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RESTRICTED

TARIFFS AND TRADE

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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Twenty-Ninth and Thirtieth Annual Reports by the United States Government under the Decision of 5 March 1955

The attached submission by the United States authorities combines the 29th and 30th Annual Reports in one document.

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

Introduction

This report is submitted in accordance with the decision of March 5, 1955, waiving U.S. obligations under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions the U.S. Government is required to take under Section 22 of the Agricultural Adjustment Act, as amended (see BISD, Third Supplement, page 32 and 35). The report reviews recent developments and steps taken to balance supply with demand and summarizes support programs and supply situations for commodities subject to Section 22 controls. This report covers the period October 1985 through September 1987.

Recent Developments

Most import restrictions imposed under the authority of Section 22 continued in effect, without change, including those for several dairy products, peanuts, cotton of specified staple lengths, cotton waste, certain cotton products, refined sugar, and certain sugar-containing products.

Only two Presidential Proclamations took action under Section 22 authority during the period covered by this report. These were:

Number 5425, of January 6, 1986, which permitted certain imports of cheese from Uruguay without affecting previously existing quota allocations, and

Number 5618, of March 16, 1987, which permitted certain imports of cheese from the European Economic Community without affecting previously existing quota allocations and which also transferred to the European Economic Community certain cheese quota allocations which had previously been made to Portugal.

Steps Being Taken to Balance Agricultural Supply with Demand

The Food Security Act of 1985 provided for gradual reductions in milk support prices, with further reductions possible under certain circumstances to encourage consumption and discourage high-cost producers. As a further disincentive to excess supply, producers were assessed a fee on all milk produced and marketed, through September 30, 1986, to help finance the dairy herd buyout.

For peanuts, the steps to bring production into line with demand, which were begun in 1977, are continuing. Production for domestic edible use is limited by a national poundage quota. Only peanuts within that quota receive full support. The national poundage quota was set at 1.3555 tons for the 1986 crop: estimated domestic edible, seed, and related use for the 1987/88 marketing year.

In the case of upland cotton, the Food Security Act authorized the Secretary to require a 25 percent maximum acreage reduction and to offer voluntary paid diversion in addition. Although the target price for 1986 was frozen at the 1985 level of 81 cents per pound, the new legislation provides for gradual target price reductions for the 1987-1990 crops of upland cotton. The new legislation also contains a number of provisions designed to make U.S. cotton available to world markets at competitive prices.

Loan and Deficiency Payment Rates - 1985-1987

Commodity	Unit	Support Price		
		1985	1986	1987
-----dollars-----				
Cotton Upland				
Loan Rate <u>1/</u>	lb.	.573	.550	.5225
Deficiency Payment Rate <u>2/</u>	lb.	.237	.260	<u>3/</u>
Cotton, Extra Long Staple				
Loan Rate	lb.	.8595	.8540	.8140
Deficiency Payment Rate	lb.	.1414	.1408	<u>3/</u>
Peanuts				
Quota Loan	lb.	.2750	.2795	.2595
Additional Loan	lb.	.0925	.0740	.0740
Dairy Products				
Mfg. Milk <u>4/</u>	cwt.	12.60 (Jan-Mar)	11.60	11.35 (Jan-Sept)
		12.10 (Apr-Jun)		11.10 (Oct-Dec)
		11.60 (Jul-Dec)		
Raw Cane Sugar Loan Rate <u>5/</u>	lb.	.1775	.18	
Refined Beet Sugar Loan Rate <u>5/</u>	lb.	.2076	.2116	

1/ Basis Strict Low Middling 1-1/16", net weight, micronaire 3.5 through 4.9, at average location.

2/ For the 1985 and 1986 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. Deficiency payments were made only to producers who participated in the acreage reduction program.

3/ Has not been determined. Advance deficiency payments were issued under the 1987 upland cotton program based on a projected final deficiency payment rate of \$0.2715. No advance payments were made for 1987-crop ELS cotton. The 1987-crop final deficiency payment rate for upland cotton will be determined in February 1988. For ELS cotton, it will be determined in May 1988.

4/ Implemented through a standing offer to purchase cheese, butter and nonfat dry mild, in carlots, from processors at prices designed to return the support price for manufacturing milk (national average milkfat content of 3.67 percent)

5/ National average loan rate.

Production, Consumption, Trade and CCC
Acquisition and Stock Data, 1985-1987

Commodity and Production Year	Production	Imports	Domestic Consumption	Exports	CCC Acquisitions	CCC Stocks
----- Million Pounds -----						
<u>Cotton a/</u> <u>(August-July)</u>						
1984-85	6,231	12	2,659	2,983	312 <u>b/</u>	68 <u>c/</u>
1985-86	6,447	16	3,072	941	72 <u>b/</u>	382 <u>c/</u>
1986-87	4,671	1	3,577	3,208	0 <u>b/</u>	14 <u>c/</u>
1987-88 <u>d/</u>	6,401	5	5,696	3,360	0 <u>b/</u>	0 <u>c/</u>
<u>Milk e/</u> <u>(January-December)</u>						
1983	139,692	2,616	134,404 <u>f/</u>	3,188	16,813 <u>g/</u>	15,338 <u>h/</u>
1984	135,450	2,741	137,765 <u>f/</u>	3,600	8,666 <u>g/</u>	9,634 <u>h/</u>
1985 (prelim)	143,667	2,777	142,323 <u>f/</u>	4,807	13,175 <u>g/</u>	8,483 <u>h/</u>
1986 (pjt.)	144,800	2,800	146,200 <u>f/</u>	2,600	10,300 <u>g/</u>	6,600 <u>h/</u>
<u>Peanuts</u> <u>August-July)</u>						
1983-84	3,296	2	2,807 <u>i/</u>	744	111	0
1984-85	4,406	2	2,735	860	170	0
1985-86 (prelim)	4,123	2	3,661	1,043	583	0
1986-87 (est.)	3,701	2	2,882	900	98	0
<u>Sugar</u> <u>(September-August)</u>						
1983-84	11,629	6,349	17,156	990	0	0
1984-85	11,660	6,367	16,194	779	884	782
1985-86	12,066	4,756	15,598	934	0	39
1986-87 (prelim)	13,390	3,772	15,900	1,200	0	0

- a/ Upland and Extra Long-Staple. To convert to U.S. bales, divide by 480 lbs, the average weight of a bale of cotton.
- b/ Upland and ELS cotton loans are made for a period of 10 months. Upland cotton loans may be extended for another 8 months under certain price conditions. These figures represent total forfeitures of cotton produced during the respective marketing year, as of August, 1987.
- c/ As of July respective marketing year.
- d/ Estimated as of October, 1987
- e/ Milk equivalent, fat basis
- f/ Does not include milk fed to calves
- g/ Net acquisitions: CCC purchases minus sales for unrestricted use
- h/ Changes in stocks equal CCC purchases minus donations and restricted and unrestricted use sales.
- i/ For peanuts, domestic consumption includes food use, seed, crush, and loss.

Cotton and Cotton Waste

Quotas

Import quotas continue for upland cotton, certain staple lengths of cotton, cotton waste and cotton products.

The United States maintains cotton price support, production adjustment, and related surplus disposal programs. Import quotas on cotton, cotton waste and certain cotton products are necessary in order to prevent material interference with these programs for cotton.

Support Programs

The Food Security Act of 1985 provides a 5 year program covering the 1986-90 crops of wheat, feedgrains, rice, sugar and upland cotton. The upland cotton program is part of a comprehensive farm program designed to encourage agricultural production to meet domestic and foreign demand while protecting farm income. Although the 1985 Act provides for an upland cotton program that in many respects resembles the programs of recent years, several changes were introduced that are intended to help restore the competitive position of U.S. cotton in world markets.

The 1985 Act continues the concept of guaranteed or "target" prices. The 1986-crop upland cotton target price was frozen at the 1985 level (81 cents per pound), but gradual reductions are required in subsequent years. The 1987 upland cotton target price is 79.4 cents per pound, down almost 2 percent from last year. If the weighted average price received by farmers for upland cotton during calendar year 1987 equals or exceeds 79.4 cents per pound, no deficiency payments will be made. If the average price is less than the target price, the deficiency payment rate will equal the difference between the target price and the higher of the calendar year average price or the loan level for the crop.

The 1985 Act continues the annual \$50,000 limit on total combined deficiency and diversion payments. Beginning with the 1987 crop, total payments made under certain other program provisions to any one person participating in the upland cotton, extra long staple cotton, rice, wheat and feed grains programs cannot exceed \$250,000, inclusive of the \$50,000 limit on deficiency and diversion payments.

The 1985 Act contains provisions designed to make U.S. cotton more competitive in world markets. If the prevailing adjusted world price (AWP) for upland cotton (as calculated by USDA using a prescribed formula) is below the loan level for the crop, the Secretary of Agriculture must implement one of the two plans (Plan A or Plan B) to lower the loan repayment rate. USDA implemented Plan A in 1986. The loan repayment rate was set at 80 percent of the loan rate. Negotiable marketing certificates were issued to participating first handlers of cotton whenever the AWP was below the loan repayment rate. The payments were made to assure that U.S. cotton was made available to the world market at competitive prices. Inventory protection payments were also made in order to make raw cotton in inventory August 1, 1986 available on the same basis.

USDA announced its intention to implement Plan B for the 1987 crop year. Under Plan B, the loan repayment rate is the lower of the loan rate or the adjusted world price (AWP) in effect during the week the cotton is sold. However, if the AWP is less than 80 percent of the loan level, a producer may be allowed to repay the loan at a level between the AWP and 80 percent of the loan rate, as the Secretary of Agriculture determines will: minimize forfeitures of loan collateral, minimize stock accumulation, minimize storage costs, and allow U.S. cotton to be competitive.

A new discretionary provision contained in the 1985 Act authorizes payments to producers who, although eligible to obtain loans, agree to forgo obtaining loans. These loan deficiency payments equal the difference between the loan rate and the loan repayment rate times the quantity of upland cotton eligible to be placed under loan (not to exceed the upland cotton farm program acreage times the farm program payment yield). Loan deficiency payments are subject to the \$250,000 payment limit. This provision was authorized for both the 1986 and 1987 upland cotton programs.

Acreage reduction requirements for the 1986 and 1987 crops were set at 25 percent, the maximum allowed under the 1985 Act. To be eligible for price support loans and deficiency payments, producers could not plant more than 75 percent of their farm acreage base to upland cotton. No paid land diversion program was offered for 1986 or 1987.

New legislation enacted in 1983 changed the program for extra long staple (ELS) cotton from an acreage allotment and marketing quota system to a program similar to that in effect for upland cotton, wheat, rice and feedgrains. The Food Security Act of 1985 changed the formula for calculating the ELS cotton loan rate. Instead of being based on the upland cotton loan rate as in the past, the ELS cotton loan rate is equal to 85 percent of the simple average price received by farmers for ELS cotton in the previous 5 year period, dropping the highest and lowest years. The 1986 crop ELS cotton loan rate was 85.40 cents per pound and the target price was 102.48 cents per pound. A 10 percent acreage reduction program was in effect for the 1986 ELS cotton crop. The 1987-crop loan rate is 81.40 cents per pound and the target price is 97.70 cents per pound. A 15 percent acreage reduction program is in effect for the 1987 crop of ELS cotton. ELS cotton producers must participate in the acreage reduction program to be eligible for price support loans and target price protection.

Program Activity

- 1) Upland Cotton. CCC stocks under loan or in inventory on July 31, 1986 (the end of the 1985 marketing year), were 6,700 thousand bales, compared with 1,671 thousand on July 31, 1985. Cotton loans mature 10 months from the first day of the month in which the loan is made; however, the Food Security Act of 1985 provides that nonrecourse loans for upland cotton shall, upon request of the producer during the tenth month of the loan period, be available for an additional term of eight months, except when the average price of Strict Low Middling 1-1/16 inch cotton (micronaire 3.5 through 4.9) in the designated spot market for the preceding month exceeds 130 percent of the average spot price for the preceding 36 months.

The August 1987 average spot market price was 131 percent of the August 1984 through July 1987 average price. As a result, extensions on 1986-crop upland cotton under loan carrying a maturity date of September 30, 1987 were prohibited. In addition, the President is required to establish a special limited global import quota for upland cotton equal to 21 days of domestic mill consumption of upland cotton at the seasonally adjusted average rate, based on the most recent 3 months for which data are available. Once the quota is established, cotton may be imported during the 90-day period beginning on the effective date of the proclamation. As of this writing, the quota has not yet been opened.

During the 1985-86 season, about 7.3 million bales were placed under loan. In crop year 1986, almost 6.1 million bales were placed under loan.

Supply Situation

- 1) Upland Cotton. The carryover on August 1, 1985 totaled 4 million bales. Production in 1985 increased from 1984, totaling about 13.3 million bales as compared with about 12.9 million in the previous year. The total supply in 1985-86 approximated 17.3 million bales or 1.7 million above a year earlier. Disappearance (domestic consumption and exports) totaled about 8.2 million bales in 1985 as compared with 11.6 million in 1984. The August 1, 1986, carryover was reported at about 9.3 million bales. The 1986 crop production was 9.5 million bales, down about 3.8 million bales from 1985. The average U.S. yield for the 1986 crop of upland cotton was 547 lbs/harvested acre, down from the record of 628 pounds set in 1985.
- 2) Extra Long Staple Cotton The carryover on August 1, 1985 totaled about 78,000 bales. Production in 1985 increased over 1984, totaling 155,000 bales as compared with 130,000 a year earlier. The U.S. imported less than 1,000 bales in 1985 compared with 3,000 bales in 1984. The total supply in 1985 approximated 233,000 bales compared to 215,000 bales the previous year. Disappearance (domestic consumption and exports) totaled about 166,000 bales, about 27,000 more than 1984; about 8,000 bales were unaccounted for. The net result was a carryover on August 1, 1986, estimated at about 59,000 bales, 19,000 bales below a year earlier. Production of ELS cotton in 1986 reached a record 206,000 bales, up 51,000 from 1985.

Steps Taken to Balance Supply and Demand

In addition to production adjustments programs, additional Government programs designed to attain a better balance in the supply and demand position include continued emphasis on research and market promotion programs designed to increase cotton utilization throughout the world. These programs remain basically the same as previously reported.

Peanuts

Quotas

The annual import quota of 1,709,000 pounds (shelled basis) remains in effect to prevent material interference with U.S. programs and operations relating to peanuts.

Support Programs

The Food Security Act of 1985 further modified the peanut price support program for the 1986 through 1990 crops, continuing steps begun in 1977 to bring peanut production for domestic edible use in balance with market needs. The 1985 Act continued the two-tier price support program.

Poundage quotas were retained and acreage allotments were suspended. This program allows any farmer in the United States to grow and market peanuts for export or crush whether the farm has a poundage quota or not.

Peanuts under the national quota are eligible for domestic edible use and are supported at a higher rate. Price support for 1987-crop quota peanuts is set at \$607.47 per ton, unchanged from 1986. Legislation requires that the quota support for the 1987 through 1990 crops will reflect annual increases in production costs, excluding any change in the cost of land; but it limits the increase to 6 percent for each annual adjustment.

The national poundage quota must be set at estimated domestic edible, seed, and related uses, but no less than 1.1 million tons. The 1987 poundage quota was set at 1.3555 million tons, unchanged from the quota for 1986.

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 that they be 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 August 1.

The support price for additional peanuts will be set to avoid any net cost to the government. The basis for the 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 1987 the support level was set at \$149.75 per ton, unchanged from the level for 1986.

Program Activity

During the 1985-86 marketing year (August-July), 1,338 million pounds of farmers' stock peanuts were placed under loan, of which approximately 656 million pounds were redeemed or brought back for domestic edible use. For the 1986-87 marketing year, 278 million pounds of peanuts were placed under loan, with about 179 million pounds redeemed or brought back for domestic edible use.

Supply Situation

Growers harvested 1,467,000 acres of peanuts in 1985, 4 percent below 1984. Supplies in the 1985-86 marketing year were 11 percent above 1984-85. Growers received an average of \$488 per ton for all peanuts produced, \$71 per ton below the quota support level.

Growers harvested an estimated 1,537,000 acres of 1986-crop peanuts, 5 percent above 1985. Yield per harvested acre average 2,407 pounds in 1986, compared with an average of 2,810 pounds in 1985. Decreased production combined with lower beginning stocks resulted in supplies of 4,548 million pounds, 18 percent below 1985. Quota peanuts are expected to account for 69 percent of production and additional peanuts the remaining 31 percent.

Annual data on peanut production, consumption, exports, stocks and acquisitions under the price support program since the 1970 marketing year are shown below.

<u>Year</u> <u>Beginning</u> <u>August 1</u>	<u>Production 1/</u>	<u>Imports</u>	<u>Domestic</u> <u>Consumption</u> <u>& Exports 2/</u>	<u>Stocks</u> <u>End of</u> <u>Year</u>	<u>Acquisitions</u> <u>Under</u> <u>Price Support 3/</u>
-----Million Pounds-----					
1970	2,979	2	2,881	453	1,013
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	3,303	401	2,919	413	235
1981	2,982	2	3,640	757	298
1982	3,440	2	3,335	864	175
1983	3,296	2	3,551	611	111
1984	4,406	2	3,595	1,424	170
1985	4,123	2	4,704	845	583
1986	3,701	2	3,545	1,000	98
1987	3,698 <u>4/</u>				

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 1986-87 is about 4,548 million pounds, compared with an average supply of 4,665 million pounds for the five years 1981-85.

Steps Taken to Balance Supply and Demand

The Agriculture and Food Act of 1981 which was effective for the 1982 through the 1985 peanut crops provided methods for achieving a balance between supply and demand. This legislation took two principal approaches: (1) setting the national poundage quota at the estimated level of domestic edible, seed and related uses, 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. The Food Security Act of 1985, effective for the 1986 through 1990 crops, continues this program.

CCC net realized losses on the peanut program were about \$10 million for the 1986 crop compared with about \$44 million for the 1985 crop and \$1 million for the 1984 crop.

Dairy Products

Quotas

As in recent years the import licenses for 1987 were issued quite early in order to give the licensees maximum time to use their licenses fully.

There is now a continuing program of maintaining state-of-the-art data processing equipment, thereby providing import licenses with rapid, error-free service.

There is also an on-going program of keeping close contact with importers, importer associations, U.S. Customs Service officials and trade members in an effort to keep them updated on pending changes to the quota system. Close contact with foreign embassies is also maintained, along with contact with foreign producers.

As usual, country-of-origin adjustments were made in 1987 when it became evident that a country could not provide a quota item in sufficient quantities to fill its quota. Adjustments this year included: Swiss-Emmenthaler (950.10B) from Argentina, Other Cheese, N.S.P.F. (950.10D) from Argentina, Blue-Mold cheese (950.07) from Argentina condensed milk (949.90) from Denmark, and lowfat chocolate crumb (959.16) from Ireland.

In 1985 and 1986, almost 98 percent of the quotas were used showing continued progress in complete utilization.

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

Support Program

The milk price support program, which is operated pursuant to the Agricultural Act of 1949 (1949 Act), as amended, requires that the price of milk to producers be supported at such level between 75 and 90 percent of parity as will assure an adequate supply of milk, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. However, since October 21, 1981, the support price has been established by legislation at specific price levels, rather than parity levels. The support price of \$11.10 per cwt., effective October 1, 1987, was 50.7 per cent of parity on that date.

The price of milk is supported by the Commodity Credit Corporation (CCC), through purchases of butter, cheese and nonfat dry milk at prices calculated to enable plant operators to pay dairy farmers, on the average, a price equal the support level. The effectiveness of the program depends on competition by manufacturers for available supplies of milk so that the average price received by farmers will equal the announced support price. At times of significant price support purchases, the purchase prices for these products tend to become the floor for the market prices of such products. Since most of the fluid milk prices are based on prices paid for manufacturing milk, the price support program undergirds all milk and dairy product prices.

Program Activity

In carrying out the price support and related programs in the 1985-86 marketing year (MY), USDA removed from the market 8.6 percent of the milkfat and 8.8 percent of the solids-not-fat in the milk and cream marketed by farmers. USDA removals in MY 1985-86 were 322 million pounds of butter, 522 million pounds of American cheese, 29 million pounds of Mozzarella cheese, 943 million pounds of nonfat dry milk, 29 million pounds of evaporated milk and 5 million pounds of infant formula. CCC's purchase cost was \$2.4 billion in MY 1985-86, compared with \$2.2 billion in 1984-85.

In MY 1986-87, USDA removed from the market, 3.9 percent of milkfat and 5.2 percent of solids-not-fat in the milk and cream marketed by farmers. CCC removals in MY 1986-87 were 145 million pounds of butter, 221 million pounds of American cheese, 40 million pounds of Mozzarella cheese, 557 million pounds of nonfat dry milk, 28 million pounds of evaporated milk and 7 million pounds of infant formula.

The expenditures under the Special Milk Program (see paragraph at top of pg. 13) were approximately \$15.4 million during Fiscal Year (FY) 1986. This is the latest year for which expenditure figures are available. Approximately \$15.7 million were spent in FY 1985.

Supply Situation

Milk production totalled 146.3 billion pounds in MY 1985-86, 4.1 percent above a year earlier. Milk production in MY 1986-87 dropped 2.9 percent to 142.0 billion pounds. In August 1987, milk production increased above year-earlier levels for the first time since June 1986, after inception of the Dairy Termination Program in April 1986. Cow numbers decreased 3.6 percent in MY 1985-86 and 2.7 percent in MY 1986-87. Production per cow increased 2.4 percent in MY 1985-86 and 2.7 percent in MY 1986-87.

Steps Taken to Balance Supply and Demand

The Food Security Act of 1985 (1985 Act), contained several provisions intended to reduce and discourage the production of excess milk. The 1985 Act passed in late December, amended the 1949 Act by continuing the \$11.60 per cwt. support price through calendar year 1986. It established a support price of \$11.35 per cwt. during the period January 1 through September 30, 1987, and \$11.10 per cwt. for the period October 1, 1987, through December 31, 1990. However, on January 1 of 1988, 1989 and 1990, the Secretary is required to reduce the support price 50 cents per cwt. from that in effect on that date if purchases during that calendar year are projected to exceed 5.0 billion pounds milk equivalent; or to increase the support price 50 cents per cwt. if purchases are projected at 2.5 billion pounds or less, milk equivalent.

The 1985 Act required the Secretary to establish and carry out a milk production termination program (whole-herd buyout program) for the period April 1, 1986, through September 30, 1987. Under the buyout program, CCC accepted bids from 13,988 dairy farmers who marketed 12.3 billion pounds of milk in calendar year 1985. The accepted bids ranged from \$3.40 to \$22.50 per cwt. and averaged \$14.88. CCC is expected to pay out \$1.8 billion during the 5 years of the program. The Secretary also has the option to establish a milk diversion payment or milk production termination program for any of the calendar years 1988, 1989 or 1990, as necessary, to avoid burdensome excess supplies of milk or milk products.

Other provisions of the 1985 Act included: a 40-cent per cwt. producer assessment on all milk produced and marketed in the 48 contiguous States from April 1 through December 31, 1986, and a 25-cent per cwt. assessment for all milk marketed from January 1 through September 30, 1987. These assessments were used to offset part of the cost of the whole herd buyout program.

The 1985 Act also required the Secretary to provide, on a bid basis, at least one million pounds of nonfat dry milk annually for casein manufacturing. Under this program, despite the issuance of several invitations and amendments, only about 285,000 pounds of nonfat dry milk were converted to casein during from the initiation of offers in April 1986 through September 1987.

A number of domestic and foreign feeding programs are used 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) of butter, cheese, and nonfat dry milk in special forms and in consumer-size packages on competitive bids or at announced prices for use in food sales and donation programs; (c) CCC purchases of evaporated milk and milk-based infant formula; (d) the school lunch program; (e) distribution to institutions and welfare programs; (f) special distribution of surplus commodities to the needy; (g) foreign donation programs for welfare and emergency assistance under Public Law 480, Title II; (h) mandated the donations of surplus dairy products to needy persons in the U.S. and overseas. The Food Security Act of 1985 also mandated export sales of dairy products. Increased consumption of dairy products also resulted from the food stamp program and from participation in the women-infants-children (WIC) program under which disadvantaged groups receive financial assistance for increased food purchases.

The Agriculture and Food Act of 1981 as amended by the Temporary Emergency Food Assistance Act of 1983 (P.L. 98-8) authorized the domestic donation of surplus dairy products to needy persons. Under this authority, which has been extended, by recent legislation, through September 30, 1988, 2,381 million pounds of cheese, 630 million pounds of butter and 412 million pounds of nonfat dry milk have been released to States for distribution to needy households from December 1981 through September 1987. The 1985 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.

For FY 1986, 162 million half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Program compared with 167 million half-pints in FY 1985. Slightly more than 5.0 billion half-pints of milk were served in both fiscal years under the School Lunch and other Child Nutrition Programs. No data is yet available for FY 1987.

Accomplishments and Outlook

The Food Security Act of 1985 has been successful in reducing surplus milk production and CCC purchases. As of September 30, 1987, uncommitted inventories were approximately 82 million pounds of butter, 98 million pounds of cheese and 63 million pounds of nonfat dry milk. This compares with 140 million pounds of butter, 657 million pounds of cheese and 981 million pounds of nonfat dry milk as of September 30, 1985. It is projected that by September 30, 1988, there will be no uncommitted inventory of dairy products.

The following tables summarize USDA market removals from MY 1976 through 1987.

Milk Production and Market Removals, by Marketing Year*
1976-1987

Year	Milk Production	USDA Market Removals				Milk Equivalent Removals ^{1/}	Percent Removal of Milk Production
		Butter	Cheese	Nonfat dry milk	Evap- orated milk		
	Bil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Mil. lb.	Percent
1976-77	122.2	248.4	173.4	491.0	15.9	6,876	5.6
1977-78	121.7	134.6	41.6	338.9	17.4	3,229	2.7
1978-79	122.5	46.2	12.1	202.1	17.4	1,111	.9
1979-80	127.3	233.0	335.6	592.2	15.4	8,160	6.4
1980-81	131.7	356.5	532.1	787.0	20.2	12,661	9.6
1981-82	134.7	381.9	598.6	954.3	19.5	13,841	10.2
1982-83	138.8	410.3	239.4	1,041.2	22.4	16,627	12.0
1983-84	136.8	229.8	542.0	767.8	23.7	10,350	7.6
1984-85	140.5	292.3	550.8	828.6	24.2	11,530	8.2
1985-86	146.3	331.9	550.7	945.1	24.2	12,295	8.5
1986-87	142.0	143.4	236.7	555.9	28.2	5,361	3.8

^{1/} Milk equivalent, fat solids basis, is derived by adding the following: pounds of butter times conversion factor of 20.65; pounds of cheese times conversion factor of 9.88, and pounds of evaporated milk times conversion factor of 2.15.

* The marketing year is October 1 through September 30.

SUGAR AND SUGAR-CONTAINING ARTICLES

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 program of nonrecourse loans.

The raw cane sugar and refined beet sugar loan levels for the 1987 crop is established at 18.0 cents and 21.16 per pound, respectively.

The Food Security Act of 1985 established a support program for sugarcane and sugar beets for the 1986 through 1990 crops. Support is provided through a program of noncourse loans at such level as the Secretary of Agriculture determines appropriate, but not less than 18 cents per pound for raw cane sugar. Sugar beets shall be supported through nonrecourse loans at such level as the Secretary determines is fair and reasonable to the loan level for sugarcane. The raw cane sugar and refined beet sugar loan levels for the 1987 crop is established at 18.0 cents and 21.16 per pound, respectively.

Loans will be available beginning October 1 each year. Loans are for a period of six months, except that all loans will have a maturity date of no later than September 30. The interest rate on these loans will be the rate applicable to CCC loans. 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. Imports, since 1960, have ranged from 2.7 million metric tons to 6.1 million tons, and have accounted for as much as 40 percent of U.S. requirements.