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TARIFFS AND TRADE

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UNITED STATES AGRICULTURAL ADJUSTMENT ACT

Thirty-first Annual Report by the United State Government under the Decision of 5 March 1955

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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 1987 through September 1988.

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 related to Section 22 authority during the period covered by this report. These were:

Number 5736, of November 5, 1987, which established a special limited global import quota for 303,894,717 pounds of upland cotton during the period November 6, 1987 through February 3, 1988.

Number 5832, of June 16, 1988, which corrected a technical error in Presidential Proclamation Number 5618 related to the 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. In response to the effects of the 1988 drought, the Disaster Assistance Act of 1988 rescinds the possibility of a 50-cent per cwt. price support decrease on January 1, 1989, and provides for a temporary 50-cent per cwt. increase in the support price, effective April 1, 1989 through June 30, 1989.

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 1.4022 million short tons for the 1988 crop. This corresponds to estimated domestic edible, seed, and related use for the 1988/89 marketing year.

In the case of upland cotton, the Food Security Act of 1985 gives the Secretary the authority to require of program participants an acreage reduction of up to 25 percent and to implement an additional paid land diversion. Although the target price for 1986 was frozen at the 1985 level of 81 cents per pound, the legislation provides for gradual target price reductions for the 1987-1990 crops of upland cotton. The 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 - 1986-1988

Commodity	Unit	Support Price --dollars per unit-- 1986	1987	1988
Cotton, Upland				
Loan Rate 1/	lb.	.550	.5225	.5180
Deficiency Payment Rate 2/	lb.	.260	.1730	3/
Cotton, Extra Long Staple				
Loan Rate	lb.	.8540	.8140	.8092
Deficiency Payment Rate	lb.	.1408	0	3/
Peanuts				
Quota Loan	lb.	.3037	.3037	.3076
Additional Loan	lb.	.0749	.0749	.0749
Dairy Products				
Mfg. Milk 4/	cwt.	12.60 (Jan-Mar) 12.10 (Apr-Jun) 11.60 (Jul-Dec)	11.35 (Jan-Sept) 11.10 (Oct-Dec)	10.60 (Jan-Sept)
Raw Cane Sugar Loan Rate 5/	lb.	.18	.18	.18
Refined Beet Sugar Loan Rate 5/	lb.	.2109	.2116	.2137

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

2/ Deficiency payments are 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 are made only to producers who participate in the acreage reduction program.

3/ Has not been determined. Advance deficiency payments were issued under the 1988 upland cotton program based on a projected final deficiency payment rate of $0.1600. No advance payments were made for 1988-crop ELS cotton. The 1988-crop final deficiency payment rate for upland cotton will be determined in February 1989. For ELS cotton, it will be determined in May 1989.

4/ Implemented through a standing offer to purchase cheese, butter and nonfat dry milk, 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 weighted average loan rate.

Production, Consumption, Trade and CCC
Acquisition and Stock Data, 1984-1988

Commodity and Production Year	Production	Imports	Domestic Consumption	Exports	CCC Acquisitions	CCC Stocks
			Million Pounds			
Cotton a/	(August-July)					
1984-85	6,231	12	2,659	2,983	313 b/	69 c/
1985-86	6,447	16	3,072	941	80 b/	376 c/
1986-87	4,671	1	3,577	3,208	7 b/	37 c/
1987-88	7,085	1	3,653	3,192	0 b/	0 c/
1988-89 d/	7,060	1	3,312	2,544	0 b/	240 c/
Milk e/	(January-December)					
1984	135,450	2,741	137,765 f/	3,600	8,666 g/	9,634 h/
1985	143,667	2,777	142,323 f/	2,732	13,175 g/	8,483 h/
1986	144,800	2,733	134,000 f/	1,379	10,600 g/	6,621 h/
1987	142,462	2,490	135,000 f/	1,369	6,700 g/	1,648 h/
Peanuts i/	(August-July)					
1984-85	4,406	2	2,735	860	331	0
1985-86	4,123	2	3,661	1,043	682	0
1986-87(prelim)	3,701	2	2,882	663	100	0
1987-88(est.)	3,619	2	3,173	618	185	0
Sugar	(September-August)					
1984-85	11,660	6,367	16,194	779	884	782
1985-86	12,066	4,756	15,598	934	0	39
1986-87	13,393	3,871	16,092	1,483	0	0
1987-88(prelim)	14,572	2,650	16,500	710	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 September, 1988.
c/ As of July respective marketing year.
d/ Estimated as of September, 1988.
e/ Milk equivalent, fat basis.
f/ Does not include milk fed to calves.
g/ Net aquisitions: 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. However, as noted one page 1, additional upland cotton imports were permitted during the period November 6, 1987 through February 3, 1988 under a special limited global import quota. This special quota was established in accordance with Section 103A(o)(1) of the Agricultural Act of 1949, as added by section 501 of the Food Security Act of 1985, which provides that such a quota should be established whenever certain spot prices exceed a moving average of such prices by 130 percent.

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 1988 upland cotton target price is 75.9 cents per pound, down more than 4 percent from 1987. If the weighted average price received by farmers for upland cotton during calendar year 1988 equals or exceeds 75.9 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 1987, but with the exception of 3 weeks, the marketing loan program was nonfunctional for the entire 1987 marketing year because the AWP exceeded the loan rate. Under Plan B, the loan repayment rate is the lower of the loan rate or the 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. Plan B is in effect for the 1988 marketing year.

A 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). The cash portion of any loan deficiency payment is subject to the $250,000 payment limit. This provision was authorized for the 1986, 1987 and 1988 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. The acreage reduction requirement for 1988 was 12.5 percent. No paid land diversion program was offered for 1986, 1987 or 1988.

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 was 81.40 cents per pound and the target price was 97.70 cents per pound. A 15 percent acreage reduction program was in effect for the 1987 crop of ELS cotton. In 1988, the loan rate was 80.92 cents per pound and the target price was 95.70 cents per pound. The acreage reduction program requirement for 1988 was set at 10 percent. 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. 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. The quota was open November 10, 1987 through February 3, 1988.

Almost 5.4 million bales of 1987 crop upland cotton were placed under loan.

Supply Situation - 1987 Crop

1) Upland Cotton. The carryover on August 1, 1987 totaled 4.9 million bales. Production in 1987 increased to 14.5 million bales as compared with about 9.5 million in the previous year. The total supply in 1987-88 approximated 19.4 million bales or 0.6 million above a year earlier. Disappearance (domestic consumption and exports) was nearly unchanged in 1987 from the previous year's level of 14.0 million bales. The August 1, 1988, carryover was 5.5 million bales. The average U.S. yield for the 1987 crop of upland cotton was a record 702 lbs/harvested acre, up nearly 12 percent from the previous record of 628 pounds set in 1985.

2) Extra Long Staple Cotton The carryover on August 1, 1987 totaled about 84,000 bales. Production in 1987 increased over 1986, totaling 285,000 bales as compared with 206,000 a year earlier. The total supply in 1987 approximated 369,000 bales compared to 265,000 bales the previous year. Disappearance (domestic consumption and exports) totaled about 289,000 bales, 108,000 more than 1986; about 10,000 bales were unaccounted for. The net result was a carryover on August 1, 1988, estimated at about 70,000 bales, 14,000 bales below a year earlier. The yield for 1987 reached a record 1,000 pounds per harvested acre.

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 marketed under the poundage quota are eligible for domestic edible use and are supported at a higher rate. Price support for 1988-crop quota peanuts is set at $615.27 per ton, up 1 percent from 1987. Legislation requires the quota support for the 1986 through 1990 crops to 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 1988 poundage quota was set at 1.4022 million tons, up 3 percent from the quota for 1987.

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. Additional peanuts placed under loan may be sold for domestic edible use, but the sales price may be no lower than the quota price support level.

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 1988 the support level was set at $149.75 per ton, unchanged from the level for 1987.

Program Activity

During the 1986-87 marketing year (August-July), 279 million pounds of farmers' stock peanuts were placed under loan, of which approximately 179 million pounds were redeemed or bought back for domestic edible use. For the 1987-88 marketing year, 700 million pounds of peanuts were placed under loan, with about 514 million pounds redeemed or bought back for domestic edible use.

Supply Situation

Growers harvested 1,537,000 acres of peanuts in 1986, 5 percent above 1985. Supplies in the 1986-87 marketing year were 18 percent below 1985-86, primarily due to a 14 percent reduction in average yield for 1986. Growers received an average of $584 per ton for all peanuts produced, 20 percent above the 1985-86 average level.

Growers harvested an estimated 1,546,000 acres of 1987-crop peanuts, 1 percent above 1986. Yield per harvested acre average 2,341 pounds in 1987, compared with an average of 2,407 pounds in 1986. Higher stocks offset the decreased production resulting in supplies of 4,624 million pounds, 2 percent above 1986-87 levels.

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

Year Beginning August 1	Prod. 1/	Imports	Domestic Consumption & Exports 2/	Stocks End of Year	Acquisitions Under Price Support 3/
	---------------------Million Pounds------------------------				
1970	2,979	2	2,881	453	1,033
1971	3,005	2	3,063	392	1,204
1972	3,275	2	3,240	429	1,158
1973	3,474	1	3,351	553	858
1974	3,668	1	3,138	1,084	410
1975	3,857	1	3,886	1,060	1,170
1976	3,739	1	4,192	608	1,235
1977	3,715	1	3,743	581	305
1978	3,952	1	3,948	586	309
1979	3,968	1	3,927	628	436
1980	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	331
1985	4,123	2	4,704	845	682
1986	3,701	2	3,545	1,003	100
1987	3,619	2	3,791	833	185
1988	4,257 4/				

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 1987-88 is about 4,624 million pounds, compared with an average supply of 4,695 million pounds for the five years 1982-86.

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 sales for crushing into oil and meal. 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 loses on the peanut program were about $8 million for the 1987 crop compared with about $9 million for the 1986 crop and an average of $14 million for each of the 1982-1985 crops.

Dairy Products

Quotas

As in recent years, the 1988 import licenses were issued before the beginning of the new quota year to give licensees maximum time to use their licenses fully.

The on-line entry computer system which became operational during mid 1979 continues to provide rapid, error free responses to requests made by licensed importers regarding quota entries.

Additionally, an on-going program is in place to keep importers, importer associations, U.S. Customs Service officials, trade members, foreign embassies and foreign producers advised and updated of pending changes to the quota system.

Because of the low utilization rates for several quota cheese categories, country of origin adjustments were effected when it became evident that several countries could not provide the quota item in sufficient quantities to fill the quota. Adjustments this year included: sweetened condensed milk from Denmark (949.90), Lowfat Cheese (950.10E) from the EEC, Swiss-Emmenthal Cheese (950.10B) from the EEC, Swiss-Emmenthal Cheese (950.10B) from Finland, American-type, Other Than Cheddar (950.08B) from the EEC, Cheddar Cheese (950.08A) from Other Countries, Italian-type Cheese Not In Original Loaves (950.10A) from Other Countries, Blue-mold Cheese (950.07) from Argentina, Other Cheese Not Specifically Provided For (950.10D) from Argentina, and Other Cheese Not Specifically Provided For (950.10D) for Iceland.

Utilization rates for quota cheese began to fall moderately beginning with the 1986 quota year. This trend has continued through the current year, and the 1988 quota year will probably fall below a 90 percent utilization rate. The dairy policies in a number of significant producing countries are beginning to have an impact on exports to the United States. In some cases, reduced milk production, increased consumer demand for dairy products in these producing countries, and fluid milk diverted to uses other than cheese production are affecting exports.

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 51.9 percent of parity on that date and the support price of $10.60 per cwt., effective January 1, 1988, was 49.6 percent of parity.

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 1986-87 marketing year (MY), USDA removed from the market 3.9 percent of the milkfat and 5.2 percent of the solids-not-fat in the milk and cream marketed by farmers. USDA 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. CCC's purchase cost was $1.2 billion in MY 1986-87, compared with $2.4 billion in 1985-86.

In MY 1987-88, USDA removed from the market, 9.7 percent of milkfat and 6.8 percent of solids-not-fat in the milk and cream marketed by farmers. CCC removals in MY 1987-88 were 320 million pounds of butter, 279 million pounds of American cheese, 33 million pounds of Mozzarella cheese, 365 million pounds of nonfat dry milk, 24 million pounds of evaporated milk and 3 million pounds of infant formula.

The expenditures under the Special Milk Program (see first paragraph on page 13) were approximately $15.4 million during Fiscal Year (FY) 1987. This is the latest year for which expenditure figures are available. Approximately $15.4 million were also spent in FY 1986.

Supply Situation

Milk production totalled 142.0 billion pounds in MY 1986-87, 2.9 percent below a year earlier. Milk production in MY 1987-88 increased 1.9 percent to 144.7 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 2.7 percent in MY 1986-87 and 0.6 percent in MY 1987-88. Production per cow increased 2.7 percent in MY 1986-87 and 2.2 percent in MY 1987-88.

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.

The Disaster Assistance Act of 1988 further amends the 1949 Act by rescinding the possibility of a 50-cent per cwt. price support decrease on January 1, 1989, and providing for a temporary increase in the support price--50 cents per cwt., effective April 1, 1989, through June 30, 1989.

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, 2,615 million pounds of cheese, 697 million pounds of butter and 499 million pounds of nonfat dry milk have been released to States for distribution to needy households from December 1981 through September 1988. 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 1987, 163 million half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Program compared with 162 million half-pints in FY 1986. 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 1988.

Accomplishments and Outlook

The Food Security Act of 1985 has been successful in reducing surplus milk production and CCC purchases. Furthermore, the 1988 drought has resulted in higher feed prices, and the milk/feed ratio in 1988-89 is projected to be less than 1.5. This is the lowest since the mid-1970's, and is expected to reduce growth in milk production per cow. However, neither the record high milk/feed ratio of 1987-88 nor the projected low level for the future, reasonably reflect the profitability of milk production.

As of September 30, 1988, uncommitted inventories were approximately 161 million pounds of butter, 44 million pounds of cheese and 9 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.

The following table summarizes USDA market removals from MY 1976 through 1988.

Milk Production and Market Removals, by Marketing Year*
1976-1988

Year	Milk Production	USDA Market Removals: Butter	Cheese	Nonfat dry milk	Evaporated milk	Milk Equivalent of Removals 1/	Percent Removal of Milk Production
	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
1987-88	144.7	320.2	306.3	364.8	23.8	9,689	6.7

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

Quotas

The annual country by country import quota for sugar (1,054,675 short tons for calendar year 1988) remains in effect in accord with the annual review of the sugar import quota system required under the headnotes of schedule 1, part 10, subpart A of the Tariff Schedule of the United States. The quotas for sugar containing articles, totaling 94,000 short tons, also remain in effect.

Support Programs

The Agriculture and Food Act of 1981 established a support program for sugar cane and beets for the 1982 through 1985 crops. The Food Security Act of 1985 established a support program for domestically grown sugarcane and sugar beets for the 1986 through 1990 crops. Support is provided through a program of nonrecourse 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 in relation to the loan level for sugarcane. The raw cane sugar and refined beet sugar loan levels for the 1988 crop are established at 18.0 cents and 21.37 per pound, respectively.

A request for a price support loan may be filed no earlier than 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 price support levels to any grower who delivers eligible sugar beets or sugar cane.

Supply Situation

The United States is not self-sufficient in sugar. Domestic consumption of sugar in the United States has increased steadily during the past few years from 7.1 million tons in the 1985/86 year to a forecast 7.6 million tons in 1988/89. Imports, since 1960, have ranged from 1.0 million tons to 6.1 million tons, and have accounted for as much as 40 percent of U.S. requirements.