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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Twenty-Fifth Annual Report by the United States

Government under the Decision of 5 March 1955

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

Introduction

This report is submitted in accordance with the decision of March 5, 1955, which waived obligations of the United States under Articles II and XI of the GATT 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 and 36). It includes a review of recent developments and steps taken to balance production with demand; general observations; and summaries of the support programs and supply position for the commodities which are subject to Section 22 controls. The general reporting period is October 1981-September 1982, with supplementary information as necessary.

In November 1982, the normal date for submission of this annual report, consideration of the preceding report had not been completed by the Contracting Parties. Desiring to benefit from, and be responsive to, that review, the United States delayed preparation of its report in the expectation that consideration by the CPs would be completed shortly. This, however, appears not to have been possible. The United States considers any further delay to be inappropriate. In the future, the United States intends to submit reports as scheduled.

Recent Changes in Section 22 Controls

Import restrictions pursuant to Section 22 continued in effect for cotton of specified staple lengths, cotton waste and certain cotton products; peanuts; certain dairy products; and sugar and sirups. During the reporting period, there were no changes except for sugar; these are described below. No new Section 22 restrictions were imposed.

Sugar. The flexible import fee system for sugar, keyed to changes in sugar prices, remained in effect. During the first nine months of the reporting period, the fees (applicable to raw sugar, refined sugar, and sirups) trended upward in response to the decline in world prices. In the July-September quarter, as a result of administrative measures described below, the fees fell rapidly. As of October 1, 1982, the raw sugar fee was zero cents per pound -- in effect, suspended. As of the date of submission of this report, it has remained at zero cents. Details of the fee adjustment are contained in the Sugar section of this report.

The sugar import fees are intended to prevent domestic sugar prices from falling below a price objective established under the support program for sugar cane and sugar beets. Until May 1982, the fees were keyed to world prices (Caribbean basis). During the early months of the reporting period, because of low world prices, the fees failed to bring domestic prices up to the price objective. In the spring of 1982, the world market situation worsened. By April, world prices had fallen to approximately nine cents per pound. At this level, the fees -- under the provisions of the governing legislation -- could no longer protect the support program. Had this situation been allowed to continue, the government would have been forced to acquire and hold, under the support program, huge inventories of domestic sugar at great cost.

To deal with the situation, two measures were taken, effective May 6, 1982. The import fee system was revised to change the key computation factor from the world price to the domestic spot price. In addition, the existing import quota (not a Section 22 measure) was modified to limit imports, with certain exemptions, beginning with the period May 11-June 30. The quota for that period was 220,000 short tons; actual imports, including exempted imports, exceeded that amount. The interests of members of GATT and of the International Sugar Organization were protected by allocating the country shares according to the history of trade in a representative period in accordance with GATT principles. For the July-September quarter, the quota was fixed at 420,000 short tons. Beginning October 1, the quota for the October 1982-September 1983 fiscal year was set at 2.8 million short tons (equivalent to 2.54 million metric tons).

The modification of the import fees system was taken under the emergency powers of Section 22. Accordingly, an independent investigation by the International Trade Commission followed. The Commission found that the measures taken were necessary and proper. Additionally, it recommended that the import fee for refined sugar be replaced by an annual quota. The Commission's report to the President is currently under review.

Steps Taken to Balance Agricultural Production with Demand

For three of the four commodity groupings subject to Section 22 controls (cotton, peanuts, dairy products), United States production normally exceeds market requirements. In all three sectors, the government has recently taken strong measures to reduce excess production and bring supplies into better balance with demand.

For the 1982 crop of upland cotton, a 15 percent reduction from the base acreage was established. Participation in the program was required of producers in order to be eligible for commodity loans and deficiency payments under the support program. For the 1983 crop, a 20 percent acreage reduction program is in effect; in addition, there is an optional paid diversion of up to 5 percent of the acreage.

For peanuts, the steps begun in 1977 to reduce excess production are continuing. Production is controlled by a national poundage quota which represents the nation's needs for domestic edible use. Only peanuts grown within that quota receive full support; additional peanut production (1982 crop) is supported at only 36 percent of the support level. Further, for the 1982 crop, the national poundage quota was reduced from 1.44 million tons (the 1981 level) to 1.2 million tons. It will be further progressively reduced annually to 1.1 million tons in 1985. Another measure was the reduction of the loan rate for "additional" peanuts from 12.5 cents per pound in 1981 to 10 cents per pound for the 1982 crop.

In the past two years, the measures taken to discourage overproduction of milk have been stronger than at any time in the history of the dairy support program. Except for a temporary three-week period, the support price for milk has been frozen since October 1, 1980. Since production costs have continued to increase because of price inflation, this has meant -- in real terms -- a reduction of the support price. Direct penalties for excess production are provided in a program initiated December 1, 1982, which requires that 50 cents per hundredweight be deducted from the proceeds of sale for all commercially marketed milk and be paid to the government

as long as certain specified conditions of national milk surplus continue to exist. An additional 50-cent deduction will be required beginning April 1, 1983. Although the government has been temporarily halted from collecting the deductions by court action on certain technical and legal grounds, it is expected that these will be resolved and that the program will again be operative on or before April 1, 1983.

It is emphasized that these changes in the dairy support program were not possible through administrative action but, rather, required fundamental changes in the governing legislation. The necessary legislative enactments were obtained only after overcoming strong opposition.

With respect to sugar, no production surplus exists because the United States is not self-sufficient. The support program is intended to maintain a capacity for producing the nation's essential needs. The level of support has been established by law accordingly; it does not encourage increased production. Through 1985, the support levels provided in the governing legislation will increase only slightly and at a rate substantially below the general level of price inflation. Foreign suppliers continue to have a fair share of the U.S. market. Despite gradually declining consumption, the U.S. will continue to import nearly half of its sugar needs.

General Observations

As noted above, no new Section 22 import restrictions were imposed during the period under review. At the same time, a formal decision was taken against additional restrictions on dairy products. In response to a petition to limit imports of casein and lactalbumin, the U.S. International Trade Commission on January 29, 1982, reported to the President its finding that such imports did not interfere with, or threaten to interfere with, the support program for milk. The President accepted that conclusion and these commodities remain unrestricted. The decision to that effect was published in the Federal Register of April 9, 1982.

Other documented requests have been received from producer groups and their legislative representatives to limit imports of peanut products and honey. Both commodity sectors are politically sensitive and controversial. No import restrictions have been imposed on these commodities, nor have formal Section 22 investigation procedures been initiated.

Existing Section 22 controls are kept under continuing review, as is the feasibility of alternative measures. The essential consideration is effectiveness in protecting the support programs -- specifically, in preventing involuntary government purchases and inventory maintenance costs because of displacement of domestic supplies by imports. Particular consideration has been given to countervailing duties as an alternative. Although such statutory authority is readily available, the clear evidence is that countervailing duties would not provide effective protection of the support programs. One important reason is that the statutorily required determination of material injury to domestic producers often could not be made in many cases because the economic injury caused by imports was sustained by the support program, not by producers. Further, such duties would necessarily be selective, rather than

comprehensive; thus, the total supply situation would not be controlled. In some cases, countervailing equal to the supplying country's export assistance would be insufficient to prevent price undercutting. Except for dairy products, countervailing duties would at present not be applicable to most suppliers of commodities for which Section 22 restraints are necessary.

The experience with sugar in recent years is illustrative. Although heavy export subsidies by certain countries were the major force which depressed world market prices to distress levels, the imposition of countervailing duties against those countries' sales to the United States provided little relief to the total supply situation because the effects of such subsidies were largely indirect. In brief, export subsidies are normally only a partial cause, and often are only a minor cause, of interference by imports with the price support program.

Regarding the request of Hungary that it be allocated import quotas for certain cheeses, the United States regrets its inability to do so. The dairy supply situation precludes any overall expansion of the dairy product quotas. Therefore, allocation of special amounts to Hungary could be done only by reducing the amounts already assigned to other countries or, in a single instance, utilizing an allocation which is being held in reserve for certain concessions from a specific supplier which were discussed in the Tokyo Round. The allocations of United States cheese import quotas have, in conformance with the GATT, been derived from historical patterns of trade, as most recently modified in the Tokyo Round. As a matter of record, it is noted that the Government of Hungary did not avail itself of the opportunities provided during the Tokyo Round to seek concessions from the United States on cheese. It is also noted that Hungary can and does share in various "Other Country" cheese quota allocations.

The United States will continue to meet the conditions of the Section 22 Waiver, including exploration of possible alternative approaches and continuation of efforts to increase consumption and to improve the supply balance for the commodities concerned. The United States will continue to confine its Section 22 controls to the measures necessary to prevent interference by imports with its support programs for agricultural commodities.

Levels of Price Support

Price support levels for Section 22 commodities, for 1981 and 1982, are shown in Table 1.

TABLE 1 - Price Support Levels: Section 22 Commodities

<u>Commodity</u>	<u>Unit</u>	<u>Support Price</u>	
		<u>1981</u> (Dollars)	<u>1982</u> (Dollars)
Cotton, Upland			
Loan Rate <u>1/</u>	lb.	.5246	.5708
Deficiency Payment <u>2/</u>	lb.	.0767	.1392
Cotton, Extra Long Staple			
Loan Rate	lb.	.9900	.9989
Payments	lb.	0	0
Peanuts - Quota Loan	lb.	.2275	.2750
- Additional Loan	lb.	.1250	.1000
Dairy Products			
Mfg. Milk <u>3/</u>	cwt.	13.10	13.10
		13.49	
		13.10	
Raw Cane Sugar Loan	lb.	<u>4/</u>	17.00
Refined Beet Sugar Loan	lb.	<u>4/</u>	20.15

- 1/ Basis Strict Low Middling 1-1/16", net weight, micronaire 3.5 through 4.9, at average location.
- 2/ For the 1981 and 1982 crops, deficiency payments were calculated based on the difference between the target price and the average market price received by farmers for the calendar year, not to exceed the difference between the target price and the loan rate. 1981-crop deficiency payments were made on the acreage planted for harvest on each farm times an allocation factor of 93 percent. Producers who did not increase their planted acreage in 1981 from 1980 received deficiency payments on the total planted acreage. For 1982, only those producers who participated in the 15 percent acreage reduction program are eligible to receive deficiency payments.
- 3/ Implemented through a standing offer to purchase Cheddar Cheese, butter and nonfat dry milk, in cartons, from processors at prices designed to return the support price for manufacturing milk on an annual national average basis. On October 1, 1980, the beginning of the marketing year, the price support was increased from \$12.36 per cwt. to \$13.10 (national average milkfat content of 3.67 percent); on October 1, 1981, it was increased to \$13.49; on October 21, 1981, it was decreased to \$13.10; and on October 1, 1982, it was continued at \$13.10.
- 4/ There was no support program for the 1980 and 1981 crops.

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 1981 and 1982 crop seasons, the United States has had in operation price support, production adjustment and related surplus disposal programs, and thus restrictions were continued. Acreage limitations apply to the 1982 crop. Import quotas on cotton, cotton waste and certain cotton products are necessary in order to prevent material interference with the Department of Agriculture's programs for cotton.

1982 Cotton Program

The 1982 program for extra long staple cotton (ELS) was essentially the same as the 1979, 1980, and 1981 programs. The ELS cotton program is governed by acreage allotments and marketing quotas. Acreage of ELS cotton is limited by the acreage allotment. Producers who plant in excess of their allotment are subject to severe penalties on the excess production and are not eligible for loans. The 1982 national acreage allotment was 120,191 acres.

The Agriculture and Food Act of 1981 continued for upland cotton the concepts provided in the Food and Agriculture Act of 1977. The 1981 Act provided a four year program (1982-1985) for wheat, feed grains, rice, and upland cotton. The upland cotton program is part of an overall farm program designed to encourage necessary agricultural production to meet domestic and foreign demand while protecting farm income earned from the marketplace.

The 1981 Act continued the concept of guaranteed or "target" prices. The target price for 1982 crop upland cotton was 71.00 cents per pound. If the weighted average market price received by farmers during the 1982 calendar year is at or above the 71.00 cents per pound target price, no deficiency payments are made. If the average price is below the target level, payments will be made on the difference not to exceed the difference between the target price and the price support loan rate. The 1981 Act limited total payments to any person under one or more of the annual programs for cotton, wheat, rice, or feed grains to \$50,000.

A 15 percent acreage reduction program was established for the 1982 crop. Participation in the acreage reduction program was required in order to be eligible for commodity loans and deficiency payments.

Program Activity

1) Upland Cotton. CCC stocks under loan or in inventory on July 31, 1982 (the end of the marketing year), were 3,644 thousand bales, compared with about 626 thousand on July 31, 1981. Beginning with the 1971 crop, loans mature 10 months from the first day of the month in which the loan is made; however, the Agriculture and Food Act of 1981 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 1981-82 season, about 6.0 million were placed under loan, and through January 12, 1983, 3.2 million had been redeemed and .1 million had been forfeited, leaving a balance of 2.7

million bales. Through January 12, 1983 about 3.2 million bales had entered the 1982-83 loan program, and .2 million bales had been redeemed.

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 1981 crop, ELS cotton loans could be extended, at the producer's request, for eight months after the regular maturity date. During the 1981-82 season, 55,900 bales were placed under loan and through January 12, 1983, 25,900 bales had been redeemed and 1,700 had been forfeited. As of January 12, 1983, 20,900 bales of the 1982 crop had been placed under loan and 5,400 bales had been redeemed.

Supply Situation

1) Upland Cotton. The carryover on August 1, 1981, totaled 2.6 million bales. Production in 1981 increased significantly from 1980, totaling about 15.6 million bales as compared with about 11.0 million in the previous year. Thus, total supply in 1981-82 approximated 18.2 million bales or 4.2 million above a year earlier. Disappearance (domestic consumption and exports) totaled about 11.8 million bales in 1981 as compared with 11.7 million in 1980. The August 1, 1982, carryover was reported at about 6.6 million bales. The current estimate of 1982 crop production is 12.0 million bales, down about 3.6 million bales from 1981.

2) Extra Long Staple Cotton. The carryover on August 1, 1981 totaled about 65,000 bales. Production in 1981 decreased from 1980, totaling 80,000 bales as compared with 104,000 a year earlier. Imports in 1981 totaled 8,000 bales as compared with 1,000 bales in 1980. The total supply approximated 142,000 bales, about the same level as the previous year. Disappearance (domestic consumption and exports) total about 62,000 bales, about 34,000 less than 1980- about 15,000 bales were unaccounted for. The net result was a carryover on August 1, 1982, estimated at about 65,000, 11,000 bales above a year earlier. The current estimate of the 1982 crop extra long staple production is 108,000 bales, up 28,000 bales from 1981.

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.

1983 Cotton Program

On September 27, 1982, the Secretary of Agriculture announced an acreage reduction of 20 percent and an optional paid diversion of up to 5 percent for the 1983 crop of upland cotton. This step was taken under the authority of the newly enacted Agriculture and Food of 1981. In addition, on January 11, 1983, President Reagan announced the Payment-In-Kind (PIK) Program for certain 1983 crops, including upland cotton.

PEANUTS

Section 22 Quotas in Effect

The annual quota of 1,709,000 pounds (shelled basis) remained in effect for the 1981 and 1982 crop of 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 Agriculture and Food Act of 1981 further modified provisions of the peanut price support program for the 1982 through 1985 crops, continuing steps begun in 1977 to bring peanut production for domestic edible use in balance with market needs. The 1981 Act continues the two-tier price support program that prevailed from 1978 to 1981. It retained poundage quotas, but it eliminated acreage allotments. This major change allows any farmer in the United States to grow and market peanuts whether the farm has a poundage quota or not.

The minimum national poundage production quota was reduced from 1.44 million tons in 1981 to 1.2 million tons in 1982. The national quota will be dropped further to 1.17 million tons in 1983, 1.13 million tons in 1984, and 1.1 million tons in 1985. Quota peanuts are eligible for domestic edible use and represent the nation's domestic edible consumption and export needs; they are

supported at a higher level than production which is additional to the quota. Legislation requires that the price support for quota peanuts be set at not less than \$550 per ton for 1982--up from \$455 per ton in 1981. From 1983 through 1985, the support level for quota peanuts will reflect annual increases in production costs, excluding any increase in the cost of land. However, the increase is limited to 6 percent for each annual adjustment.

Additional or nonquota peanuts may be grown by anyone, both quotaholders and nonquotaholders. Legislation requires these peanuts to be contracted for export, crush, or both, or placed under loan. Contracts (price and quantity agreements between buyers and sellers) for growing additional peanuts must be submitted to the Department of Agriculture or, if so designated, to the area association before April 15.

The support price for additional peanuts will be set to avoid any net cost to the government. The basis for the support rate continues to be the demand for peanut oil and meal, expected prices for other vegetable oils and protein meals, and the demand for peanuts in foreign markets. For 1982, the support level was set at \$200 per ton.

Program Activity

During the 1981-82 marketing year (August-July), 836 million pounds of farmers' stock peanuts were placed under loan, of which approximately 482 million pounds were redeemed or bought back for domestic edible use. For the 1982-83 marketing year, 517 million pounds of peanuts were placed under loan, with about 343 million pounds redeemed or bought back for domestic edible use.

Supply Situation

Because of unusually favorable weather, growers produced a record-high 1,992 thousand tons of peanuts in 1981. However, because beginning stocks were abnormally low because of the drought-reduced crop in the preceding year, supplies in the 1981-82 marketing year were 3 percent below 1979-80 levels. Growers received an average of \$536 per ton for all peanuts produced, \$81 per ton above the quota support level. The high prices for quota and additional peanuts slowed increases in domestic food use and exports.

Growers harvested 1,273 thousand acres of 1982-crop peanuts, 14.5 percent below 1981. The 17 percent poundage quota reduction, combined with weaker export market prices, accounted for the cutback in acreage. Larger than normal beginning stocks partially offset the reduction in planted acres, resulting in supplies of 2,099 thousand tons, 4.5 percent below 1981. Quota peanuts are expected to account for 76 percent of total supplies from the 1982 crop and additional peanuts the remaining 24 percent.

Annual data on peanut production, consumption, exports, stocks and acquisitions under the price support program since the 1969 marketing year are shown below.

<u>Year Beginning August 1</u>	<u>Production 1/</u>	<u>Imports</u>	<u>Domestic Consumption & Exports 2/</u>	<u>Stocks End of Year</u>	<u>Acquisitions Under Price Support 3/</u>
Million Pounds, Farmers Stock Basis					
1969	2,535	1	2,540	353	536
1970	2,979	2	2,881	453	1,033
1971	3,005	2	3,063	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	1,060	1,170
1976	3,739	1	4,192	608	1,235
1977	3,715	1	3,743	581	305
1978	3,952	1	3,948	586	309
1979	3,968	1	3,927	628	436
1980	2,301	402	2,925	413	230
1981	3,982	2	3,641	756	298
1982 4/	3,441				

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 1982-83 is expected to be about 4,199 million pounds, compared with an average supply of 4,229 million pounds for the five years 1977-81.

Steps Taken to Balance Supply and Demand

The Agriculture and Food Act of 1981, effective for the 1982 through the 1985 peanut crops, provides improved methods for achieving a better balance between supply and demand. This legislation takes two principal approaches: (1) mandatory reductions in the quantity of peanuts eligible for support for domestic edible use, from 1,200,000 short tons in 1982 to 1,100,000 short tons in 1985; and (2) disposal of peanuts acquired by the CCC under the price support programs by means outside normal commercial market channels, at a financial loss -- primarily for crushing into oil. In addition, peanut products have been purchased under related programs and utilized in domestic distribution programs.

CCC net realized losses were \$20 million for the 1982 crop and about \$10 million for the 1981 crop.

Dairy Products

Section 22 Quotas

Since the last report, additional administrative action has been taken by the Department of Agriculture to assist the licensees in determining their licensing needs, thereby facilitating utilization of the Section 22 quotas. Additional notification is given to each licensee on the use status of his or her licenses, with a reminder of the surrender date for unneeded license amounts and the time frame for applications to use such extra license amounts as become available. Further, the installation of new data processing equipment, by enabling more rapid servicing of the licensees, facilitates greater utilization of the quotas.

As in prior years, country of origin adjustments were made in 1982 when it became evident that a country could not provide a quota item in sufficient quantities to fill its quota. Affected quotas included Swiss or Emmenthaler cheese (Item 950.10B) from Argentina, Australia and Iceland and Other cheese, (Item 950.10D) from Poland. The unused amounts were distributed to and utilized by other supplying countries.

Preliminary import figures for 1982 show more than 230 million pounds were imported against licensed quotas. This represents over 96 percent of the quotas, an increase of 4 percent over 1981 quota use.

Need for Continuing the Import Quotas

Import controls on dairy products are being continued to prevent material interference with the support program for milk.

The Dairy Support Program

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 high levels of support from 1977 through 1980 required by law gave dairy farmers a strong incentive to produce an increasing volume of milk. This led to large price support purchases of surplus dairy products and a build-up of record government-owned inventories of butter, cheese, and nonfat dry milk. In an effort to discourage the production of surplus milk, the milk support price has not been increased since October 1, 1980. However, because of low grain and feed prices and lack of favorable alternative farm enterprises, milk production continues to increase.

The Omnibus Budget Reconciliation Act of 1982 amended the Agricultural Act of 1949 to continue the minimum support price at \$13.10 per cwt. through marketing year 1983-84. For 1984-85, the support price will be set at not less than the percent of parity that \$13.10 represents on October 1, 1983. The Omnibus Budget Reconciliation Act of 1982 also includes provisions for deducting 50 cents per cwt. from the proceeds of all milk marketed commercially, from October 1, 1982 through September 30, 1985, provided projected annual CCC purchases are at least 5.0 billion pounds milk equivalent. A second 50-cent per cwt. deduction is authorized April 1, 1983 through September 30, 1985, provided projected annual purchases are at least 7.5 billion pounds and if USDA establishes a program to refund the second deduction to producers who reduce their marketings from the base period, which may be either the 1981-82 or 1980-81 and 1981-82 marketing years.

On October 1, 1980, the beginning of the 1980-81 marketing year, the support price was fixed at the legal minimum of 80 percent of parity and increased from \$12.36 per cwt. to \$13.10 per cwt. (national average milkfat content of 3.67 percent). At the proposal of the Administration, the midyear support price adjustment scheduled for April 1, 1981 was rescinded by legislation enacted March 31, 1981, and the support price continued at \$13.10 per cwt. On October 1, 1981, the beginning of the 1981 marketing year, the support price was set at \$13.49 cwt. which was 75 percent of parity, the legal minimum. On October 21, 1982, again at Administration initiative, the support price was reestablished at \$13.10 per cwt. based on temporary legislation prior to enactment of the Food and Agriculture Act of 1981. This level was maintained in subsequent legislation. Also, the Omnibus Budget Reconciliation Act of 1982 authorized the imposition of two 50-cent per cwt. producer deductions to discourage excess production. This is effected by deductions from milk payments by processors. The first of these two deductions was originally implemented on December 1, 1982, but the government has been preliminarily enjoined by a Federal District Court in Columbia, South Carolina, from collecting the first deduction. In view of the court decision, a Notice of Proposed Determination was published on January 27, 1983, seeking comments on proposal to implement, as of April 1, both 50-cent per cwt. deductions. The government's proposal for the second deduction includes provisions for a 50-cent per cwt. refund to producers who reduce marketings.

b. Program Activity. In carrying out the price support and related programs in the 1981 calendar year, the Department of Agriculture removed from the market 9.7 percent of the milkfat and 8.9 percent of the solids-not-fat in the milk and cream marketed by farmers. USDA removals in calendar year 1981 were 352 million pounds of butter, 551 million pounds of American cheese, 12 million pounds of Mozzarella cheese, 851 million pounds of nonfat dry milk, 19 million pounds of evaporated milk and 6 million pounds of infant formula. The CCC purchase cost was \$2.1 billion, compared to \$1.4 billion in 1980.

CCC dairy product purchases in the first nine months of 1982 were 337 million pounds of butter, 514 million pounds of American cheese, 17 million pounds of Mozzarella cheese, 774 million pounds of nonfat dry milk, 15 million pounds of evaporated milk and 5 million pounds of infant formula, at a purchase cost of about \$2.0 billion. These figures compare with 307 million pounds of butter, 486 million pounds of American cheese, 10 million pounds of Mozzarella cheese, 677 million pounds of nonfat dry milk, 15 million pounds of evaporated milk and 5 million pounds of infant formula at a purchase cost of \$1.8 billion for the same period in 1981.

The expenditures under the Special Milk Program were \$119 million during FY 81 (October 1, 1980-September 30, 1981). The expenditures were \$28 million in FY 82.

c. Supply Situation. Milk production began to increase, relative to a year earlier, in May 1979, and by September it was more than three percent above a year earlier. The annual increase in production, adjusted for leap year, equaled 1.6 percent in 1979, 3.9 percent in 1980, 3.5 percent in 1981, and 1.9 percent in 1982. Milk production increased at a slower rate in the first half of 1982 -- the increase over a year earlier slowed to about 1.1 percent in the April-June quarter, but increased to 2.3 percent in July-September and 2.6 percent in October-December.

Production per cow, adjusted for leap year, increased by about 2.4 percent in 1981 and 1.0 percent in 1982. Cow numbers reversed a long-term trend and began to increase relative to a year earlier, beginning in February 1980; they have been above year-earlier levels since then.

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

Several legislative actions in 1981 and 1982 were intended to discourage the production of excess milk. On March 31, the President signed the law that rescinded the semiannual adjustment scheduled for April. Also, the October 1, 1981 support price increase to \$13.49 per cwt. (the legal minimum on that date) was rolled back to \$13.10 on October 21, 1981. The Agriculture and Food Act of 1981 authorized continuation of the support price at \$13.10 per cwt. for the remainder of the 1981-82 marketing year and reduced the minimum support level below 70 percent of parity through September 30, 1985 if projected price support purchases exceed certain levels.

The signing by the President of the Omnibus Budget Reconciliation Act of 1982 represented a major effort by the Administration to control excess milk production. The Act continued to hold the minimum support price at \$13.1 per cwt. for the 1982-83 marketing year (rescinding the 10-cent increase authorized by the Agriculture and Food Act of 1981), and provided for two 50-cent per cwt. deductions from producer paychecks for all milk marketed commercially.

A number of programs are conducted to expand the utilization of dairy products. These programs serve as adjuncts to the price support program in seeking to attain a better balance between supply and demand. They 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 (under the authority of the price support program) on competitive bid and announced price bases of butter, cheese, and nonfat dry milk in special forms and in consumer-size packages, in order to facilitate use in food sales and donation programs; (c) CCC purchases of evaporated milk and of milk-based infant formula; (d) the school lunch program; (e) distribution to institutions and welfare programs; and (f) distribution of surplus commodities to needy through food banks operated by nonprofit or charitable organizations; (g) foreign donation programs for welfare and emergency assistance under P.L. 480; Title II; (h) expanded authority to donate surplus dairy products to needy persons in the U.S. and overseas under the Omnibus Budget Reconciliation Act of 1982; and (i) export sales for social welfare programs in recipient countries. Increased consumption of dairy products also resulted from the food stamp program and from participation in the women-infants-children (WIC) program under which certain disadvantaged groups receive financial assistance for increased food purchases.

The Food and Agriculture Act of 1981 authorized the distribution of surplus dairy products to needy through food banks. At least 500 million pounds of process cheese and 125 million pounds of butter have been made available under this program and USDA is conducting a pilot program of distributing 11 million pounds of nonfat dry milk to needy families in three States. This Act also directed USDA to use all available authorities to the fullest practicable extent to reduce Government inventories of dairy products, including exportation at not less than world market prices.

Preliminary data for fiscal year 1982 indicate that 228 million half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Program compared with 1.6 billion half-pints during the same period in FY 1981. Slightly more than 4.5 billion half-pints of milk were served in each fiscal year under the School Lunch and other Child Nutrition Programs.

The following tables summarize USDA market removals from 1960 through September 1982, and utilization during 1980, 1981, and the first nine months of 1982.

Milk Production and Market Removals, by Calendar Year,
1960-1981 and Jan.-Sept. 1982

Year	Milk Production	USDA Market Removals				Milk Equivalent Removals	Percent of Milk Production
		Butter	Cheese	Nonfat dry milk	Evap- orated milk		
	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	5,774	4.9
1971	118,565	292.2	90.7	456.2	111.4	1/7,268	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	1/2,185	1.9
1974	115,586	32.7	60.3	265.0	28.3	1,346	1.2
1975	115,398	63.4	68.2	394.5	24.5	2,036	1.8
1976	120,180	39.4	38.0	157.1	21.8	1,236	1.0
1977	122,654	221.8	148.2	461.7	15.9	6,080	5.0
1978	121,461	112.0	39.7	285.0	17.6	2,743	2.3
1979	123,411	81.6	40.2	255.3	26.4	2,119	1.7
1980	128,525	257.0	3/349.7	634.3	17.5	8,800	6.9
1981	132,634	351.5	3/563.0	851.3	18.6	12,861	9.7
1981, Jan.-Sept.	100,652	307.1	3/489.8	676.8	14.6	11,212	11.2
1982	135,169	382.0	3/642.5	948.1	20.8	14,282	10.6
1982, Jan.-Sept.	102,365	337.5	3/525.4	774.2	15.5	12,193	11.9

1/ Includes small purchases of dry whole milk.
2/ Includes 9.6 million pounds, Title I export sales.
Uncommitted Government stocks on September 30, 1982 were 1,177.1 million pounds of nonfat dry milk; 402.7 million pounds of butter and 825.1 million pounds of cheese.
3/ Includes quantities of Mozzarella cheese as follows: 28.4 million pounds in CY 1980, 12.7 million pounds in CY 1981, 28.4 million pounds in CY 1982, and 10.2 million pounds January through September 1981 and 16.9 million pounds January through September 1982.

utilizations (commitments to uses) in calendar year 1981 compared with calendar year 1980 were: 1/

Item	Butter		Cheese				Nonfat dry mi	
	1980	1981	1980	1981	1980	1981	1980	1981
	(Million pounds)							
Uncommitted supplies as of beginning of year	142.6	273.7	19.9	196.8	—	—	381.1	532
Purchases (contract basis)	259.7	351.5	324.9	542.9	32.9	8.0	634.3	851
Utilizations								
Sales - unrestricted use	2.7	—	2.5	8.9	—	—	—	—
Sales - restricted use	1.5	0.1	—	<u>2/</u>	—	—	75.8	44
Commercial Export Sales	—	<u>4/311.6</u>	—	<u>4/18.6</u>	—	—	<u>3/132.3</u>	<u>4/175</u>
Sales of Dept. of Defense	0.9	0.9	—	—	—	—	8.8	8
Domestic donations								
Schools and needy	103.9	105.4	143.7	140.8	32.9	8.0	43.0	49
Bureau of Prisons	1.0	1.3	0.2	0.5	—	—	0.1	<u>2</u>
Dept. of Defense	<u>5/17.8</u>	—	2.3	1.3	—	—	—	—
Veterans Admin.	0.4	0.2	—	—	—	—	—	—
Foreign donations								
Dairy products	—	—	—	—	—	—	156.4	185
Furnished as an ingredient in corn-soya-milk	—	—	—	—	—	—	42.1	33
Total utilizations	128.2	419.5	148.7	170.0	32.9	8.0	458.5	496
Uncommitted supplies as of 31 December	273.7	206.6	196.8	570.3	—	—	<u>6/532.4</u>	<u>6/856</u>

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

Less than 50,000 pounds.

Quantity ordered for delivery in 1980.

Quantity ordered for delivery in 1981 and extending into 1982.

Includes 9.0 million pounds for delivery in 1981.

Reflects contract adjustments.

Utilization (commitments to uses) in January-September 1981 compared with January-September 1982 were: 1/

Item	Butter		Cheese				Nonfat Dry Milk	
	Jan.- Sept. 1981	Jan.- Sept. 1981	American 2/ Jan.- Sept. 1981	Mozzarella Jan.- Sept. 1982	Jan.- Sept. 1981	Jan.- Sept. 1982	Jan.- Sept. 1981	Jan.- Sept. 1982
	(Million Pounds)							
Uncommitted supplies as of beginning of year	273.7	206.6	196.8	570.3	—	—	532.4	856.5
Purchases (contract basis)	307.1	338.7	468.9	516.2	5.7	20.0	676.8	779.7
Utilizations:								
Sales—unrestricted use	—	—	6.2	5.8	—	—	—	—
Sales—restricted use	<u>3/</u>	7.3	<u>3/</u>	1.7	—	—	32.0	41.1
Export sales								
Noncommercial	<u>4/</u> 291.9	<u>5/</u> 22.0	<u>4/</u> 0.9	—	—	—	<u>4/</u> 139.9	<u>5/</u> 39.7
Barter	—	<u>6/</u> 4.0	—	—	—	—	—	16.0
Sales to Dept. of Defense	—	2.4	—	0.3	—	—	7.2	7.6
Domestic donations								
Schools and needy	75.3	87.3	102.8	259.1	5.7	20.0	33.3	42.5
of Prisons	0.9	<u>1.2</u>	0.3	0.5	—	—	<u>3/</u>	0.5
Defense	—	16.3	1.3	2.5	—	—	—	—
Veterans Administration	0.1	0.1	—	<u>3/</u>	—	—	—	—
Foreign donations								
As dairy product	—	13.2	—	11.0	—	—	151.7	245.8
Furnished as an ingredient for CSM (corn-soya-milk)	—	—	—	—	—	—	26.3	33.2
TOTAL UTILIZATIONS	368.2	154.3	111.5	280.9	5.7	20.0	390.4	462.4
Uncommitted supplies as of September 30	216.5	402.7	554.4	825.1	—	—	<u>7/</u> 811.1	<u>7/</u> 1,177.1

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

2/ Includes process cheese.

3/ Less than 50,000 pounds.

4/ Negotiated contracts with deliveries extending into 1982.

5/ Negotiated contract with deliveries extending into 1983.

6/ As Anhydrous milkfat.

7/ Reflects contract adjustments.

SUGAR

Section 22 Import Fees

The system of flexible import fees applicable to sugar and sirups remained in effect. As noted above, it was modified in May 1982 to make the domestic spot price for raw sugar (replacing the adjusted world market spot price) the key variable in the formula which determines the fee. The change was a necessary concomitant to other actions taken in response to extremely distressed world market prices.

For the October-December quarter of 1981, the raw sugar fee was 1.531 cents per pound. The fees increased periodically during the first half of 1982, reaching a high of 4.0703 cents per pound during the period April 21-June 30. During the July-September quarter, in response to a gradual strengthening of domestic prices, the fees were steadily reduced. As of October 1, 1982, they were in effect suspended (i.e., reduced to zero cents per pound), at which level they have subsequently remained. The differential fee for refined sugar is one cent per pound.

On December 23, 1981, as previously reported, the market stabilization price (the market price objective derived from the producer price level specified in the support program) was increased to 19.08 cents per pound, raw value, to conform with the newly enacted domestic program legislation. Effective May 6, 1982, it was adjusted for technical reasons to 19.88 cents. In conformance with the domestic support level effective for the crop year beginning October 1, 1982, the market stabilization price has been further adjusted to 20.73 cents per pound for that period. The adjustment was effective on the same date that the import fee was reduced to zero.

Sugar imports for the production of polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human consumption, are exempt from import fees.

Need for Continuing the Import Fees

The import fee system remains in force in order to prevent interference by imports with the support program for sugar cane and sugar beets, described below. Prices for raw sugar on the world market continue to be very low, with no substantial strengthening indicated for the short or medium term. Consequently, border controls remain necessary to prevent market displacement of domestic sugar and consequent large and costly government acquisitions.

As noted above, the Section 22 import fee system is being operated in connection with import quotas established under another authority. The quota system is regarded as temporary. The fee system will remain legally in force but, because of its automatic flexible provisions, will not function to restrain imports when external prices have recovered sufficiently.

Price Support Program

The Agriculture and Food Act of 1981 established a support program for sugar cane and sugar beets for the 1982 through 1985 crops. Support is provided through a loan program effective October 1, 1982. As an interim measure, the Act also provided that the Department of Agriculture would support the market by offering to purchase raw cane sugar from the 1981 crops processed between December 22, 1981 and March 31, 1982, at 16.75 cents per pound. However, no sugar was sold to the Department under that program.

The loan program for 1982-crop refined beet sugar, raw cane sugar, refined cane sugar, cane syrup, and edible molasses provides that processors may receive loans on raw cane and refined beet sugar at national average prices of 17 and 20.15 cents per pound, respectively. The raw cane sugar loan level for the 1983 crop has been established at 17.5 cents per pound; 17.75 cents per pound for the 1984 crop, and 18 cents per pound for the 1985 crop. 1982-crop sugar processed between April 1, 1982, and June 30, 1983, is eligible for loan. The 1983-crop year program will apply to sugar processed from July 1, 1983, through June 30, 1984. The 1984 and 1985 crop year programs will apply to sugar processed during the 12-month period beginning on July 1 of the applicable year.

Loans will be available beginning October 1 each year. Loans are for a period of six months, except all loans will carry a maturity date of no later than September 30. The interest rate on these loans will be the rate applicable to CCC loans during the month of disbursement. To be eligible for the loan program, a processor must agree to pay at least the minimum specified support price to any grower who delivers sugar beets or sugar cane to him.

Supply Situation

The United States is not self-sufficient in sugar. Over the longer term (1972-1982), domestic production has supplied between 50 and 62 percent of requirements, averaging about 55 percent. 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 following table. Domestic production in 1981 increased to 6.2 million short tons, compared to 5.7 million short tons in 1980. Production for 1982 is estimated at 5.7 million short tons, 5 percent less than for 1981. The import quota is expected to prevent domestic prices from falling below the support level in the 1982-crop year.

Steps Taken to Balance Supply and Demand

The United States, since it is not self-sufficient, needs to maintain a production capacity for its minimum essential sugar needs. The domestic program is focused on this objective. Support prices are fixed accordingly, not -- as in some other major countries -- at uneconomically high levels which induce surplus production. Under the presently governing legislation, the support prices have administratively been kept at the legally permissible minima. The domestic program has historically resulted in maintaining an equitable share of the American market for foreign suppliers. This policy continues in force.

Long-term experience has shown that the utilization of sugar in special distribution and feeding programs has not been a practical means of adjusting the supply situation.

SUGAR, CANE AND BEET: SUPPLY AND UTILIZATION, UNITED STATES, CALENDAR YEARS 1972-82

YEAR	PRODUCTION				OFFSHORE RECEIPTS				SUPPLY			
	PLANT	WELL	TOTAL	TOTAL	PLANT	WELL	TOTAL	TOTAL	PLANT	WELL	TOTAL	TOTAL
1972	2,491	3,534	6,025	5,459	145	5,608	5,608	2,823	14,646			
1973	2,706	3,353	6,059	5,329	79	5,408	5,408	2,823	14,292			
1974	2,471	3,221	5,692	5,770	157	5,927	5,927	2,646	14,235			
1975	2,827	3,473	6,300	3,662	96	3,978	3,978	2,854	13,132			
1976	2,795	4,002	6,797	4,058	203	4,861	4,861	2,856	14,515			
1977	2,666	3,423	6,089	6,138	102	6,240	6,240	3,498	15,827			
1978	2,533	3,067	5,600	4,683	52	4,735	4,735	4,491	14,828			
1979	2,727	3,600	6,327	5,027	47	5,074	5,074	3,754	14,621			
1980	2,584	3,052	5,636	4,445	178	4,623	4,623	3,701	14,110			
1981 3/	3,022	3,184	6,206	5,014	48	5,062	5,062	3,082	14,350			
1982 4/	2,730	3,008	5,738	3,090	98	3,188	3,188	3,629	12,355			

YEAR	UTILIZATION				DOMESTIC DISAPPEARANCE			
	TOTAL	USE	EXPORTS	NET	CHARGE FOR	BALANCE	LIVESTOCK	MILITARY AND
1972	11,023	90	-21	45	62	11,487	102.3	
1973	11,046	26	41	64	31	11,429	100.8	
1974	11,398	72	305	51	8	10,945	95.6	
1975	10,276	216	-277	29	6	10,302	89.1	
1976	11,317	76	-24	72	---	10,893	93.4	
1977	11,316	22	201	14	---	11,049	94.2	
1978	11,074	16	57	108	4	10,889	91.4	
1979	11,920	18	43	103	---	10,756	89.3	
1980	11,028	650	111	78	---	10,189	83.6	
1981 3/	10,528	1,048	50	53	---	9,770	79.5	
1982 4/	9,325	65	50	60	---	9,150	73.7	

1/1 INCLUDES HAWAII. 2/CALCULATED AS A RESIDUAL. 3/PRELIMINARY. 4/ESTIMATE.

DOMESTIC SUGAR CROPS: ACRES HARVESTED, YIELD PER ACRE, AND PRODUCTION, 1900-1982. STATE AND AREA SHARE OF 1982 U.S. PRODUCTION, AND PRODUCTION CHANGE 1981 TO 1982 1/

STATE AND AREA	ACRES HARVESTED		YIELD PER ACRE				PRODUCTION				SHARE OF PRODUCTION 1981	PRODUCTION CHANGE 1981 TO 1982
	1980	1981	1980	1981	1982	1980	1981	1982	1980	1981		
	1,000 ACRES	1,000 ACRES	TONS	TONS	TONS	1,000 SHORT TONS	1,000 SHORT TONS	1,000 SHORT TONS	PERCENT	PERCENT	PERCENT	1,000 SHORT TONS
CANE												
FLORIDA	339.23	369.21	31.23	28.81	35.01	10,592	10,019	12,163	36.61	36.61	36.61	2,126
LOUISIANA	254.01	267.01	23.31	26.91	27.51	5,927	7,134	6,875	26.01	26.01	26.01	-259
TEXAS	35.01	37.41	28.51	31.81	32.51	998	1,174	1,199	4.31	4.31	4.31	251
TOTAL MAINLAND	629.23	673.61	27.91	20.21	31.41	17,517	18,327	20,219	66.91	66.91	66.91	1,892
HAWAII	104.51	106.81	90.41	86.71	91.01	9,446	9,081	8,800	33.11	33.11	33.11	-281
TOTAL	732.71	775.41	36.81	34.31	39.71	26,963	27,408	29,019	100.01	100.01	100.01	1,611
BEET												
MICHIGAN	97.01	99.01	19.51	20.51	20.01	1,892	2,030	1,920	7.61	7.61	7.61	-110
OHIO	17.81	14.41	19.01	19.01	20.01	334	274	---	1.01	1.01	1.01	-274
GREAT LAKES	114.81	113.41	19.41	20.31	20.01	2,221	2,304	1,920	8.41	8.41	8.41	-384
MINNESOTA	243.01	257.01	14.91	17.21	18.01	3,621	4,420	4,554	16.11	16.11	16.11	134
NORTH CAROLINA	142.71	146.91	14.11	18.31	17.51	2,017	2,653	2,555	9.71	9.71	9.71	-97
RED RIVER VALLEY	385.71	401.91	14.61	17.61	17.81	5,638	7,072	7,104	25.81	25.81	25.81	371
COLORADO	91.01	77.01	19.01	22.51	20.01	1,725	1,733	940	6.31	6.31	6.31	-793
KANSAS	14.51	14.01	13.81	20.31	17.61	200	284	145	1.01	1.01	1.01	-119
MONTANA	43.71	44.51	20.31	20.81	20.01	879	926	860	3.41	3.41	3.41	-66
NEBRASKA	85.01	78.41	20.91	24.11	21.01	1,777	1,889	1,050	6.91	6.91	6.91	-839
NEW MEXICO	1.61	2.11	29.11	20.51	20.01	371	431	141	.21	.21	.21	-24
TEXAS	24.41	25.21	15.81	22.81	22.01	386	571	651	2.11	2.11	2.11	76
WYOMING	45.31	44.91	22.61	24.01	21.01	1,024	1,078	830	3.91	3.91	3.91	-248
GREAT PLAINS	305.11	286.11	19.81	22.81	20.61	6,032	6,520	4,510	23.81	23.81	23.81	-2,010
IDAH0	137.91	144.41	13.01	23.91	24.51	3,294	3,754	3,321	13.71	13.71	13.71	-422
OREGON	7.21	10.71	27.41	26.01	27.01	197	300	270	1.11	1.11	1.11	-22
UTAH	71	---	21.41	---	---	151	---	---	---	---	---	---
WASHINGTON	---	---	---	---	---	---	---	---	---	---	---	---
NORTHWEST	145.81	155.11	74.11	26.11	24.71	3,504	4,054	3,610	14.81	14.81	14.81	-444
ARIZONA	4.11	12.61	22.91	23.81	23.01	281	300	313	1.11	1.11	1.11	131
CALIFORNIA	229.01	240.01	25.71	27.51	25.01	5,885	7,150	4,250	26.11	26.11	26.11	-2,900
SOUTHWEST	238.11	272.61	25.61	27.31	24.91	6,093	7,450	4,963	27.21	27.21	27.21	-2,487
TOTAL BEET	1,189.51	1,229.11	19.81	22.31	20.81	23,501	27,408	21,712	100.01	100.01	100.01	-5,696

1/CROP YEAR SEPTEMBER/AUGUST.

SOURCE: "Crop Production," Crop Reporting Board, BRB, USDA.