheese		Nonfat Dry Milk	
	Jan.-Sept. 1977	Jan.-Sept. 1978	Jan.-Sept. 1977	Jan.-Sept. 1978	Jan.-Sept. 1977	Jan.-Sept. 1978
	(Million Pounds)					
Uncommitted supplies as of beginning of year	33.9	162.2	18.5	69.7	397.2	633.9
Purchases (contract basis)	188.6	134.4	122.5	44.3	421.4	270.2
Utilizations:						
Sales--unrestricted use	---	12.3	2/	4.7	28.4	---
Sales--restricted use	2/	0.4	---	---	4.4	40.2
Noncommercial export sales	---	---	---	---	0.6	69.3
Sales to Dept. of Defense	---	---	---	---	0.4	7.9
Domestic donations						
Schools and needy	51.9	70.6	69.2	77.4	25.4	33.8
Bureau of Prisons	1.4	1.5	0.8	0.5	0.9	0.3
Dept. of Defense	6.6	7.0	1.2	0.8	---	---
Veterans Administration	0.4	0.7	---	---	---	---
Foreign donations						
As dairy product	---	---	---	---	108.0	140.4
Furnished as an ingredient for CSM (corn-soya-milk)	---	---	---	---	20.0	22.8
TOTAL UTILIZATIONS	60.3	92.5	71.2	83.4	188.1	314.7
Uncommitted supplies as of September 30	162.2	204.1	69.7	30.6	633.9	585.1

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 1977 compared with calendar year 1976 were: 1/

Item	Butter 1976	Butter 1977	Cheese 1976	Cheese 1977	Nonfat dry milk 1976	Nonfat dry milk 1977
	(Million pounds)					
Uncommitted supplies as of beginning of year	---	33.9	---	18.5	424.8	397.2
Purchases (contract basis)	60.1	201.3	61.8	124.6	258.2	490.1
Utilizations:						
Sales--unrestricted use	---	0.2	2/	0.3	101.1	28.4
Sales--restricted use	---	0.2	---	0.1	5.4	15.7
Noncommercial Export Sales	---	---	---	---	---	0.6
Sales to Dept. of Defense	---	---	---	---	---	0.4
Domestic donations						
Schools and needy	26.2	77.0	44.0	90.3	23.5	37.3
Bureau of Prisons	---	1.4	---	0.9	---	0.9
Dept. of Defense	---	6.6	---	1.2	---	---
Veterans Administration	---	0.4	---	---	---	---
Foreign donations						
As dairy product	---	---	---	---	124.5	137.0
Furnished as an ingredient in corn-soya-milk	---	---	---	---	25.6	29.1
Total utilizations	26.2	85.8	44.0	92.8	280.1	249.4
Uncommitted supplies as of December 31	33.9	149.1	18.5	50.3	397.2	638.0

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

2/ Less than 50,000 pounds.

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SUGAR

Section 22 Import Fees in Effect

The import fees on sugar in effect as of the date of submission of this report (November 1978) are 2.70 cents per pound for raw sugar and 3.22 cents per pound for refined sugar and for liquid sugar and other sugar sirups. As previously noted, these fees were established under the emergency provisions of Section 22 and are subject to modification when the President takes final action on the investigation report of the International Trade Commission. Sugar imports for the production of polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human food consumption, are exempt from the fees; such imports are subject to licensing by the Department of Agriculture in order to insure that utilization meets the conditions of the exemption.

Need for Continuing the Import Fees

Because of low prices for foreign sugar, import fees remain necessary to prevent interference with the price support program. If external conditions strengthen world prices to a point where the import fees no longer are necessary, the necessary measures to eliminate the fees will be initiated.

Price Support Program

Since November 8, 1977, United States production of sugar beets and sugar cane has been supported by a price support loan program, as required by Section 902 of the Food and Agriculture Act of 1977. This legislation provides for support of the 1977 and 1978 crops at not less than 52.5

percent, and not more than 65 percent, of parity. For the 1977 crop, the support level (equivalent to 52.5 percent of parity) was 13.5 cents per pound, raw value. The support level for the 1978 crop (also 52.5 percent of parity) is 14.73 cents per pound, raw value.

Under the program, processors may qualify for nonrecourse loans (6% annual interest rate for 1977 and 7% for 1978) on sugar, sirup or edible molasses processed from cane, or on refined beet sugar. The 1977 crop loan rates were 13.5 cents and 15.57 cents per pound for raw cane sugar and refined beet sugar, respectively. The comparable national average 1978 crop loan rates are 14.73 cents and 16.99 cents.

Program provisions include the following:

1. In order to be eligible for a loan the processor must pay all his eligible producers not less than prices specified by CCC for sugar beets and sugar cane. These prices are designed to provide price support to sugar beet and sugar cane producers at a level of at least 52.5 percent of the parity prices for such commodities.

2. Eligible producers must certify (to processors) compliance with minimum wage regulations.

3. Unredeemed loan collateral becomes the property of the Commodity Credit Corporation (CCC) at loan maturity. Processors must continue to store (CCC will make storage payments) the commodity after loan maturity until CCC moves it elsewhere.

4. Loans mature on the last day of the eleventh month following the month of disbursement unless extended for a further period.

5. Loans are made and serviced by state and county ASCS offices.

Loans which were made on the 1977 crop totaled $374.1 million representing approximately 1,325,000 short tons of sugar. Through October 20, $235.2 million representing almost 821,800 short tons had been repaid. Repayments on the first loans which were made mature on November 30, 1978; most outstanding loans will mature in the period December 31, 1978-March 31, 1979. As of October 20, 1978, loans on the 1978 crop totaled $53.8 million; total loan activity, the amount of which will depend on price movements in the coming months, is currently projected at up to $900 million.

Supply Situation

The United States is not self-sufficient in sugar. Over the longer term, domestic production has supplied between 48 and 63 percent of requirements. Imports provided the remainder of supplies, primarily in the form of raw sugar. Annual data on sugar production, imports, stocks and utilization are shown in the accompanying table. Preliminary data indicate that 1978 calendar year domestic sugar production may be in the range of 6.0 million short tons. Because of excess world supplies and depressed prices, United States market prices for sugar have remained below support levels for most of 1977 to date.

Steps Taken to Balance Supply and Demand

Until the expiration of the Sugar Act of 1948 on December 31, 1974, imports of sugar were regulated by import quotas. Since then, the United States has endeavored to respond to radical shifts in world supplies and prices by policies intended to achieve domestic market prices which, at the consumer level, were non-inflationary and which would cover production costs and provide a reasonable return to

TABLE S-2-- SUGAR, CANE, AND BEET: SUPPLY AND UTILIZATION, UNITED STATES, CALENDAR YEARS, 1967-77

YEAR	SUPPLY							
	PRODUCTION			OFFSHORE RECEIPTS			BEGIN-NING STOCKS	TOTAL SUPPLY
	CANE 1/	BEET	TOTAL	FOREIGN	TERRI-TORIES	TOTAL		
	1,000 SHORT TONS, RAW VALUE							
1967	2,567	2,730	5,297	4,804	705	5,509	2,758	13,564
1968	2,588	3,039	5,627	5,130	504	5,634	2,941	14,202
1969	2,236	3,246	5,482	4,886	342	5,228	3,043	13,753
1970	2,363	3,511	5,874	5,296	353	5,649	2,869	14,392
1971	2,386	3,429	5,815	5,587	144	5,731	2,835	14,381
1972	2,481	3,534	6,015	5,459	149	5,608	2,823	14,446
1973	2,708	3,353	6,061	5,329	79	5,408	2,823	14,292
1974	2,442	3,221	5,663	5,770	157	5,927	2,646	14,236
1975	2,829	3,473	6,302	3,882	96	3,978	2,854	13,134
1976	2,797	4,003	6,800	4,658	203	4,861	2,856	14,517
1977 3/	2,667	3,423	6,090	6,138	102	6,240	3,498	15,028

YEAR	UTILIZATION						
	TOTAL USE	EXPORTS	NET, CHANGE IN INVISIBLE STOCKS	BALANC-ING ITEMS 2/	DOMESTIC DISAPPEARANCE		
					LIVESTOCK FEED AND ALCOHOL	MILITARY AND CIVILIAN	
						TOTAL	PER CAPITA
	1,000 SHORT TONS, RAW VALUE						POUNDS REFINED
1967	10,623	72	-188	66	199	10,474	98.5
1968	11,159	79	291	51	82	10,656	99.2
1969	10,884	82	-273	57	68	10,950	101.0
1970	11,557	66	185	60	83	11,163	101.8
1971	11,558	89	-7	70	61	11,345	102.4
1972	11,623	56	-21	45	62	11,487	102.8
1973	11,646	26	91	69	31	11,429	101.5
1974	11,382	77	300	51	8	10,946	96.6
1975	10,278	206	-267	29	6	10,304	90.2
1976	11,019	70	-18	72	---	10,895	94.7
1977 3/	11,337	20	203	14	---	11,100	95.7

1/INCLUDES HAWAII. 2/CALCULATED AS A RESIDUAL. 3/PRELIMINARY 4/ESTIMATE efficient producers. It is United States policy to maintain a capacity to produce a substantial part of its sugar needs. The United States has sought to maintain a proper balance between domestic and imported supplies and has not attempted to attain an uneconomically high degree of self-sufficiency.

In recent periods, the United States has modified its customs duties in response to external price changes. As previously noted, in November 1977 and January 1978, in reaction to low external and internal prices and abnormally large imports, the President proclaimed import duties and fees to protect the domestic raw sugar price objective of 13.5 cents per pound. The import fees remain in effect pending a strengthening of the world price situation which will permit their reduction or eventual elimination. Meanwhile, domestic production is being supported at non-expansionary levels, and the President has successfully opposed legislation which would have encouraged substantial increases in domestic production at the expense of imports.

At the international level, the United States supports the objectives and provisions of the International Sugar Agreement, to which it has provisionally subscribed. The President requested the legislative authority required for full United States participation in the Agreement, but was unsuccessful, primarily for reasons unrelated to the merits of the Agreement. Continuing efforts will be made to obtain the necessary legislation.