

# GENERAL AGREEMENT ON

# TARIFFS AND TRADE

RESTRICTED

L/6633

23 January 1990

Limited Distribution

---

Original: English

## UNITED STATES AGRICULTURAL ADJUSTMENT ACT

### Thirty-Second Annual Report by the United States Government under the Decision of 5 March 1955

The following report, dated 21 December 1989, has been received from the representative of the United States.

#### CONTENTS

	<u>Page</u>
Introduction	2
Recent developments	2
Reasons for continuation of restrictions	3
Steps being taken to balance agricultural supply with demand	3
Loan and deficiency payment rates	4
Production, consumption, trade and stock data	5
Cotton and cotton waste	6
Peanuts	9
Dairy products	12
Sugar and sugar-containing articles	18

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

Introduction

This report is submitted in accordance with the Decision of 5 March 1955, waiving the United States obligations under Articles II and XI of the GATT to the extent necessary to prevent their conflict with actions the United States Government is required to take under Section 22 of the Agricultural Adjustment Act, as amended (see BISD, Third Supplement, pages 32 and 35). The report reviews recent developments, the reasons why restrictions continue to be applied and steps taken to balance supply with demand. It also summarizes support programmes and supply situations for commodities subject to Section 22 controls. This report covers the period October 1988 through September 1989.

Recent developments

Import restrictions imposed under the authority of Section 22 continued in effect, without change, with the exception of the following.

Two Presidential Proclamations took action related to Section 22 authority during the period covered by this report. These were:

No. 5908, of 18 November 1988, which allocated to Uruguay the remaining available quota amount of cheese, established by Proclamation No. 4708 of 11 December 1979. As a result of this action the full amount of cheese quota authorized by Proclamation No. 4708 has been allocated, and no unallocated portion remains.

No. 5916, of 28 November 1988, which corrected a typographical error in Proclamation No. 5908.

In addition, two Section 22 investigations were requested by the President during the period covered by this report. These were:

ITC Investigation No. 22-50, which reviewed the country allocations for the quota on ice cream. The ITC issued its report to the President at the end of August, and the President is now reviewing that report. This investigation was notified to the CONTRACTING PARTIES in document L/6556.

ITC Investigation No. 22-51, which will review the quota on cotton comber waste to determine if it should be terminated or modified. The ITC anticipates submitting its report to the President at the end of January 1990. The President will then determine what action to take. This investigation was notified to the CONTRACTING PARTIES in document L/6574.

### Reasons for continuation of restrictions

The United States maintains price support, and in some cases production adjustment and surplus disposal, programmes for milk and certain milk products, peanuts, cotton, and sugar which would be rendered ineffective or materially interfered with by uncontrolled imports at world market prices. Therefore, it is necessary to continue to apply the existing import limitations on a number of dairy products, peanuts, cotton, cotton waste and certain cotton products, refined sugar and certain sugar-containing products.

### 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 30 September 1986, to help finance the dairy herd buy-out. In response to the effects of the 1988 drought, the Disaster Assistance Act of 1988 rescinded the possibility of a 50 cent per cwt. price support decrease on 1 January 1989, and provides for a temporary 50 cent per cwt. increase in the support price, effective 1 April 1989 through 30 June 1989. The support price reverted to its pre-April level on 1 July 1989 and a further adjustment is possible on 1 January 1990 if CCC purchases for calendar year 1990 are projected to exceed 5 billion pounds milk equivalent or to be lower than 2.5 billion pounds milk equivalent.

For peanuts, the steps to bring production into line with demand, which were first implemented in 1978, are continuing. The quantity of peanuts eligible for the higher domestic edible use price support are limited by a national poundage quota. Additional peanuts are supported at a much lower price set to avoid any net cost to the Government. Additional peanuts placed under loan may be sold for edible use at a minimum of the domestic edible use support price if there is a shortage of edible peanuts. However, only the lower support price for additional peanuts is guaranteed by USDA. The national poundage quota was set at 1.440 million short tons for the 1989 crop based on estimated domestic edible, seed, and related use for the 1989/90 marketing year.

In the case of upland cotton, the Food Security Act of 1985 gives the Secretary the authority to require of programme participants an acreage reduction of up to 25 per cent and to implement an additional paid land diversion. The legislation provides for gradual target price reductions for the 1987-1990 crops of upland cotton. It also contains a number of provisions designed to make United States cotton available to world markets at competitive prices.

Loan and Deficiency Payment Rates - 1987-1989

Commodity	Unit	Support price dollars per unit		
		1987	1988	1989
<b>Cotton, upland</b>				
Loan rate <sup>1</sup>	lb.	.5225	.5180	.5000 <sub>3</sub>
Deficiency payment rate <sup>2</sup>	lb.	.1730	.1940	
<b>Cotton, extra long staple</b>				
Loan rate	lb.	.8140	.8092	.8177 <sub>3</sub>
Deficiency payment rate	lb.	0	0	
<b>Peanuts</b>				
Quota loan	lb.	.3037	.3076	.3079
Additional loan	lb.	.0749	.0749	.0749
<b>Dairy products</b>				
Mfg. milk <sup>4</sup>	cwt.	11.35 (Jan-Sept)	10.60 (Jan-Dec)	10.60 (Jan-Mar) 11.10 (Apr-Jun) 10.60 (Jul-Dec)
Raw cane sugar loan rate <sup>5</sup>	lb.	.18	.18	.18
Refined beet sugar loan rate <sup>5</sup>	lb.	.2116	.2137	.2154

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

<sup>2</sup>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 programme.

<sup>3</sup>Has not been determined. Advance deficiency payments were issued under the 1989 upland cotton programme based on a projected final deficiency payment rate of US\$0.2140. No advance payments were made for 1989 crop ELS cotton. The 1989 crop final deficiency payment rate for upland cotton will be determined in February 1990. For ELS cotton, it will be determined in May 1990.

<sup>4</sup>Implemented through a standing offer to purchase cheese, butter and non-fat dry milk, in carlots, from processors at prices designed to return the support price for manufacturing milk (national average milk fat content of 3.67 per cent)

<sup>5</sup>National weighted average loan rate

Production, Consumption, Trade and CCC Acquisition  
and Stock Data, 1985-1989

(million pounds)

Commodity and production year	Production	Imports	Domestic consumption	Exports	CCC acquisitions	CCC stocks
<b>Cotton<sup>a</sup></b>	(August-July)					
1985-86	6,447	16	3,072	941	80 <sup>b</sup>	376 <sup>c</sup>
1986-87	4,671	1	3,577	3,208	7 <sup>b</sup>	37 <sup>c</sup>
1987-88	7,085	1	3,658	3,158	61 <sup>b</sup>	0 <sup>c</sup>
1988-89	7,397	1	3,739	2,981	2 <sup>b</sup>	24 <sup>c</sup>
1989-90 <sup>d</sup>	5,760	1	3,840	3,744	0 <sup>b</sup>	0 <sup>c</sup>
<b>Milk<sup>e</sup></b>	(January-December)					
1985	143,667	2,777	142,323 <sup>f</sup>	2,732	13,175 <sup>g</sup>	8,483 <sup>h</sup>
1986	144,800	2,733	141,624 <sup>f</sup>	1,379	10,600 <sup>g</sup>	6,621 <sup>h</sup>
1987	142,462	2,490	141,029 <sup>f</sup>	1,369	6,700 <sup>g</sup>	1,648 <sup>h</sup>
1988	145,527	2,394	143,911 <sup>f</sup>	1,533	8,900 <sup>g</sup>	2,952 <sup>h</sup>
<b>Peanuts<sup>i</sup></b>	(August-July)					
1985-86	4,123	2	3,661	1,043	684	0
1986-87	3,701	2	2,882	663	102	0
1987-88	3,620	2	3,173	618	186	0
1988-89	3,981	2	3,298	688	491	0
1989-90	4,342	2	3,574	750	268	0
<b>Sugar</b>	(October-September)					
1985-86	12,056	4,856	15,484	1,104	0	392
1986-87	13,770	3,558	15,832	1,198	0	0
1987-88	14,292	2,582	16,120	876	0	0
1988-89 (prelim.)	13,700	3,666	16,230	880	0	0

<sup>a</sup> Upland and extra longstaple. To convert United States bales, divide by 480 lb. the average weight of a bale of cotton.

<sup>b</sup> Upland and ELS cotton loans are made for a period of ten months. Upland cotton loans may be extended for another eight months under certain price conditions. These figures represent total forfeitures of cotton produced during the respective marketing year, as of October 1989.

<sup>c</sup> As of July respective marketing year

<sup>d</sup> Estimated as of October 1989

<sup>e</sup> Milk equivalent, fat basis

<sup>f</sup> Does not include milk fed to calves

<sup>g</sup> Net acquisitions: CCC purchases minus sales for unrestricted use

<sup>h</sup> Changes in stocks equal CCC purchases minus donations and restricted and unrestricted use sales.

<sup>i</sup> 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 programmes. Import quotas on cotton, cotton waste and certain cotton products are necessary in order to prevent material interference with these programmes for cotton.

During the reporting period the President initiated an investigation of the quotas on cotton comber waste. The ITC is currently conducting its review and anticipates reporting to the President in January 1990.

### Support programmes

Upland cotton. The Food Security Act of 1985 provides a five-year programme covering the 1986-90 crops of wheat, feed grains, rice, sugar and upland cotton. The upland cotton programme is part of a comprehensive farm programme designed to encourage agricultural production to meet domestic and foreign demand while protecting farm income. Although the 1985 Act provides for an upland cotton programme that in many respects resembles earlier programmes, several changes were introduced that are intended to help restore the competitive position of United States 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 were required in subsequent years. The 1989 upland cotton target price is 73.4 cents per pound, down more than 4 per cent from 1988. If the weighted average price received by farmers for upland cotton during calendar year 1989 equals or exceeds 73.4 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 US\$50,000 limit on total combined deficiency and diversion payments. Beginning with the 1987 crop, total payments made under certain other programme provisions to any one person participating in the upland cotton, extra long staple cotton, rice, wheat and feed grains programmes cannot exceed US\$250,000, inclusive of the US\$50,000 limit on deficiency and diversion payments.

The 1985 Act contains provisions designed to make United States 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 per cent 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 United States 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 1 August 1986 available on the same basis.

Plan B was in effect for 1987 and 1988 and is currently in effect for 1989. 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 per cent of the loan level, a producer may be allowed to repay the loan at a level between the AWP and 80 per cent of the loan rate, as the Secretary of Agriculture determines will: minimize forfeitures of loan collateral, minimize stock accumulation, minimize storage costs, and allow United States cotton to be competitive.

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 programme acreage times the farm programme payment yield). The cash portion of any loan deficiency payment is subject to the US\$250,000 payment limit. This provision was authorized for the 1986 through 1989 upland cotton programmes.

Acreage reduction requirements for the 1986 and 1987 crops were set at 25 per cent, the maximum allowed under the 1985 Act. To be eligible for price support loans and deficiency payments, producers could not plant more than 75 per cent of their farm acreage base to upland cotton. The acreage reduction requirement for 1988 was 12.5 per cent, but for 1989 was again set at 25 per cent. No paid land diversion programme was offered from 1986 through 1989.

Extra long staple cotton. New legislation enacted in 1983 changed the programme for extra long staple (ELS) cotton from an acreage allotment and marketing quota system to a programme similar to that in effect for upland cotton, wheat, rice and feed grains. 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 per cent of the simple average price received by farmers for ELS cotton in the previous five-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 per cent acreage reduction programme was in effect for the 1986 ELS cotton crop. For 1989 the loan rate was set at 81.77 cents per pound and the target price was 96.70 cents per pound. A 5 per cent acreage reduction programme was in effect for the 1989 crop of ELS cotton.

### Programme activity

1. Upland cotton. Cotton loans mature ten months from the first day of the month in which the loan is made; however, the Food Security Act of 1985 provides that non-recourse 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 per cent of the average spot price for the preceding thirty-six months.

During the 1988/89 season, about 11.2 million bales of upland cotton were placed under loan.

### Supply situation - 1988 crop

1. Upland cotton. The carry-over on 1 August 1988 totalled 5.7 million bales. Production in 1988 increased to 15.1 million bales as compared with about 14.5 million in the previous year. The total supply in 1988-89 approximated 20.8 million bales or 1.4 million above a year earlier. Disappearance (domestic consumption and exports) declined in 1988 to 13.7 million bales from the previous year's level of 13.9 million bales. The 1 August 1989 carry-over was 7.0 million bales. The average United States yield for the 1988 crop of upland cotton was 616 lb./harvested acre, down nearly 12 per cent from the previous year's record level of 702 lb.

2. Extra long staple cotton. The carry-over on 1 August 1988 totalled about 53,000 bales. Production in 1988 increased over 1987, totalling 334,000 bales as compared with 285,000 a year earlier. The total supply in 1988 approximated 387,000 bales compared to 369,000 bales the previous year. Disappearance (domestic consumption and exports) totalled about 336,000 bales, 47,000 more than in 1987; about 15,000 bales were unaccounted for. The net result was a carry-over on 1 August 1989 estimated at about 66,000 bales, 13,000 bales above a year earlier. The yield for 1988 dropped from last year's record of 1,000 lb./per harvested acre to 848 lb.

### Steps taken to balance supply and demand

In addition to production adjustments programmes, additional Government programmes designed to attain a better balance in the supply and demand position include continued emphasis on research and market promotion programmes designed to increase cotton utilization throughout the world. These programmes 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 United States' programmes and operations relating to peanuts.

### Support programmes

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

Poundage quotas were retained and acreage allotments were suspended. This programme 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 1989 crop quota peanuts is set at US\$615.87 per ton, up slightly from 1988. Current 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 per cent 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 1989 poundage quota was set at 1.440 million tons, up 3 per cent from the quota for 1988.

Additional or non-quota peanuts may be grown by anyone, both quota holders and non-quota holders. 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 1 August. Additional peanuts placed under loan may be sold for domestic edible use, but the sale 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 1989 the support level was set at US\$149.75 per ton, unchanged from the level for 1988.

### Programme activity

During the 1988-89 marketing year (August-July), 767 million pounds of farmers' stock peanuts were placed under loan, of which approximately 276 million pounds were redeemed or bought back for domestic edible use. For the 1987-88 marketing year, 687 million pounds of peanuts were placed under loan, with about 501 million pounds redeemed or bought back for domestic edible use.

### Supply situation

Growers harvested 1,628,000 acres of peanuts in 1988, 5 per cent above 1987. Supplies in the 1988-89 marketing year were 4 per cent above 1987-88, primarily due to an increase in acreage planted. Growers received an average of US\$538 per ton for all peanuts produced, 4 per cent below the 1987-88 average level.

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

The total supply of peanuts in the United States for 1988-89 is about 4,816 million pounds, compared with an average supply of 4,781 million pounds for the five years 1983-87. Estimated supply for 1989-90 is about 5,174 million pounds.

### 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 programmes by sales for crushing into oil and meal. In addition, peanut products have been purchased under related programmes and utilized in domestic distribution programmes. The Food Security Act of 1985, effective for the 1986 through 1990 crops, continues this programme.

CCC net realized losses on the peanut programme were about US\$6 million for the 1988 crop compared with about US\$5 million for the 1987 crop and an average of US\$14 million for each of the 1982-85 crops.

Peanut Production, Consumption, Exports, Stocks and Acquisitions

Marketing Years 1970-1989

(million pounds)

Year beginning 1 August	Production <sup>1</sup>	Imports	Domestic consumption <sup>2</sup> and exports	Stocks end of year	Acquisitions under price support <sup>3</sup>
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	330
1985	4,123	2	4,704	845	684
1986	3,701	2	3,545	1,003	102
1987	3,620	2	3,791	833	186
1988	3,981 <sup>4</sup>	2	3,986	830	491
1989	4,342 <sup>4</sup>	2	4,324	850	268

<sup>1</sup>Data are net weight values.

<sup>2</sup>Includes civilian and military food use, crushed for oil, exports and shipments as peanuts, seed, feed, farm loss, and shrinkage.

<sup>3</sup>Included in domestic consumption and exports; may include diversions of previous crop.

<sup>4</sup>Preliminary

## Dairy Products

### Quotas

As in recent years, the 1989 import licences were issued before the beginning of the new quota year to give licensees maximum time to use their licences 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 programme is in place to keep importers, importer associations, United States Customs Service officials, trade members, foreign embassies and foreign producers advised and updated of pending changes to the quota system.

Because of 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 for 1989 include: Sweetened Condensed Milk from Denmark (9904.10.06), Swiss-Emmenthaler Cheese (9904.10.48) from Finland, Gruyere-Processed Cheese (9904.10.51) from Finland, Other Cheese Not Specifically Provided For, NSPF (9904.10.54) from Finland, Other Cheese Not Specifically Provided For, Low-fat (9904.10.57) from the EEC, Italian-Type Cheese Not In Original Loaves, (9904.10.45) from Other Countries, American-Type, Other Than Cheddar Cheese (9904.10.33) for the EEC, Cheddar Cheese (9904.10.30) from Other Countries, Other Cheese Not Specifically Provided For, Low-fat (9904.10.57) from Australia, and Other Cheese Not Specifically Provided For, NSPF (9904.10.54) from Poland.

Utilization rates for quota cheese have fallen since the 1986 quota year. For the 1988 quota year, voluntary surrender of unused import licences stood at an all time high, exceeding 40 million pounds. Utilization rates for the 1989 quota year are expected to recover slightly. The largest surrendered category in 1988 was "Other Cheese, Not Specifically Provided For" in which almost 13 million pounds from the EEC were surrendered. The second largest category was Swiss-Emmenthal Cheese from the EEC for 8 million pounds.

Other activity during this reporting period related to the Section 22 quotas for dairy products include: (1) the allocation to Uruguay of the final portion of unallocated cheese quota available from the quota amount established in Presidential Proclamation 4708 of 11 December 1979, and (2) the initiation of an investigation of the quota allocations for the Section 22 quotas on ice cream. The Government of Canada had requested that this quota be eliminated. The Department of Agriculture reviewed the Canadian request and made appropriate recommendations to the President. The President then ordered an investigation by the International Trade Commission (ITC) of the quota allocations for ice cream to determine if they should be modified. The ITC submitted its report to the President on 28 August 1989. The President is currently considering the Commission's findings and recommendation.

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

#### Support programme

The milk price support programme, 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 per cent 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 21 October 1981, the support price has been established by legislation at specific price levels, rather than parity levels. The support price of US\$10.60 per cwt., effective 1 October 1988, was 49.6 per cent of parity on that date and the support price of US\$11.10 per cwt., effective 1 April through 30 June 1989, was 51.9 per cent of parity. The support level reverted back to US\$10.60 per cwt., effective 1 July 1989.

The price of milk is supported by the Commodity Credit Corporation (CCC), through purchases of butter, cheese and non-fat dry milk at prices calculated to enable plant operators to pay dairy farmers, on the average, a price equal to the support level. The effectiveness of the programme 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 programme undergirds all milk and dairy product prices.

#### Programme activity

In carrying out the price support and related programmes in the 1988-89 marketing year (MY), USDA removed from the market, 6.7 per cent of milk fat and 0.2 per cent of solids-not-fat in the milk and cream marketed by farmers. CCC removals in MY 1988-89 were 430 million pounds of butter, 31 million pounds of American cheese, 15 million pounds of Mozzarella cheese, 26 million pounds of evaporated milk and 6 million pounds of infant formula.

The expenditures under the Special Milk Program (see first paragraph on page 15) were approximately US\$19.0 million during Fiscal Year (FY) 1988. This is the latest year for which expenditure figures are available. Approximately US\$15.4 million were spent in FY 1987.

#### Supply situation

Milk production totalled 145.6 billion pounds in MY 1988-89, 0.6 per cent above a year earlier. Cow numbers decreased 1.7 per cent and production per cow increased 0.2 per cent in MY 1988-89.

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 amended the 1949 Act by continuing the US\$11.60 per cwt. support price through calendar year 1986. It established a support price of US\$11.35 per cwt. during the period 1 January through 30 September 1987, and US\$11.10 per cwt. for the period 1 October 1987, through 31 December 1990. However, on 1 January 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 CCC 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 CCC 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 programme (whole-herd buy-out programme) for the period 1 April 1986 through 30 September 1987. Under the buy-out programme, 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 US\$3.40 to US\$22.50 per cwt. and averaged US\$14.88. CCC is expected to pay out US\$1.8 billion during the five years of the programme. The Secretary also has the option to establish a milk diversion payment or milk production termination programme 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 forty-eight contiguous States from 1 April through 31 December 1986, and a 25-cent per cwt. assessment for all milk marketed from 1 January through 30 September 1987. These assessments were used to offset part of the cost of the whole herd buy-out programme.

The 1985 Act also required the Secretary to provide, on a bid basis, at least one million pounds of non-fat dry milk annually for casein manufacturing. Under this programme, despite the issuance of several invitations and amendments, only about 285,000 pounds of non-fat dry milk were converted to casein from the initiation of offers in April 1986 through September 1987. There have been no additional offers.

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

Public Law 101-7 (signed by the President on 29 March 1989) further amends the 1949 Act by directing that the Secretary of Agriculture, in carrying out the temporary 50-cents per cwt. increase provided for in the 1988 Act, shall provide that at least 75 per cent of such price support increase be reflected in the purchase price for non-fat dry milk and that

not more than 25 per cent of such price support increase be reflected in the purchase price for butter. The 1989 Act also provides that, in implementing the 50-cents per cwt. decrease scheduled to occur on 1 July 1989, the Secretary shall allocate the decrease between the two purchase prices in such manner as will result in the lowest level of expenditures to the Government.

Accordingly, in allocating the purchase price increase effective 1 April 1989, the price support increase was applied 100 per cent to the purchase price for non-fat dry milk. In allocating the price support decrease effective 1 July 1989, 100 per cent was applied to the purchase price for butter.

A number of domestic and foreign feeding programmes are used to expand the utilization of dairy products. These programmes serve as adjuncts to the price support programme 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 programme) of butter, cheese, and non-fat dry milk in special forms and in consumer-size packages on competitive bids or at announced prices for use in food sales and donation programmes; (c) CCC purchases of evaporated milk and milk-based infant formula; (d) the school lunch programme; (e) distribution to institutions and welfare programmes; (f) special distribution of surplus commodities to the needy; (g) foreign donation programmes for welfare and emergency assistance under Public Law 480, Title II; and (h) donations of surplus dairy products to needy persons in the United States 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 programme and from participation in the Women-Infants-Children (WIC) Programme 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 (Public Law 98-8) authorized the domestic donation of surplus dairy products to needy persons. Under this authority, 2,615 million pounds of cheese, 761 million pounds of butter and 499 million pounds of non-fat dry milk have been released to States for distribution to needy households from December 1981 through September 1989. 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.

Slightly more than 5.4 billion half-pints of milk were served during FY 1988 under the School Lunch and other Child Nutrition Programs, compared to 5.0 billion during FY 1987. In addition, for FY 1988, 195 million half-pints of milk were served in schools, summer camps and child care institutions under the Special Milk Program compared with 163 million half-pints in FY 1987. No data is yet available for FY 1989.

Accomplishments and outlook

The Food Security Act of 1985, through its price support reductions and Dairy Termination Program, helped bring the supply and demand of milk in closer balance. United States milk production during the July-September 1989 quarter fell 1.4 per cent from that of a year ago. Part of this year's decline reflects cost pressure from last year's drought. This summer's milk-feed price ratio was well below those ratios during most of the 80s. Milk-feed price ratios are expected to be favourable enough to enable output to rise slightly next year.

As of 30 September 1989, the uncommitted inventory of butter was 191 million pounds. There were no uncommitted inventories of cheese and non-fat dry milk. This compares with 161 million pounds of butter, 44 million pounds of cheese and 9 million pounds of non-fat dry milk as of 30 September 1988.

The following table summarizes USDA market removals from MY 1976 through 1989.



Milk Production and Market Removals, by Marketing Year\* 1976-1989

Year	Milk production	USDA market removals				Milk equivalent of removals <sup>1</sup>	Per cent removal of milk production
		Butter	Cheese	Non-fat dry milk	Evaporated milk		
	<u>billion lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>million lb.</u>	<u>Per cent</u>
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	0.9
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	235.7	555.9	28.2	5,361	3.8
1987-88	144.7	320.2	306.3	364.8	23.8	9,689	6.7
1988-89	145.6	420.3	45.7	-	25.7	9,187	6.3

<sup>1</sup>Milk equivalent, fat solids basis, is derived by adding the following: pounds of butter x conversion factor of 20.65; pounds of cheese x conversion factor of 9.88, and pounds of evaporated milk x conversion factor of 2.15.

\*The marketing year is 1 October through 30 September.

## Sugar and Sugar-Containing Articles

### Measures taken under Section 22

The 1 cent per pound (2.2 cents per kilogramme) fee on refined sugar and the quotas for sugar containing articles, totalling 94,000 short tons (approximately 85,000 metric tons) remain in effect. These measures are necessary to prevent material interference with the price support programme for sugar which is currently administered by the United States Department of Agriculture under the authority of the Food Security Act of 1985.

During the reporting period, the United States accepted formation of a GATT dispute settlement panel, requested by the EC, on United States import restrictions on sugar and products containing sugar. The findings of that panel are expected to be released in January 1990.

### Other import controls

The country-by-country import quota for sugar under Additional United States Note 3 to the Harmonized Tariff Schedule of the United States (the headnote quota) remains in effect. This quota is operated under a domestic authority which is independent of the Section 22 authority. In September 1989 the current quota period was extended until September 1990 and the total quota level was increased to 1,986,950 metric tons. Previously the quota had been set at 1,061,279 metric tons for the period 1 January 1989 through 31 December 1989.

In June 1989 the CONTRACTING PARTIES accepted a panel report which found the headnote quota, as currently operated, inconsistent with United States obligations under the GATT. The United States has made a commitment to make it consistent with the GATT, and options for doing so are currently under review.

### Support programmes

The Agriculture and Food Act of 1981 established a support programme for sugar cane and beets for the 1982 through 1985 crops. The Food Security Act of 1985 established a support programme for domestically grown sugar cane and sugar beets for the 1986 through 1990 crops. Support is provided through a programme of non-recourse 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 non-recourse loans at such level as the Secretary determines is fair and reasonable in relation to the loan level for sugar cane. The raw cane sugar and refined beet sugar loan levels for the 1989 crop are established at 18.0 and 21.54 cents per pound, respectively.

A request for a price support loan may be filed no earlier than 1 October each year. Loans are for a period of six months, except that all loans will have a maturity date of no later than 30 September. The interest rate on these loans will be the rate applicable to CCC loans. To be eligible for the loan programme, 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.

Steps taken to balance supply and demand

The United States is not self-sufficient in sugar and remains a net importer. Imports are regulated as described above. Since establishment of a price support programme for sugar in 1977, the base rate used to set the support prices for cane and beet sugar has been maintained at the legal minimum. Current legislation provides no authority for the regulation of supply or demand for sugar or other sweeteners. Domestic consumption of sugar in the United States has increased steadily during the past few years from 7.7 million short tons in the 1985/86 fiscal year to a forecast 8.2 million short tons in fiscal year 1989/90.