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SUBSIDIES

Notifications Pursuant to Article XVI:1

UNITED STATES

The following communication has been submitted by the United States.

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PART I

SUBSIDIES

Notifications Pursuant to Article XVI:1

Export Credit Subsidies

1. Nature and Extent of the Subsidies

a. Background and Authority

The U. S. Export-Import Bank is authorized by the Export-Import Bank Act of 1945 to provide credits, guarantees and insurance to promote exports of U.S. goods and services. The financial support is to be at rates and on terms which are consistent with the Arrangement on Export Credits and competitive with the government-supported rates and terms available from other countries whose exports compete with U. S. exports. The Eximbank, in concert with the Foreign Credit Insurance Association (FCIA), provides insurance to cover commercial credit risks and political risks. Inasmuch as several foreign governments offer extensive subsidies in support of exports from their countries, the U.S. Eximbank has, frequently, offered similar subsidies.

b. Incidence

The amount of the subsidy is calculated as the difference in financing costs between what a foreign purchaser might have paid for the U.S. export in the absence of any official support and what the U.S. Eximbank actually offered. The financial rate that an individual foreign purchaser is able to obtain in the credit market will vary with a number of factors, including the creditworthiness of the borrower and the risk of the particular project. This makes it difficult to assess an aggregate financial market rate that can be used to gauge the extent of the U.S. Eximbank subsidy.

For the purposes of this exercise, however, we may consider an appropriate commercial rate to be the secondary market yields on commercial bonds of similar maturity for a first class private borrower. It would clearly not be appropriate to use the yields on long-term government instruments of the exporting country, inasmuch as these are likely to be risk-free or nearly risk-free rates, completely unrelated to the creditworthiness of the importing purchaser or country.

Guarantees and insurance extended by governments should also be considered export subsidies if they lower the total cost of financing below what private markets would otherwise charge. In such instances, the guarantees and insurance have the same distorting effect as subsidized direct credits on the allocation of resources. This observation is especially true when some form of government guarantee is required for the export to go forward at all.

c. Amount of the Subsidy

One means of calculating direct export credit subsidies is to take the present value of the difference between a loan extended at commercial rates and the same loan extended at official export credit rates. As a proxy for commercial rates, we have used the Morgan Guaranty average yields on long-term Baa Aa series. With the heavy indebtedness of many of Eximbank's borrowing countries, the yield rate on Baa series would be a more appropriate proxy for commercial rates. Discounting Eximbank's direct credit authorizations for FY 1979, FY 1980, FY 1981, FY 1982 and FY 1983 by the corporate bond yields, and assuming the average Eximbank repayment period, we have the following direct credit subsidies:

Year	Est. Present Value Subsidy
FY 1979	$ 279.92 million
FY 1980	$ 875.50 million
FY 1981	$ 1,246.09 million
FY 1982	$ 784.97 million
FY 1983	$ 51.19 million
FY 1984	$ 128.00 million
FY 1985	$ 52.00 million
FY 1986	$ 71.00 million

These figures are only a rough estimate of the subsidy. They are sensitive to such factors as the discount rate. They also may underestimate the total subsidy. The most obvious subsidy is the difference between the official rate and the market rate. Yet, a subsidy can also arise due to loan maturities, grace periods, and loan fees which are more favorable than those offered in credit markets.

2. Effect of Subsidy

a. It is impossible to estimate the quantitative trade effect on these subsidies without also examining the export credit subsidies offered by other countries. In most cases, the U. S. Eximbank offered a direct credit subsidy only when a major export competitor had offered, or was about to offer, an export credit subsidy. Thus, the effect of the Eximbank subsidy was frequently to prevent the loss of exports that would otherwise have come from the United States. U. S. Eximbank direct credit authorizations supported the following export values:

Year	Export Value
FY 1979	$ 6,199 million
FY 1980	$ 7,736 million
FY 1981	$ 8,303 million
FY 1982	$ 5,068 million
FY 1983	$ 1,213 million
FY 1984	$ 2,073 million
FY 1985	$ 594 million
FY 1986	$ 602 million

PART II

SUBSIDIES

Notifications Pursuant to Article XVI:1

Maritime Construction Subsidies

1. Nature and Extent of the Subsidy

a. Background and Authority

The Merchant Marine Act of 1936, as amended, provides a general authorization for construction-differential subsidies (CDS) to be paid to United States shipbuilders for the construction of certain ships built for and operated in the foreign commerce of the United States. However, no monies have been appropriated for ship construction since fiscal year 1982, and no funds are being budgeted for CDS in the foreseeable future.

b. Incidence

Title V of the Merchant Marine Act provides that CDS may be paid to either a United States shipyard or the purchaser of the ship. The amount of the CDS would equal the difference between shipbuilding costs in a U.S. shipyard and a reasonable estimate of the costs in a foreign shipyard, although by law, CDS cannot exceed 50 percent of domestic shipbuilding costs.

CDS may only be granted where (*inter alia*): (1) the purchaser is a U.S. citizen; (2) the ship is built for, and in general is operated in, the foreign commerce of the United States; (3) the shipyard is in one of the 50 states or Puerto Rico; (4) the purchaser satisfies certain managerial qualifications; (5) the vessel satisfies foreign commerce and national defense requirements; and (6) the vessel is documented under U. S. laws for 25 years (20 years for tankers and other bulk carriers).

c. Amount of Subsidy

CDS PAID OUT 1981-83

Fiscal Year	Subsidy Outlays
1981	$ 208,113,192
1982	$ 184,485,217
1983	$ 84,511,000
1984	$ 13,694,523
1985	$ 4,692,013
1986	$ -0-

2. Effect of Subsidy

Estimated Quantitative Trade Effects: the CDS program under the Merchant Marine Act was designed to provide incentives to U.S. citizens to purchase U.S.-built vessels, so as to ensure the maintenance of a U.S. shipbuilding industry. Thus, CDS could reduce the number of foreign-built vessels purchased by U. S. citizens for use in foreign commerce.

However, no monies have been appropriated for ship construction since fiscal year 1982, and no funds are being budgeted for CDS in the foreseeable future.

Since a ship constructed in the U. S. with CDS must be documented under the laws of the U. S. for at least 20 years thereafter, in fact, no subsidized vessels are exported.

PART III

SUBSIDIES

Notification Pursuant to Article XVI:1

UNITED STATES

Export Assistance Measures

A. THE EXPORT ENHANCEMENT PROGRAM (GENERAL)

I. Nature and Extent of the Subsidy

(a) Background and Authority

The Export Enhancement Program, announced by the U.S. Department of Agriculture (USDA) in May 1985, was made mandatory through fiscal year 1988 by the Food Security Act of 1985. The Act requires the Secretary of Agriculture to use specified amounts of commodities owned by the Commodity Credit Corporation (CCC) to carry out the program. Under the Act, USDA is authorized to use $1.5 billion worth of CCC-owned commodities as export bonuses through fiscal year 1988 for the purpose of making U.S. commodities more competitive in the world marketplace and to offset the adverse effects of unfair trade practices or subsidies. On July 30, 1987, USDA announced that the EEP will continue under provisions of the CCC Charter Act once the $1.5 billion in funds authorized for the program by the Food Security Act are exhausted.

Each export enhancement initiative is reviewed to determine that it fulfills the criteria for: (1) Additionality -- sales must increase U.S. agricultural exports above what would have occurred in the absence of a program; (2) Targeting -- sales will be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports; (3) Cost Effectiveness -- sales should result in a net plus to the overall economy; and, (4) Budget Neutrality -- sales should not increase budget outlays beyond what would have occurred in the absence of a program.

(b) Incidence

The program offers government-owned CCC commodities as bonuses to exporters. The program has involved -- and will continue to involve -- a series of export initiatives. USDA periodically announces the terms and conditions of each export initiative.

This program has worked as follows: (1) The USDA General Sales Manager, acting as Vice President of the CCC, issues the "announcement" of a specific initiative and an "invitation" inviting offers from exporters to obtain a specific dollar and cents value of a CCC bonus in connection with a sale of an elegible commodity for export to the target country; (2) Interested exporters submit information to qualify as participants under the program; (3) The exporter must make a commercial sale of the eligible commodity under either a world-wide tender or a U.S.-origin tender, or a negotiated sale with a buyer as a result of a tender; (4) The exporter then makes an offer to the CCC to establish the amount of the CCC bonus in dollars and cents necessary to make the eligible commodity competitive with the same commodity being offered for sale from other exporting countries under a world-wide tender and furnish a performance certificate to the CCC; (5) The General Sales Manager determines if the CCC bonus value makes the exporter's commercial sale of the eligible commodity competitive with the same commodity offered for export from other exporting countries and if the offer meets the requirements of the program; (6) The General Sales Manager notifies successful exporters and sends a written acceptance of the offer; (7) The exporter selects specific lots of eligible CCC-owned commodity from the CCC bonus catalog; (8) USDA determines: if the lots selected are available, the market value of the lots of the CCC-owned commodity selected, and the quantity of the CCC-owned commodity necessary to satisfy the total bonus value of the agreement; (9) The lots are set aside for delivery to the exporter; (10) The exporter exports the eligible commodity against the sales contract; (11) The exporter furnishes proof of export and requests delivery of the CCC commodity bonus; (12) USDA determines the exact amount of the CCC bonus based on the net quantity of the eligible commodity exported against the exporter's sales contract; (13) The CCC bonus is delivered to the exporter; and, (14) The General Sales Manager agrees to a cancellation of the performance security, in whole or in part, provided the exporter has furnished evidence that the exports arrived in the designated country.

(c) Amount of Subsidy

As noted above, USDA is authorized under the Food Security Act to use up to $1.5 billion worth of CCC-owned commodities as export bonuses through fiscal year 1988 to carry out the program. Further funds to continue the program will be provided under the CCC Charter Act.

(d) Estimated Amount per Unit

Because the program is operated on an *ad hoc* basis, where varying levels of bonuses may be offered for a range of different agricultural commodities, it is not possible to estimate the amount of subsidy per unit of exports.

II. Effect of the Subsidy

The CCC bonuses offered are intended to enable U.S. exporters to compete at commercial prices in selected foreign markets. The effect of the program is to enable exporters to offer prices that are competitive with those being offered by other countries' exporters in these selected foreign markets.

(a) Estimated Quantitative Trade Effects:

Since the program was initiated in 1985, 76 initiatives have been announced with 47 countries. Approximately 26 million tons of commodities have been sold, including roughly 22 million tons of wheat and wheat flour (grain equivalent), 4.3 million tons of barley, 73,000 tons of semolina, 141,000 tons of barley malt and 50,000 tons of rice. In addition, 137,000 tons of frozen poultry, more than 258 million table eggs, 25,000 tons of vegetable oil, 106,000 tons of sorghum, 111,000 tons of poultry feed and 58,000 dairy cattle have been sold.

These sales represented 3 percent of the value of total U.S. agricultural exports in fiscal year 1986, including about one-fourth of the volume of U.S. wheat and wheat flour sales. These percentages are somewhat higher thus far in fiscal year 1987. As of October 2, 1987, fiscal 1987 sales market value of the awards was $1.2 billion.

(b) Statistics on Production, Consumption, Imports and Exports

Because of the *ad hoc* nature of the program and the variations and range of commodities exported under the program, it is not possible to provide meaningful statistics of the type referred to in the agreed format for notifications under Article XVI:1.

B. SECTION 104 MILK PRODUCTION TERMINATION PROGRAM

I. Nature and Extent of the Subsidy

(a) Background and Authority

The Milk Production Termination Program is mandated under the Food Security Act of 1985. The operation of the program draws on both new and existing authority.

(b) Incidence

During the period April 1, 1986 - September 30, 1987, the Secretary of Agriculture is mandated to operate a milk production termination or "whole herd buy-out" program. Under the whole herd buy-out, producers receive payments from USDA based on bids submitted to the Secretary for the purpose of stopping milk production. All dairy cattle which the producers own must be sold for slaughter or export. The producer in turn agrees not to acquire any interest in dairy cattle or milk production for 5 years. This program is discretionary for 1988-90.

To minimize the cost of the dairy termination program on beef, pork and lamb producers, the Secretary must purchase 400 million pounds of red meat in addition to those normally purchased and distributed. 200 million pounds will be used for domestic feeding programs and 200 million pounds will go for export programs and U.S. military commissaries outside of the United States.

(c) Amount of Subsidy

Because the level of export assistance under the program will be determined largely by the prices which will be paid for red meat purchases, it is not possible to estimate the amount of subsidy in advance.

(d) Estimated Amount Per Unit

It is not possible to give a meaningful estimate of the unit value of the subsidy of the type referred to in the agreed format for notifications under Article XVI:1.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

-- USDA sold 198.4 million pounds (90,000 metric tons) carcass weight equivalent of beef to Brazil on May 14, 1986.

-- USDA agreed to supply the Department of Defense with up to 12 million pounds of red meat between July 1, 1986 and October 1, 1987 for U.S. military commissaries in Europe.

-- USDA invited European importers to bid under the 10,000 tons EC high-quality beef quota and 825 tons were sold.

-- On September 2, 1986, USDA announced the sale to Argentina of 1,000 metric tons of pork sides for delivery during the period October 1986 - December 1986, but deliveries took until February 1987.

-- On June 16 and July 22, 1987, USDA announced beef sales to Venezuela of 10,000 and 5,000 metric tons respectively.

-- On August 26, 1987, USDA announced sales to Mexico of 3,300 MT of fresh, chilled and frozen beef, 2,300 MT of frozen hams, and 1,400 MT of frozen beef carcasses for the period October through December 1987.

(b) Statistics on Production, Consumption, Imports and Exports

This information is provided under the section of the notification dealing with price support programs.

C. SECTION 153 DAIRY EXPORT INCENTIVE PROGRAM

I. Nature and Extent of the Subsidy

(a) Background and Authority

The Section 153 Dairy Export Incentive Program is mandated by the Food Security Act of 1985. The program became operational on February 6, 1987.

(b) Incidence

Section 153 of the Act mandates that CCC operate a program for the period February 21, 1986 - September 30, 1989, and make payments (either in cash or CCC-owned commodities) on a bid basis to entities that sell U.S. dairy products for export. Export sales under the program must be additional to - and not displace - commercial export sales.

Eligible dairy products, in bulk, are butter, butter oil, anhydrous milk fat, non-fat dry milk, whole milk powder, cheddar cheese, and bulk American cheese for manufacturing.

(c) Amount of Subsidy

Because of the program's *ad hoc* nature, the amount of subsidy cannot be determined in the abstract.

(d) Estimated Amount Per Unit

It is not possible to give a meaningful estimate of the unit value of the subsidy of the type referred to in the agreed format for notifications under Article XVI:1.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

Thirty-nine countries are currently eligible under the program for select products and specific volumes. Four sales, totalling 15 metric tons of milk powder and 272 tons of non-fat dry milk have been made to four eligible countries since the program became operational.

(b) Statistics on Production, Consumption, Imports and Exports

This information is provided under the section of the notification addressed to price supports.

D. SECTION 1127 MARKET DEVELOPMENT AND EXPANSION PROGRAM

I. Nature and Extent of the Subsidy

(a) Background and Authority

The Section 1127 Market Development and Expansion program is mandated by the 1985 Food Security Act. The program draws on the funds provided in the Export Enhancement Program.

(b) Incidence

Under the 1985 Act, USDA is encouraged to use at least fifteen percent of Export Enhancement bonus funds or commodities to promote the export of poultry, beef, pork or meat products.

(c) Amount of Subsidy

The amount of subsidy can only be estimated through reference to the general notification (above) on the Export Enhancement Program.

(d) Estimated Amount Per Unit

It is not possible to give any meaningful estimate of the unit value of the subsidy of the type referred to in the agreed format for notifications under Article XVI:1.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

As of October 1, 1987, this provision has resulted in Export Enhancement Program sales of 137,500 metric tons of poultry to four countries and the export of 58,504 head of dairy cattle to eleven countries.

(b) Statistics on Production, Consumption, Imports and Exports

This information is provided under that section of this notification addressed to price supports.

E. SECTION 1163 MANDATED EXPORT SALES OF DAIRY STOCKS

I. Nature and Extent of the Subsidy

(a) Background and Authority

Section 1163 of the 1985 Food Security Act mandates minimum levels of export sales of CCC-owned dairy stocks.

(b) Incidence

Under Section 1163 of the Act, the CCC is required to export not less than 150,000 metric tons of CCC-owned dairy stocks in each of fiscal years 1986-1988.. Of the 150,000 tons, not less than 100,000 tons is to be butter and 20,000 tons will be cheese. The Act requires that these CCC sales cannot disrupt domestic U.S. markets or world prices and patterns of commercial trade.

(c) Amount of Subsidy

The level of export assistance required under the law for this program cannot be estimated in advance.

(d) Estimated Amount Per Unit

It is not possible to give a meaningful estimate of the unit value of the subsidy of the type referred to in the agreed format for notifications under Article XVI:1.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

Under the program, the CCC has made the following sales to date:

CCC SALES VOLUME (METRIC TONS)

COMMODITY	FY 1986	FY 1987*
Butter Equivalent	3,659	13,454
Non-Fat Dry Milk	167,786	211,414
Cheese	0	6,000

* As of October 1, 1987

(b) Statistics on Production, Consumption, Imports and Exports

This information is provided in that section of this notification addressed to price support programs.

PART IV

SUBSIDIES

Notifications Pursuant to Article XVI:1

UNITED STATES

The Food Security Act of 1985 and the Food Security Improvements Act of 1986

Agricultural Price Support Programs

Introduction

These programs are designed to (1) stabilize, support and protect farm income and prices; (2) assist in the maintenance of balanced and adequate supplies of food, feed, and fiber; and (3) aid in the orderly marketing of farm commodities. The programs are financed by the Commodity Credit Corporation (CCC), a government-owned entity, and administered by the Agricultural Stabilization and Conservation Service (ASCS). The Food Security Act of 1985 provides a 5-year framework for the administration of these and other agriculture and food programs.

Price support programs for specified commodities were first authorized by the Agricultural Adjustment Acts of 1933 and 1938, and the Agricultural Act of 1949. The current programs are authorized by the CCC Charter Act, the Food Security Act of 1985 (Public Law 99-198) and the Food Security Improvements Act of 1986 (Public Law 99-260). The Food Security Act of 1985 covers five crop years, from 1986 to 1990.

The grains program, and the other commodity programs, are purely voluntary. They are made available to all farmers, but some choose not to participate, preferring to depend on the mechanisms of the free market.

To comply with spending reductions imposed under the Balanced Budget and Emergency Deficit Control Act of 1985 (commonly called the Gramm-Rudman-Hollings Act), all payments and loans to producers made by check for 1986 crops will be subject to reductions of 4.3 percent. Commodity certificate payments will not be subject to the reduction, unless producers elect to exchange the certificates for a check.

A. Wheat and Feed Grains (corn, barley, oats, sorghum, rye)

1. Nature and Extent of the Subsidy

(a) Background and Authority

Wheat and feedgrains are covered by a combination of programs that provide for income/price support and production adjustment. The current programs are authorized by the CCC Charter Act, the Food Security Act of 1985 and the Food Security Improvements Act of 1986.
The principal export incentives for wheat and feedgrains are the Export Enhancement Program and various export credit and credit guarantee programs administered by the CCC. These programs are described in separate notifications.

There are no import controls of grains.

(b) Incidence

Nonrecourse loans provide price support for these commodities; target prices and deficiency payments provide income support. To be eligible for the price and income support programs, (i.e. loans, purchases and deficiency payments), participating farmers must adhere to the regulations in the production adjustment programs. The 1985 Food Security Act also authorizes the Secretary of Agriculture to implement several optional programs, including "marketing loans," loan deficiency payments, the "wheat target option program," and inventory reduction payments. Wheat marketing quotas are also discretionary.

Loan Rates

The loan rates for these commodities are established annually by the Secretary of Agriculture at levels which should allow the commodities to be competitively priced. In 1986 the Secretary reduced the wheat and corn loan rates the full 20 percent permissible from the basic (statutory) levels. The basic wheat loan rate of $3.00 was reduced to $2.40, and the basic corn loan rate of $2.40 was reduced to $1.92 to maintain the competitiveness of U.S. exports.

National average price support loan rates per bushel are:

	1986	1987
Wheat	$2.40	$2.28
Corn	$1.92	$1.82
Barley	$1.56	$1.49
Oats	$0.99	$0.94
Sorghum	$1.82	$1.74
Rye	$1.63	$1.55

The national average loan rates are converted into local loan rates for grades and qualities at specified locations.

For 1987-90 wheat and corn crops, the basic loan rate will be set at 75 percent to 85 percent of the simple average of the season prices received by producers during the 5 preceding marketing years, disregarding the high and low years, with declines limited to 5 percent per year. The Secretary has discretion to reduce further the basic loan rate by up to 20 percent if the average market price was 110 percent or less of the announced loan rate during the previous year or if the reduction is necessary to maintain domestic and export markets.

Loan rates for other feed grains will be set at their feed value relation compared to corn. These values are are 81.43 percent for barley, 95 percent for grain sorghum, 51.43 percent for oats and 85 percent for rye.

Loans for wheat and feedgrains mature on demand of the CCC, but no later than the end of the ninth calendar month following the month the loan is made. Producers may repay the loan plus interest (at the government borrowing rate) at any time up to maturity. If the loan is not repaid by the final maturity date, the Commodity Credit Corporation takes title to the commodity in full payment of the loan and interest charges; this is called a nonrecourse loan.

In addition, the CCC may purchase these commodities from producers at the local loan rate.

<u>Target Prices</u>

The target price for each commodity is established annually. The Food Security Act of 1985 provides that they remain frozen in 1986 and 1987 at the 1985 level. The Secretary may reduce target prices by 2 percent in 1988, 3 percent in 1989 and 5 percent in 1990. This would result in the following minimum target prices:

	Wheat $/bushel	Corn a/ $/bushel
1986	$4.38	$3.03
1987	$4.38	$3.03
1988	$4.29	$2.97
1989	$4.16	$2.88
1990	$4.00	$2.75

a/ Target prices for sorghum, barley, and oats are determined in relation to corn. There is no target price for rye.

Deficiency Payments

The Food Security Act authorizes deficiency payments if the national weighted average market price received by farmers during the first 5 months of the marketing year (June 1986 through October 1986 for wheat, barley and oats; and September 1986 through January 1987 for corn and sorghum) is below the established target price for that crop year. The payment rate for wheat and feed grains is the difference between the target price and either the national 5-month weighted average market price or the basic loan level, whichever is higher. Final deficiency payments are determined at the end of the crop year on the difference between the basic loan rate and either the final national weighted average market price or the announced loan rate, whichever is higher.

The deficiency payment rate for wheat in 1986 is $1.98 per bushel, the maximum rate. Deficiency payments will be made to eligible producers in December 1986, less a portion of any advance. The projected deficiency payment rates for grain sorghum, oats, barley, and corn are $1.06, $.55, $1.04 and $1.11, respectively, in 1986.

Payments for the 1986-90 crops will again be determined by multiplying the payment rate times the individual farm program acreage time the farm program payment yield established for the farm. The amount of combined deficiency payments a farmer may receive under the wheat and feedgrains programs together is limited to $50,000 per year, with certain exceptions noted below. There is no deficiency payment program for rye. Deficiency payments will not be made for any quantity on which a disaster payment was made. Any increase in deficiency payments resulting from the reduction in basic loan rates is exempt from the $50,000 payment limitation.
Advance deficiency payments were offered for 1986 and 1987 crops. For 1988-90, advance deficiency payments in these years will be discretionary with the Secretary. Not more than 5 percent of the total deficiency payments for any crop may be made "in kind" in feed grains or wheat.

Marketing Loans

The Food Security Act of 1985 provides the Secretary the option to offer wheat and feed grain producers a marketing loan. If market prices are below the loan rate, producers may repay their loan at the world market price, as determined by the Secretary, or 70 percent of the basic loan rate, whichever is higher. Loans may not be repaid at a level higher than the announced loan rate. Marketing loans are not offered in 1986 or 1987.

Acreage Reduction

The Food Security Act continues the authority of the Secretary to require reductions in the acreage planted to wheat and feed grains. Acreage limitation, set-aside or paid land diversion programs may be implemented if total supplies will be excessive. An acreage limitation program is commonly called an acreage reduction program or ARP. If an ARP or set-aside program is in effect, producers must participate in the program as a condition of eligibility for wheat and feed grain loans, purchases and deficiency payments.

When an ARP has been announced, the Department of Agriculture determines the acreage that may be planted to the crop by uniformly reducing the crop acreage base of each farm. Under an ARP, a percentage of each farm's acreage must be devoted to conservation uses.

The Secretary may also operate a set-aside program rather than an ARP. If announced, producers must set aside for conservation purposes a specified percentage of the current year's acreage planted in that crop.

The Secretary may also offer producers a paid land diversion (PLD) program if such payments will assist in obtaining the necessary adjustments in total acreage. A diversion program can be offered whether or not an ARP or set-aside program is in effect. The diverted cropland must be devoted to approved conservation practices. Payment amounts may be determined by bids submitted by producers or other such means as the Secretary deems appropriate.
reduction

The Secretary may make inventory reduction payments to producers who agree to forgo obtaining loans and receiving deficiency payments and who limit the amount of wheat and feed grains planted for harvest to the crop acreage base less half of any acreage to be diverted by an ARP or PLD. Payments would be made in-kind, subject to availability. The payment rate and quantity would be the same as those determined for loan deficiency payments.

For the 1986 wheat crop, wheat producers were required to reduce their established crop acreage base by 25 percent to be eligible for loans, purchases, and payments. This 25 percent reduction consists of a 22.5 percent ARP combined with a 2.5 percent PLD, and a payment rate of $1.10 per bushel for the PLD payable in generic commodity certificates.

For 1987, the wheat ARP is set at 27.5 percent, the maximum amount authorized. For 1988-90, wheat ARPs are set at 20 percent with an additional 10 percent at the Secretary's discretion. These amounts will depend on whether the carryover stocks are greater than 1 billion bushels. If carryover is less than 1 billion bushels, the ARP is discretionary, but cannot exceed 20 percent.

For the 1986 crop of feed grains, a 20 percent ARP was required, including a 2.5 percent PLD paid in the form of a commodity certificate. Payment rates for the 2.5 percent land diversion per bushel are barley, $.57; corn, $.73; oats, $.36; sorghum, $.65.

For the 1987 crop of feed grains, a 20 percent ARP is required. A voluntary 15 percent PLD has been offered. Payment rates for the 15 percent PLD per bushel are corn $2.00; sorghum $1.90; barley $1.60; oats $0.80. For 1987-90, allowable acreage reduction will depend on whether carryover stocks are greater than 2 billion bushels. If carryover is less than 2 billion bushels, the ARP is discretionary, but cannot exceed 12.5 percent.

For wheat and feedgrains, except rye, the U.S. government sponsors a Farmer-Owned Reserve (FOR) program intended to promote market and price stabilization by assisting farmers who withhold supplies from the market in period of surplus for release in period of shortage. The Grain Reserve was established by the Food and Agriculture Act of 1977. The Grain Reserve is continued in the Food Security Act of 1985, except that minimum and maximum levels of wheat and feed grains that may enter the reserve in a marketing year are specified. The upper limits on the FOR quantity, as determined by the Secretary, will be no more than 17 percent for wheat and seven percent for feed grains of the estimated domestic and export use for the 1987/88 marketing years. The U.S. Department of Agriculture estimates these quantities at about 380 million bushels for wheat and 625 million bushels for feed grains. As of December 1986, the FOR held about 494 million bushels of wheat and 1,138 million bushels of feed grains.

(c) <u>Amount of Subsidy</u>

In Fiscal Year 1986, the U.S. Government spent $3.6 billion (net) 1/ on the wheat program, and $ $12.6 billion (net) on feedgrains. Direct government payments to farmers (excluding loans) in crop year 1986 are expected to total $3.6 billion for wheat and $7.3 billion for feedgrains. (See Table 2).

(d) <u>Estimated Amount per Unit</u>

See Table 1 for this information.

1/ Net government expenditures include deficiency payments, disaster payments, diversion payments, loans, purchases, storage and handling, producer storage payments and other outlays less sales proceeds, loan repayments and other receipts.

TABLE 1: U.S. SUPPORT AND FARM PRICES

Grain/Year	Target Price	Average Loan Rate	Average Farm Price	Deficiency Payment Rate
	(--------------------Dollars per Bushel		----------------)	
Wheat				
1984/85	4.38	3.30	3.38	1.00
1985/86	4.38	3.30	3.16	1.08
1986/87	4.38	2.40	2.20-2.40	1.98
1987/88	4.38	2.28	2.15-2.35	2.10
Corn				
1984/85	3.03	2.55	2.62	.43
1985/86	3.03	2.55	2.35	.48
1986/87	3.03	1.92	1.35-1.65	1.11
1987/88	3.03	1.82	1.50-1.75	1.21
Sorghum				
1984/85	2.88	2.42	2.39	.46
1985/86	2.88	2.42	2.15	.46
1986/87	2.88	1.82	1.30-1.50	1.06
1987/88	2.88	1.74	1.45-1.65	1.14
Barley				
1984/85	2.60	2.08	2.26	.26
1985/86	2.60	2.08	2.00	.52
1986/87	2.60	1.56	1.45-1.65	1.04
1987/88	2.60	1.49	1.35-1.55	.74
Oats				
1984/85	1.60	1.31	1.69	0
1985/86	1.60	1.31	1.25	.29
1986/87	1.60	.99	.95-1.20	.55
1987/88	1.60	.94	1.10-1.30	.40
Rye				
1984/85	none	2.17	2.08	none
1985/86	none	2.17	2.06	none
1986/87	none	1.63	1.65	none
1987/88	none	1.55	1.55	none

NOTE: 1986/87 (except wheat deficiency) and 1987/88 farm prices and deficiency payment rates are preliminary.

TABLE 2: U.S. PRODUCTION AND GOVERNMENT PAYMENTS

Grain/Year	Total U.S. Production	Deficiency Payments	Total Government Payments (a)
	(million bushels)	(---------million dollars-------	
Wheat			
1984/85	2,594.8	1,050	1,723
1985/86	2,424.8	1,540	2,360
1986/87 (prelim.)	2,076.7	3,500	3,986
1987/88 (projected)	2,292.0	3,676	3,749
Corn			
1984/85	7,674.0	1,653	1,753
1985/86	8,865.0	2,484	2,743
1986/87 (prelim.)	8,222.6	5,843	6,341
1987/88 (projected)	7,230.0	5,795	8,032
Sorghum			
1984/85	866.2	158	192
1985-86	1,112.6	228	252
1986-87 (prelim.)	900.0	601	666
1987/88 (projected)	750.0	546	765
Barley			
1984/85	599.2	50	77
1985/86	591.4	160	190
1986/87 (prelim.)	599.8	335	379
1987/88 (projected)	610.0	296	396
Oats			
1984/85	473.7	0	0
1985/86	520.8	8	9
1986/87 (prelim.)	383.6	63	65
1987/88 (projected)	431.0	45	45

(a) Total government payments to producers are the sum of deficiency payments, land diversion payments, and farmer-own reserve storage payments.

II. Effect of the Subsidy

The Food Security Act introduces greater market orientation in U.S. farm policy. The 1985 Act ties loan rates to an average of past market prices and permits much larger discretionary reductions if the previous season's prices were low or if market competitiveness is likely to be hampered by the formula-determined rate. The reduction of the loan rates has resulted in lower U.S. grain prices and removed an important impediment that was pricing the United States out of international markets.

(a) Estimated Quantitative Trade Effects

The United States is a grain exporting country, and as such, would not import more grains than it already does, even if the absence of price supports resulted in lower grains production.

Certain support prices are set by legislation, but there is considerable administrative discretion in lowering them. Loan rates were reduced in 1986 and 1987 and are intended to more closely correspond to prevailing market conditions through at least 1990. Target prices will be reduced beginning in 1988. Lower loan rates should result in the improved competitiveness of American grains.

Furthermore, income support programs require producers to participate in production adjustment programs to be eligible for support. Any production incentives from support programs are intended to be offset by the required production adjustment programs.

In pricing commodities for domestic use, CCC-owned commodities generally are required to be sold at levels above the loan rate, depending on the commodity and other conditions of sale, plus reasonable carrying charges. In addition, higher minimum sales prices are applicable to wheat and feed grains when the farmer-owned grain reserve programs are in effect for such commodities. Congress has established the CCC pricing policy in order to protect CCC's investment in the commodity, to stabilize prices, and not to disrupt commercial trade channels.

(b) Statistics of Production, Consumption, Imports and Exports

This information is contained in the Appendix.

B. Rice

I. Nature and Extent of the Subsidy

(a) Background and Authority

The Agricultural Act of 1949 and the Food Security Act of 1985 provide authority for the rice program.

(b) Incidence

Income support, through target prices and deficiency payments, and government purchase of rice at the loan rate are again available to rice producers. New provisions in the 1985 Act--marketing loans and marketing certificates--are aimed at making rice competitive in world markets. To be eligible for the income support and marketing loan programs, (except 1986 marketing certificates) farmers must reduce their rice plantings under the acreage reduction program.

Loan Rates

The 1986 loan rate is $7.20 per hundredweight (cwt). The 1987 loan rate will be $6.84 per cwt. For the 1987-90 crops, the Act sets the minimum rates at 85 percent of the simple average of the season prices received by producers during the preceding 5 marketing years, dropping the years with the highest and lowest prices. The loan rate may not be reduced more than 5 percent below the previous year's rate and not lower than $6.50 per cwt.

Target Price

The Food Security Act of 1985 established minimum target prices as follows:

	Dollars per hundredweight (cwt)
1986	$11.90
1987	$11.66
1988	$11.30
1989	$10.95
1990	$10.71

Deficiency Payments

The deficiency payment rate will be equal to the target price minus the average market price received by farmers during the first 5 months of the marketing year (August-December), or the loan rate, whichever is higher. Up to 5 percent of total deficiency payments may be made in the form of rice, although this authority has not been used. The gain from repaying loans at less than the loan rate (see below) is exempt from the $50,000 payment limitation on deficiency payments but is subject to a $250,000 limit placed on all payments.

Marketing Certificates

At any time during the period August 1, 1986, through July 31, 1991, that the world price of rice adjusted for class is below the current loan repayment rate for that class of rice, marketing certificates will be issued. The value of the certificate is equal to the difference between the loan repayment level and the world price. Certificates are issued to producers when evidence is provided that the rice was sold or redeemed from a price support loan. Producers do not have to participate in the acreage reduction to be eligible for such certificates. The certificates may be exchanged for cash which is permitted for certificates issued under some other programs.

Marketing Loans

Producers are permitted to repay loans at the smaller of:

1) the loan rate determined for the crop or;

2) the higher of:

   a) the world market price for rice as determined by the Secretary of Agriculture; or
   b) 50 percent of the prevailing loan rate in 1986 and 1987, 60 percent in 1988, and 70 percent in 1989 and 1990.

Producers may also elect to deliver their rice (loan collateral) to the government in full satisfaction of the loan.

Purchase of commodity certificates may be required as a condition for permitting loan repayment as described above, but this authority is not being used for the 1986 and 1987 crops.

Acreage Reduction

A 35 percent ARP has been announced for both the 1986 and 1987 rice crops.

The Food Security Act of 1985 continues the authority of the Secretary to implement ARPs and PLDs if he determines that the supply of rice is excessive. The ARP cannot exceed 35 percent of the rice base acreage and cannot be at such a level as to reduce total carryover stocks below 30 million cwt.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $947 million (net) on the rice program. Government income payments to farmers (excluding loans) in fiscal year 1986 totaled $324 million. (See Table 4 for crop year estimates).

(d) Estimated Amount per Unit

See Tables 3 and 4 for this information.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

The new provisions in the Act are aimed at making rice competitive in world markets.

(b) Statistics of Production, Consumption, Imports and Exports

This information is contained in the Appendix.

Table 3: U.S. Support and Farm Prices

Crop/ Year	Target Price	Average Loan Rate	Average (a) Farm Price	Deficiency (b) Payment Rate
	(-----------dollars per		hundredweight-------------	)
Rice				
1984	$11.90	$8.00	$8.06	$3.76
1985	$11.90	$8.00	$6.72	$3.90
1986	$11.90	$7.20	$3.45-4.25	$4.70
1987	$11.66	$6.84	$3.45-4.25	$4.82

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Table 4: U.S. Production and Government Payments

Crop/ Year	Total U.S. Production (million cwt)	Deficiency Payments	Total (c) Government Payments
		(-----------million	$---------------)
Rice			
1984	138.8	380	664
1985	136.0	374	890
1986	131.3	520	1,087
1987	•135.0	556	1,062

(a) 1986 and 1987 farm prices are estimates.

(b) Deficiency payment rates are based upon the average farm price over the first five months of the marketing year.

(c) Total government payments are the sum of deficiency, storage, diversion, marketing loan and certificate payments. 1986 and 1987 crop payments are estimates.

C. Cotton: Upland and Extra Long Staple (ELS)

1. Nature and Extent of the Subsidy

(a) Background and Authority

The cotton program is authorized by the Food Security Act of 1985, as amended by the Food Security Improvements Act of 1986, and the Extra Long Staple Cotton Act of 1983, as amended by the Food Security Act of 1985, and the Continuing Appropriations for Fiscal Year 1987 (PL 99-500).

Under Section 22 of the Agricultural Adjustment Act of 1933, as amended, controls may be placed on imports which could render ineffective price support or stabilization programs. Such import quotas have been placed on cotton. However, if the average U.S. spot market price is unusually high, the quota can be increased by a certain amount.

(b) Incidence

The support programs for cotton provide for a loan rate, a target price, a deficiency payment, and production adjustment. The 1985 Food Security Act continues these programs with some additions aimed at making upland cotton more competitive in world markets. Marketing loans, with two different repayment plans, are required when the adjusted world market price is below the loan rate. Whenever the adjusted world price is below the loan repayment rate, the issuance of commodity certificates to first handlers of upland cotton is required.

Loan Rates

The 1986 loan rate is $.55 per pound for upland cotton. The 1986 ELS cotton loan rate is 85.4 cents per pound. For the 1987-90 crops of upland cotton, the loan rate will be the lower of (a) 85 percent of the average U.S. spot prices during the previous 5 years (excluding the high and low years) or; (b) 90 percent of recent average northern European prices. The loan rate cannot be reduced by more than 5 percent from the preceding year's rate and in no event to less than $0.50 per pound.

The loan period for cotton is 10 months and must be extended another eight months under certain conditions. The loan rate for ELS cotton is equal to 85 percent of the simple average price received by producers of ELS cotton during the previous five years (excluding the high and low years).

Target Prices

The Food Security Act requires the following minimum target prices for upland cotton:

Crop Year	Cents per pound
1986	81
1987	79.4
1988	77
1989	74.5
1990	72.9

For ELS cotton, the 1986 target price is $1.025 per pound. The target price is 120 percent of the loan rate.

Deficiency Payments

The deficiency payment rate is equal to the target price minus the higher of (1) the national average market price received by farmers during the calendar year which includes the first 5 months of the marketing year, or (2) the loan rate determined for the crop. Up to 5 percent of total deficiency payments may be made in the form of upland cotton.

Loan Repayment

If the world price of cotton as determined by the Secretary is below the loan rate, a loan repayment plan must be implemented. There are two plans:

Plan A: Producers are permitted to repay loans at a level determined and announced at the same time the loan rate for the crop is announced. The repayment level cannot be less than 80 percent of the loan rate.

Plan B: Producers are permitted to repay loans at the lesser of:

1) the loan rate determined for the crop, or;
2) the prevailing world price of cotton.

However, if the adjusted world price is less than 80 percent of the loan rate, producers may be permitted to repay loans at a level between the adjusted world price and 80 percent of the loan rate as the Secretary determines will minimize loan forfeitures, minimize stock accumulation, minimize storage costs, and allow U.S. cotton to be competitive.

For the 1986 crop, payments may be made to producers who are eligible but agree to forgo obtaining a loan in return for such payments. Up to half the payment will be made in cotton commodity certificates.

Marketing Certificates

If either Plan A or Plan B (above) fails to make U.S. cotton fully competitive in world markets and the world price is below the loan repayment rate, negotiable marketing certificates must be issued. The value of each certificate is based on the difference between the loan repayment level (under whichever plan is in effect) and the adjusted world price of cotton. These certificates may be used to receive upland cotton loan collateral or redeemed for CCC-owned cotton.

Acreage Reduction

A 25 percent acreage reduction program (ARP) is in effect for the 1986 upland cotton crop. A 10 percent ARP is in effect for the 1986 ELS cotton crop.

If the Secretary of Agriculture determines that the supply of upland cotton is excessive, an acreage limitation program, paid diversion program, or both are authorized. The Secretary must operate any acreage reduction program to result in a carryover of 4 million bales of upland cotton to the extent practicable. The maximum limitation program for upland cotton is 25 percent of the cotton acreage base.

For 1987, the upland cotton ARP is set again at 25 percent and the 1987 ELS cotton ARP at 15 percent. Paid land diversion programs are not authorized for either the 1986 or 1987 crops of upland and ELS cotton.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $2.2 billion (net) on the upland cotton and the ELS cotton programs. In crop year 1986, deficiency payments to farmers (excluding loans) are expected to total $950 million for upland cotton. See Table 6.

(d) Estimated Amount per Unit

See Tables 5 and 6 for this information.

II. Effect of the Subsidy

(a) The new provisions of the cotton program of the Food Security Act are expected to increase the competitiveness of U.S. cotton exports.

(b) Statistics of Production, Consumption, Imports and Exports

This information is contained in the Appendix.

Table 5: U.S. Support and Farm Prices

Crop Year	Target Price	Average Loan Rate	Average Farm Price	Deficiency Payment Rate
	(------------cents per pound			------------------)
Upland				
1984/85	81.0	55.0	57.5	18.6
1985/86	81.0	57.3	56.4	23.7
1986/87	81.0	55.0	n/a	26.0
1987/88	79.4	52.25	n/a	27.15
ELS				
1984/85	99.0	82.5	91.9	6.5
1985/86	103.14	85.95	90.9	14.14
1986/87	102.48	85.40	n/a	15.5
1987/88	97.70	81.40	n/a	13.7

NOTE: 1986/87 and 1987/88 deficiency payment rates are preliminary.

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Table 6: U.S. Production and Government Payments

Crop Year	Total U.S. Production	Deficiency Payments	Total (a) Government Payments
	(1,000 bales)	(---------million dollars	-----)
Upland			
1984/85	12,852	$654	$654
1985/86	13,277	$860	$1,056
1986/87	9,602	$950	$1,893
1987/88	11,700	$942	$1,108
ELS			
1984/85	130	$.7 (b)	$.7
1985/86	155	$1.3	$1.3
1986/87	190	$1.7	$1.7
1987/88	164	$1.5	$1.5

NOTE: 1986/87 and 1987/88 figures are estimates.

(a) Total government payments are the sum of deficiency, land diversion payments, marketing certificates and loan deficiency payments. Deficiency payment figure for 1986 includes marketing certificate payments.

(b) For ELS cotton, only deficiency payments are made.

D. Oilseeds

Soybeans

I. Nature and Extent of the Subsidy

(a) Background and Authority

The authority for the price support program for soybeans is derived from the Food Security Act of 1985. There are no export incentives or import barriers for soybeans.

(b) Incidence

The program is largely unchanged from the 1981 support program, with the added options of marketing loans and disaster payments.

The price of soybeans is supported through nonrecourse loans to farmers and farmer organizations. The statutory (basic) loan rate for soybeans for 1986 and 1987 is $5.02 per bushel. The Secretary of Agriculture, however, on September 1, 1986 reduced this loan rate by 5 percent to $4.77 as provided in the 1986 legislation. The support price may be reduced by up to 5 percent in any year if it is determined that this level of support would discourage the exportation of soybeans and cause excessive stocks of soybeans in the United States. For the 1988-90 crops, the loan rate will be equal to 75 percent of a 5-year moving average of market prices, excluding the highest and lowest price years. The support rate cannot go below $4.50 per bushel. National average rates are adjusted by producing area and quality.

The Secretary is authorized to implement a marketing loan if such action would help soybeans remain competitive in domestic and export markets. Producers would repay the loan at the loan level or the prevailing world market price for soybeans, (as determined by the Secretary), whichever was lower. A marketing loan program was not offered for soybeans in 1986.

Acreage reductions in soybeans may not be required as a condition of eligibility for price support. Soybeans are not eligible for storage payments or any reserve program.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $1.6 billion (net) on the soybean program.

(d) Estimated Amount per Unit

Year	Average Loan Rate	Average Farm Price
	------------(\$/bushel)------------	
1983	$5.02	$7.81
1984	$5.02	$5.78
1985	$5.02	$5.10 (prelim)
1986	$4.77	$4.50-4.90 (est.)

II. Effect of the Program

(a) Estimated Quantitative Trade Effects:

The price support program for soybeans has had no appreciable effect on trade. In recent years, market prices have generally been above loan rates.

(b) Statistics of Production, Consumption, Imports and Exports

This information is contained in the Appendix.

Peanuts

I. Nature and Extent of the Subsidy

(a) Background and Authority

The production adjustment program and the price support program for peanuts are derived from the same background and authority as those for grains. There are no direct export incentives. There is a dual price support system in effect, under which peanuts for domestic edible use are supported at one level, and peanuts for export or crushing are supported at a lower level, set consistent with the world market price. The support price system is protected by an import quota established under the authority of Section 22 of the Agriculture Act of 1933, as amended.

(b) Incidence

The price of peanuts is supported through nonrecourse warehouse-storage loans to approved grower associations acting for farmers. The 1986 loan rate for quota peanuts is $607.47 per short ton. The 1986 loan rate for "additional" (over-quota) peanuts is $149.75 per short ton. The support rate for the 1987-90 crops of quota peanuts will be the rate for the previous crop, adjusted to reflect any increases in the cost of production (excluding any change in the cost of land) during the previous calendar year.

The support rate cannot be increased by more than 6 percent from the previous year.

The loan rate for additional (over-quota) peanuts will be supported at levels the Secretary determines appropriate, given prices and demand of oils and meals. The rate must ensure no losses to the CCC on the sale or disposal of such peanuts.

In addition to price support, peanuts are under a supply management program. The first part is the quota system. A national poundage quota is set and farm quota holders receive a farm poundage quota which is a proportionate share of the national poundage quota. The quota level of peanuts is intended to fill domestic demand for peanuts for human consumption (i.e. not for crushing). Peanuts grown and marketed in excess of the farm poundage quota or by farmers without a quota must be contracted for export, crushing for oil, or CCC loan. It is possible for CCC "additional" peanuts to enter the domestic edible market under certain conditions. The national poundage quota was set at 1,355,500 tons in 1986 and remains at that level for 1987. This national quota was 1.1 million tons in 1985 and 1.1346 tons in 1984. The 1986 import quota is set at 1.7 million pounds, shelled weight.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $32 million (net) on the peanut program.

(d) Estimated Amount per Unit

Year	Average Loan Rate		Average Farm Price
	Quota	Additional	
	------------cents per pound------------		
1984	27.5	9.25	27.9
1985	27.95	7.40	23.0
1986	30.37	7.49	28.0 (est.)

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

Quota peanuts have a support price higher than the world price, so usually there is no incentive to export these peanuts. The support price for additional peanuts, most of which are grown specifically for the export market, takes into account the world price for peanuts based on price and demand of edible peanuts.

(b) Statistics on Production, Consumption, Imports and Exports

This information is contained in the Appendix.

E. Dairy

I. Nature and Extent of the Subsidy

(a) Background and Authority

The basic provisions of the Agricultural Act of 1949 required that the price of milk to producers be supported at such level between 75 and 90 percent of parity as would assure an adequate supply of milk, reflect changes in the cost of production, and assure a level of farm income to maintain productive capacity sufficient to meet future needs. However, since October 21, 1981, the support price has been established by Congress at specific price levels, rather than parity levels.

The Food Security Act of 1985 continues a reduction in milk price supports and mandates a milk production termination program. The Secretary must establish a National Commission on Dairy Policy and has the authority to establish a National Dairy Research Endowment Institute. Changes are made in the provisions governing milk marketing orders. Commodity Credit Corporation (CCC) stocks will be made available for the manufacture of casein and for use in a dairy export incentive program. (The dairy export program is notified separately).

Import quotas have been placed on many dairy products according to the provisions of Section 22 of the Agricultural Act of 1933, as amended. Overall, the United States is a net importer of dairy products.

(b) Incidence

The CCC supports milk prices by buying butter, cheese and non-fat dry milk from manufacturers at announced prices which are calculated to allow processors to pay farmers the announced support price for milk.

Price Support Levels

The following levels will apply:

Year	Dollars per hundredweight (cwt)
Calendar Year 1986	$11.60
January 1, 1987	$11.35
October 1, 1987	$11.10
January 1, 1988-90	$11.10 1/

1/ Subject to the following adjustments:
a) On January 1 of each year 1988-90, if the estimated level of CCC purchases for that calendar year exceed 5 billion pounds, the support price will be reduced by 50 cents per cwt.

b) However, the price support may not be reduced unless the milk production termination program reduces milk production by at least 12 billion pounds during the 18 month program, or unless the Secretary certifies to Congress that reasonable contract offers were made under the program but not accepted by a sufficient number of producers to achieve the targeted reduction.

c) On January 1 of each year 1988-90, if the estimated level of purchases for that calendar year will not exceed 2.5 billion pounds, the support price will be increased by 50 cents per cwt.

Dairy Termination Program

During the period April 1, 1986 through September 30, 1987, the Secretary must operate a milk production termination or "whole herd buy-out" program. Under the whole herd buy-out, producers receive payments from the Department of Agriculture based on bids submitted to the Secretary for the purpose of stopping milk production. All dairy cattle which the producers own must be sold for slaughter or export. The producer in turn agrees not to acquire any interest in dairy cattle or milk production for 3, 4 or 5 years, as specified in the individual contract. This program is discretionary for 1988-90.

To help offset the cost of the dairy termination program, producers will be assessed $.40 per cwt. on milk marketed from April 1, 1986 to December 31, 1986 and $.25 per cwt. on milk marketed from January 1, 1987 to October 1, 1987.

To minimize the effect of the 18 month dairy termination program on beef, pork and lamb producers, the Secretary must purchase 400 million pounds of red meat in addition to those normally purchased and distributed. 200 million pounds will be used for domestic feeding programs and 200 million pounds will go for export programs and U.S. military commissaries outside the United States.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $2.3 billion (net) on the dairy price support program, including the red meat purchase program.

(d) Estimated Amount per Unit

Marketing Year	Support Price at 3.67% butterfat	Average Farm Price at 3.67% butterfat
	-------- $ per hundredweight ----------	
1983-84		
(Oct.1-Nov.30)	$13.10	$12.47
(Dec.1-Sept.30)	$12.60	
1984-85		
(Oct.1-Mar.30)	$12.60	
(Apr.1-June 30)	$12.10	$12.08
(July 1-Sept.30)	$11.60	
1985-86	$11.60	

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

In managing its dairy support program the United States strives to avoid setting support prices at levels which stimulate production beyond domestic market requirements. However, adjustment of support prices alone has not proved sufficient because of falling feed grain prices and improving technology. In those instances when dairy surpluses have accumulated, the policy is to use special care in disposing of those surpluses.

The United States remains a large net importer of dairy products. Under Section 22 of the Agricultural Adjustment Act of 1933, import quotas are in effect for certain cheeses and several other dairy products. (Section 22 provides for the imposition of import quotas on commodities under price support, if imports threaten to undermine the price support program).

(b) Statistics on Production, Consumption, Imports and Exports

This information is contained in the Appendix.

F. Sugar

I. Nature and Extent of the Subsidy

(a) Background and Authority

The price support program for sugar is derived from the Agricultural Act of 1949, as amended, and the Food Security Act of 1985. The 1985 Act continues the sugar program for the 1986-90 crops of domestically grown sugarcane and sugar beets. Import quotas are in effect under headnote authority of the Tariff Schedule of the United States (TSUS). Import fees or quotas are also authorized by Section 22 of the Agricultural Adjustment Act of 1933, as amended. There are no export incentives for sugar.

(b) Incidence

Sugar prices are supported through nonrecourse loans made to sugar processors who must agree to pay at least the minimum level of support for the applicable region to any producer who delivers to them sugarbeets or sugarcane for processing.

The 1985 Act sets the national average support price (loan rate) at 18 cents per pound for raw cane sugar. Refined beet sugar is supported at a level that is fair and reasonable in relation to the support price for sugarcane. The loan rate for refined beet sugar is set at 21.06 cents per pound. The loan program is limited to domestically-grown sugarcane and sugarbeets.

Beginning with the 1986/87 quota year, the President must use all authorities available to enable the Secretary to operate the sugar program at no cost to the Federal Government by preventing CCC accumulation of acquired sugar. Also, beginning with the new quota year, sugar import quotas will not be allocated to any country that is a net importer of sugar unless officials of that country verify that it does not export to the United States sugar previously imported from Cuba.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $214 million (net) on the sugar program.

(d) Estimated Amount per Unit

See support prices described in I (b) above.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

The price support program is not intended to stimulate an increase in domestic production but to stabilize it and to support producer income in a time of world surpluses and low prices. Most sugar imports currently are subject to quotas. The United States is a net importer of sugar, and expects to remain so.

Under the "no net cost to the government" requirements of the Food Security Act, the CCC may not accumulate stocks of sugar. In 1986, the CCC exported sugar in inventory to be in compliance with the no-net cost requirements.

(b) Statistics on Consumption, Production, Imports and Exports

This information is contained in the Appendix.

G. Wool and Mohair

I. Nature and Extent of the Subsidy

(a) Background and Authority

The National Wool Act of 1954, as amended, was extended through December 31, 1990 by the Food Security Act of 1985. There are no import quotas or export incentives for wool or mohair.

(b) Incidence

Support is carried out through incentive payments to producers. These payments encourage producers to improve the quality and marketing of wool and mohair, since the producers who get higher prices for wool and mohair also get higher incentive payments. Payments are based on the percentage, called the payment rate, needed to bring the average return (market price + payment) received by all producers up to the support level. To determine a producer's payment, the payment rate is applied to the individual producer's net proceeds from the sale of wool or mohair. The support prices for 1986 were $1.78 per pound for wool and $4.93 per pound for mohair.

(c) Amount of Subsidy

In Fiscal Year 1986, the U.S. Government spent $123 million on the wool and mohair programs.

(d) Estimated Amount per Unit

The national average support prices, farm prices and payment rates are given below:

	Support Price	Farm Price	Payment Rate 1/
	(----- $ per pound	------)	(% of market return)
Wool			
1983	$1.53	$.613	149.6
1984	$1.65	$.795	107.5
1985	$1.65 2/	$.633	160.7
1986 3/	$1.78	$.700	154.3
Mohair			
1983	$4.627	$4.05	14.2
1984	$5.169	$4.30	20.2
1985	$4.43 2/	$3.45	28.4
1986 3/	$4.93	$3.00	64.3

1/ See explanation in I (b) above.
2/ Altered to comply with Gramm-Rudman Deficit Reduction.
3/ 1986 figures are estimates.

II. Effect of the Subsidy

(a) Estimated Quantitative Trade Effects

The wool program does not affect production or trade to a great extent because the dominant factor in wool production is the price of meat rather than the price of wool. The United States is and expects to remain a wool importer and a minor producer.

Because mohair prices are much greater than wool prices, goat meat prices are less important in determining mohair production than lamb prices are for wool. Even so, the mohair program is not believed to have a significant impact on mohair trade.

(b) Statistics on Production, Consumption, Imports and Exports

This information is given in the Appendix.

H. Honey

I. Nature and Extent of the Subsidy

(a) Background and Authority

The honey support program provides market stability to producers and encourages maintenance of bee populations which are vital for pollination of important seed, fruit and vegetable crops. The honey support program was established by the Agricultural Act of 1949, which required price support to be made available to honey producers through loan purchases or other operations at a level between 60 and 90 percent of parity. The Food Security Act of 1985 amends this authority to remove the parity link. There are no import quotas or export incentives for honey.

(b) Incidence

Honey is supported through a loan program. The national average support price for the 1986 and 1987 honey crops is 64 cents and 63 cents per pound, respectively. For the 1988-90 crops, the loan level will be the rate from the previous year reduced by 5 percent, but the level cannot be less than 75 percent of the average price received by producers in the preceding 5 years, excluding the high and low price years. Differentials are provided according to color and class.

Under the provisions of the 1985 Act, the Secretary of Agriculture may permit producers to repay the loans at a level that is the lesser of the loan rate or such a level as the Secretary determines will minimize loan forfeitures, not result in excessive stocks, reduce Government storage costs and maintain competitiveness of honey in domestic and export markets. For 1986-crop honey, the lower loan repayment provision was implemented.

(c) Amount of the Subsidy

In Fiscal Year 1986, the U.S. Government spent $89 million on the honey program.

(d) Estimated Amount per Unit

The national average support price and farm price are given below:

	Support Price	Farm Price
	(------- cents per pound -----)	
1983	62.2	54.4 (est.)
1984	65.8	49.5 (est.)
1985	65.3	n/a
1986	64.0	n/a
1987	63.0	n/a

II. Effect of the Program

(a) Estimated Quantitative Trade Effects

The support price for honey is higher than the world market price. Hence, the CCC has acquired stocks of honey under loan. The United States in recent years has been a large net importer of honey. However, implementation of the lower loan repayment option authorized by the 1985 Act should make domestic honey more competitive.

(b) Statistics on Production, Consumption, Imports and Exports

This information is contained in the Appendix.

Addendum

"The Budget Reconciliation Act of 1985"

This notification concerns changes made since the full subsidy notification reproduced in L/5603/Add.9 of 24 May 1984.

Tobacco Price Support Program

Page 24:

- Paragraph I (a): Background and Authority. Add "The Budget Reconciliation Act of 1985, approved April 7, 1986 (PL 99-279), further amended the program authority to revise the calculations for the marketing quota and price support level."

Page 24:

- Paragraph I (b): Incidence. Ninth and tenth lines, replace with "The 1986 support price for flue-cured tobacco is $1.438 per pound, 26.1 cents below that for 1982-85, as required by law. The 1987 support has been set at $1.435 per pound. The 1986 burley support is $1.488 per pound; 1987 has not been set. The 1987 price supports for flue-cured and burley are computed from a statutory formula based on changes in the five-year moving averages of market prices and cost-of-production indexes. The support prices for other types of tobacco are tied to changes in production cost indexes but the law permits the Department of Agriculture to limit the increase when supplies are excessive. Also, the associations that administer the price support program may request a price support reduction."

Page 24:

- Paragraph I (c): Amount of Subsidy. Delete given figures and replace with "In Fiscal Year 1986, the U.S. Government spent $253 million (net) on tobacco support programs."

APPENDIX

United States

Statistics of Production, Consumption, Imports, and Exports

Commodity/Year	Production	Consumption	Imports	Exports
	(--------------million metric tons		------------)	
Wheat (July-June)				
1982-83	75.3	24.7	.190	41.1
1983-84	65.9	30.2	.112	38.9
1984-85	70.6	31.4	.256	38.8
1985-86 (estimate)	65.9	28.4	.408	24.9
1986-87 (projected)	56.5	30.7	.272	27.9
Feedgrains (marketing year)				
1982-83	250.2	166.9	0.3	53.0
1983-84	136.4	149.5	0.7	56.6
1984-85	237.6	163.2	0.8	56.6
1985-86 (est.)	274.3	169.8	0.9	36.5
1986-87 (proj.)	250.8	169.1	0.6	35.2
Milled Rice (August-July)				
1982-83	4.9	2.05	.021	2.22
1983-84	3.2	1.80	.027	2.27
1984-85	4.4	1.91	.051	1.96
1985-86 (est.)	4.4	2.12	.071	1.89
1986-87 (proj.)	4.2	2.15	.048	2.58
Soybeans (September-August)				
1982-83	54.1	30.4	0	25.3
1983-84	59.6	32.5	0	24.6
1984-85	50.6	30.5	0	16.3
1985-86 (est.)	57.1	30.9	0	20.1
1986-87 (proj.)	54.7	31.8	0	20.7
Upland and ELS Cotton (August-July) (million 480 lb. bales)				
1982-83	11.9	5.4	1.2	5.2
1983-84	7.7	5.8	0.8	6.7
1984-85	12.98	5.5	0.2	6.2
1985-86 (est.)	13.43	6.4	0.3	1.96
1986-87 (proj.)	9.79	7.0	0.1	6.75

Commodity/Year	Production	Consumption	Imports	Exports
	(----------------1,000 metric tons	------------	------------	------------)
Peanuts (August-July)				
1982-83	1,806	1,390	1	261
1983-84	1,560	1,203	1	309
1984-85	1,495	1,274	1	337
1985-86	1,998	1,240	1	390
1986-87	1,870	1,661	1	473
Dairy/Butter				
1982-83	570	486	1	68
1983-84	589	541	1	34
1984-85	500	536	1	51
1985-86	585	582	2	48
1986-87	540	529	1	25
1987-88 (forecast)	465	471	1	60
Dairy/Cheese				
1982-83	2,060	2,124	122	18
1983-84	2,186	2,208	130	17
1984-85	2,120	2,334	139	17
1985-86	2,279	2,454	137	16
1986-87	2,365	2,581	138	15
1987-88 (forecast)	2,415	2,648	138	30
Dairy/Nonfat Dry Milk				
1982-83	635	315	1	144
1983-84	680	336	1	289
1984-85	526	303	1	295
1985-86	631	359	1	380
1986-87	585	365	1	400
1987-88 (forecast)	470	311	1	420
Beet and Cane Sugar (October-September) a/				
1982-83	5,907	8,875	3,171	198
1983-84	5,816	8,578	3,591	394
1984-85	5,832	8,097	2,633	464
1985-86 (prelim.)	6,019	7,820	2,346	507
1986-87 (forecast)	6,350	7,675	1,610	430

Commodity/Year	Production	Consumption	Imports	Exports
	(---------------1,000 metric	tons	--------------)	
Tobacco (unmanufactured, dry weight)				
1982-83	814	711	243	261
1983-84	583	560	209	239
1984-85	705	651	213	246
1985-86	623	618	202	249
1986-87 (est.)	486	605	195	210
Shorn Wool (clean) b/				
1982-83	56	52.0	28.0	1.3
1983-84	54	140.6	78.1	1.0
1984-85	50	142.0	94.2	.5
1985-86	46	116.6	79.5	n/a
Mohair (greasy) b/				
1982-83	10.0	n/a	d/	7.74
1983-84	10.6	n/a	d/	9.65
1984-85	11.2	n/a	d/	7.75
1985-86	13.3	n/a	d/	8.99
Honey (October-September) b/				
1983-84	205.2	249.1	103.7	8.0
1984-85	165.1	251.8	124.0	7.6
1985-86 (prelim.)	150.1	256.1	141.0	6.7
1986-87 (forecast)	200.1	298.8	135.0	8.2

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a/ in 1,000 short tons, raw value equivalent, deliveries
b/ in million pounds
c/ Mohair exports in million clean pounds
d/ less than 5 metric tons