This report is made pursuant to the Decision of 5 March 1955 of the CONTRACTING PARTIES, granting a waiver to the United States in connection with import restrictions imposed under Section 22 of the Agricultural Adjustment Act of 1933, as amended. That Decision provided that the United States would furnish a report to the CONTRACTING PARTIES "showing any modification or removal of restrictions effected since the previous report, the restrictions in effect under Section 22, and the reasons why such restrictions (regardless of whether covered by this waiver) continue to be applied, and any steps it has taken with a view to a solution of the problem of surpluses of agricultural commodities."

When the Decision of the CONTRACTING PARTIES was made, import controls under Section 22 were in effect for nine commodity groups. Since that time as a result of changed circumstances, in accordance with the procedures required by Section 22 the President permitted controls over three groups of commodities (barley, oats, and tree nuts) to expire. As a result, during 1956-57 import controls were in effect only on these six groups of products: cotton and cotton waste, wheat and wheat products, rye and rye products, peanuts (including peanut oil), flaxseed (including linseed oil), and certain dairy products. As pointed out in the previous report, these controls affect only a very small part of the United States imports of agricultural commodities.

The controls in effect during 1956-57 are the same as those which were in effect in 1955-56 with two exceptions where modifications were made due to changed circumstances. The two instances in which modifications were made were as follows:

1. **Long staple cotton** - Effective May 28, 1956, the long staple cotton quota was amended to include cotton 1-11/16 inches and longer and the quota year was changed to coincide with the normal marketing year for this cotton, namely, August 1-July 31. Cotton 1-11/16 inches and longer was included in the quota initially proclaimed but controls in this staple length were suspended for reasons of national defense at the outbreak of World War II. The change back to controls had the effect of lifting that suspension.
2. **Peanuts** — The quota in effect on peanuts was modified to permit unrestricted imports of Virginia-type peanuts, shelled, of size averaging in representative samples not more than 40 kernels per ounce, during the period August 30 to September 10 inclusive. These imports were subject to a fee of 7 cents per pound, but not in excess of 50 per cent ad valorem.

The background of these two modifications, as well as the specific import controls in effect for these and the four other commodity groups being controlled, is discussed in more detail in the following commodity sections.

During 1956-57, the US Government continued to take a number of positive steps aimed at a solution of the problem of surpluses of certain agricultural commodities in the United States. In evaluating the effect of the action taken, it is important to note that these commodities are produced in a number of countries. Under these circumstances, solution of the problem of surplus thus depends upon action which other producing countries may take as well as the action being taken by the United States.

The positive steps taken by the United States included action to reduce new crop supplies as well as action to encourage consumption. These steps were as follows:

1. **Action to reduce new crop supplies**

   (a) Acreage allotments and marketing quotas were continued for wheat, cotton, and peanuts at the minimum levels authorized by law. These programs affect new crop supplies by limiting acreage and, in turn, marketings. As explained in the report, acreage permitted under these programs is substantially below the acreage in cultivation prior to the time the programs were imposed.

   (b) A Soil Bank program was inaugurated beginning with the 1956 crop. Since the legislation authorizing the Soil Bank did not pass Congress until late in the 1956 crop season, it was not possible to develop a fully effective program for the 1956 crop season. Consequently, the full effects of the Soil Bank on new crop production will not be felt until 1957 and later years.

   Operations under the Soil Bank should affect new crop supplies of all of the commodities for which import controls currently are in effect. For example, the acreage reserve program will provide a direct means of reducing acreage of wheat, cotton, and peanuts. The conservation reserve will provide a means of reducing new crop supplies of flaxseed and rye, as well as supplies of feed grains which affect dairy production. Since the Soil Bank is an entirely new type of operation, it is not possible at this time to indicate either the extent to which this program will be effective in reducing new crop supplies or the period of time that will be required to bring about a better balance between domestic production and utilization in the United States and exports.

   The Soil Bank program was inaugurated primarily as a means of reducing agricultural surpluses that were preventing the flexible features of the US price support program from effectively gearing production to prospective markets at fair prices. It seeks to provide farmers with the opportunity to make adjustments in their production while maintaining and improving incomes and increasing the resource potential on their farms to meet long-term needs for food and fiber. In short, it is a method of reducing surpluses and, at the same time, a conservation measure to safeguard soil and water resources for future generations.
The Soil Bank consists of two parts - an acreage reserve and a conservation reserve. The principal features of each of these is as follows:

(1) Acreage reserve program - This is a temporary program (1956 through 1959 crops) designed to meet the immediate need of reducing production of those crops in greatest oversupply, namely, the six basic commodities - corn, cotton, wheat, rice, tobacco, and peanuts. It seeks to reduce current production, thereby making it possible for commodities held in Government ownership to be used to supply market needs without unduly depressing current market prices.

Under this program, payments are made to farmers who plant less than their farm acreage allotments. Rates of payment are established at levels which will, on the average, provide farmers with at least the same net return they would have received from planting the crop, allowing for the fact that certain costs are not incurred in production and harvesting. Participation in the program is optional. Any farmer who has an allotment for one of these crops may participate by entering into one-year contracts with the Government under which he agrees to underplant his allotment and not to use land placed in the acreage reserve for the production of crops or, except under certain emergencies, for grazing purposes.

(2) Conservation reserve - This is a long-range program to achieve better land use and to protect farmers from the effects of production on acres already diverted. Participation under this reserve likewise is voluntary. Under this program, farmers may enter into contracts with the Government for a period of not less than three years nor more than ten years (15 years in case of tree cover) under which they agree to devote a part of their cropland to conserving uses, such as forage, trees, and water storage. Land placed in the conservation reserve must not be used for crop production and the farmers may not pasture it for a specified period, except under certain emergency conditions. The Government makes two payments to participating farmers. One payment represents a fair share (80 per cent) of the cost of establishing the conservation use. The other payment is an annual rental payment to the producer which provides a fair and reasonable annual return for the land diverted to conservation uses.

2. Action to increase consumption

The United States Government continued in 1956-57 a number of programs to encourage increased consumption of the products of commodities in surplus supply in the United States and foreign countries. These programs included the following:

(a) The national school lunch program - This program, conducted under the National School Lunch Act, is designed to provide participating children with well-balanced lunches which will supply at least one-third of their daily nutritional requirements. It is financed by a cash grant from the Federal Government to states, matched by local funds, and by donations of surplus foods by the Federal Government to schools. During the fiscal year 1955-56, 267 million pounds of surplus foods with a cost value of $100 million were donated by the Government to schools, more than one-third larger than the quantity donated in 1954-55. These donations were in addition to the $85 million made available by the Federal Government on a grant-in-aid basis.
(b) The special school milk program - This program is designed to increase the consumption of milk by school children both in schools which have feeding facilities and in other schools where space limitations or other factors prevent the establishment of food preparation and service facilities. It is financed under special legislation which authorized the use of not to exceed $75 million during fiscal 1956-57 and 1957-58 to increase consumption of fluid milk by children in non-profit schools of high school grade and under, and such non-profit nursery schools, child care centers, settlement houses, summer camps, and similar non-profit institutions as are devoted to the care and training of underprivileged children on a public welfare or charitable basis.

(c) Donations to needy persons and institutions - domestic - Relatively large quantities of surplus foods were donated to needy persons and charitable institutions during 1955-56. These donations were financed in part by funds available under Section 32 of the Act of August 24, 1935, and were made partly under the authority of Title III of P.L. 480 (section 416). These donations amounted to approximately 530 million pounds with a cost value of nearly $140 million during fiscal year 1955-56. The products donated included butter, cheese, wheat flour, nonfat dry milk, beans, cornmeal, lard, pork products, sweet potatoes, rice, and shortening.

(d) Donations to the needy in foreign countries - Donations to the needy in foreign countries amounted to 1.2 billion pounds in 1955-56, more than double the quantity donated in 1954-55. These donations were made under the provisions of Title III of P.L. 480 to US non-profit, voluntary relief agencies, and to intergovernmental organizations such as the United Nations International Children's Emergency Fund, and the American Red Cross to assist needy persons outside the United States. The food donated had a cost value of $308 million. These donations were made to needy persons in 84 foreign countries through 25 private US welfare agencies. The foods donated included beans, butter and butter oil, cheese, corn, nonfat dry milk solids, rice, shortening, and wheat. The items donated in greatest volume in terms of poundage were nonfat dry milk solids (411 million pounds), wheat (225 million pounds), butter and butter oil (200 million pounds), and cheese (140 million pounds).

(e) Foreign disaster relief - Two changes were made in 1955-56 in the legislation (Title II of P.L. 480) which authorizes the US to use some of its surplus farm products to alleviate suffering following in the wake of flood, earthquake, hurricanes, drought, crop shortages, and other national disasters. These changes (1) increased the total money which might be used for these purposes during the three-year period ending June 30, 1957, from $300 million to $500 million, and (2) made it possible for the US to pay ocean freight cost on these shipments as well as on surplus foods donated through US voluntary agencies and intergovernmental organizations referred to above. These donations are undertaken in a way which will not displace or interfere with sales that otherwise might be made.

Through June 30, 1956, commitments undertaken under this authority approximated $260 million on the basis of the cost of the commodity. Programs authorized totaled $218 million, of which about one-half was wheat. Other commodities include $31 million of fats and oils, $30 million of rice, $27 million of milk and milk products, $7 million of raw cotton, and $3 million of dried beans.
3. **Commercial sales for export and domestic use**

The US Government continued to sell significant quantities of its stocks of price support commodities for export and for domestic use during 1955-56. Sales for export were made at competitive world market prices while those for domestic use were made at the minimum prices permitted by law.

Commercial sales of the commodities for which import controls were in effect were as follows during 1955-56:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Unit</th>
<th>Domestic Sales</th>
<th>Export Sales</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton, upland</td>
<td>thous. bales</td>
<td>132</td>
<td>3,421</td>
<td>3,553</td>
</tr>
<tr>
<td>Cotton, extra long staple</td>
<td>&quot;</td>
<td>58</td>
<td></td>
<td>58</td>
</tr>
<tr>
<td>Wheat</td>
<td>thous. bu.</td>
<td>13,607</td>
<td>203,839</td>
<td>217,466</td>
</tr>
<tr>
<td>Rye</td>
<td>&quot;</td>
<td>3,340</td>
<td>4,876</td>
<td>8,216</td>
</tr>
<tr>
<td>Flaxseed</td>
<td>&quot;</td>
<td>1,035</td>
<td>1,939</td>
<td>2,973</td>
</tr>
<tr>
<td>Milk, nonfat dry for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>animal use</td>
<td>thous. lbs.</td>
<td>17,582</td>
<td>75,000</td>
<td>92,582</td>
</tr>
<tr>
<td>human use</td>
<td></td>
<td>1,778</td>
<td>40,000</td>
<td>41,778</td>
</tr>
<tr>
<td>Butter</td>
<td>thous. lbs.</td>
<td>367</td>
<td>27,913</td>
<td>28,280</td>
</tr>
<tr>
<td>unrestricted</td>
<td></td>
<td>2,580</td>
<td>5,175</td>
<td>7,755</td>
</tr>
<tr>
<td>restricted</td>
<td></td>
<td>3,351</td>
<td>8,251</td>
<td>11,602</td>
</tr>
<tr>
<td>Cheese, cheddar</td>
<td>thous. lbs.</td>
<td>26,740</td>
<td>64,551</td>
<td>91,291</td>
</tr>
<tr>
<td>Linseed oil</td>
<td>thous. lbs.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peanuts for crushing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>farmers' stock basis</td>
<td>thous. tons</td>
<td>72</td>
<td>1</td>
<td>73</td>
</tr>
<tr>
<td>shelled</td>
<td></td>
<td>4</td>
<td></td>
<td>4</td>
</tr>
</tbody>
</table>

1/ Some of the commodities sold domestically may have been exported since the sales contract permitted their use either for domestic or export purposes.

4. **Special studies**

The US Government has continued to make special studies of price support programmes and disposal programmes in an effort to develop better methods. In addition to the studies being made for the National Agriculture Advisory Commission during 1956-57, the following studies affecting commodities for which import controls were in effect are being made for the Congress:

(c) **Increased industrial use of agricultural commodities** - A bi-partisan commission on increased industrial use of agricultural products was appointed under section 209 of the Agricultural Act of 1956 to prepare and present to the Congress not later than June 15, 1957, the necessary recommendations which, in its opinion, will bring about the greatest practical use for industrial purposes of agricultural products not needed for human or animal consumption, including but not limited to use in the manufacture of rubber, industrial alcohol, motor fuels, plastics, and other products.
(b) **Parity prices** - Under section 606 of the *Agricultural Act of 1956*, the Secretary of Agriculture is making a study of possible methods of improving the present parity price formula. This study is to be submitted to Congress not later than January 31, 1957.

(c) **Orderly liquidation of price support stocks** - Under section 201 of the *Agricultural Act of 1956*, the Secretary of Agriculture is submitting to Congress programmes and recommendations for any additional legislation needed to carry out such programmes (1) for the orderly liquidation of surplus agricultural commodities as rapidly as possible consistent with the existing authority of the Commodity Credit Corporation and the operations of the price support programme; (2) for a food stamp plan or similar programme for distribution through States (including the District of Columbia, the Territories, Puerto Rico and the Virgin Islands) and local units of Government of future surplus production to needy persons in the United States, its Territories and possessions, so as to prevent the accumulation of commodities in the hands of the Commodity Credit Corporation; and (3) for strategic stockpiling of food-stuffs and other agricultural products (a) inside the United States and (b) outside the United States as authorized in section 415 of the *Mutual Security Act of 1954*.

Under this same section the Secretary is required to report annually to Congress on disposal operations, including information such as (1) the quantities of surplus commodities on hand, (2) the methods of disposition utilized and the quantities disposed of during the preceding twelve months, (3) the methods of disposition to be utilized and the estimated quantities that can be disposed of during the succeeding twelve months, (4) a detailed programme for the expansion of markets for surplus agricultural commodities through marketing and utilization research and improvement of marketing facilities, and (5) recommendations for additional legislation necessary to accomplish the purposes of this section.

(d) **Price support systems for cotton** - Pursuant to a resolution passed by the Senate Committee on Appropriations, the Secretary of Agriculture is making an analysis and a report of the various methods of supporting the price of cotton. This report is required to indicate the advantages and disadvantages, and probable costs of each system of price support studied, together with the effect each system is likely to have upon domestic consumption and exports and upon net incomes of cotton producers.

**Wheat and Wheat Products**

1. **Section 22 Quotas in Effect**

No change was made in 1956-57 in the section 22 import quotas established for wheat classified as fit for human consumption and certain wheat products (flour, semolina, crushed and cracked wheat, and similar products). As explained in the 1955-56 report, the annual quotas for wheat and for wheat products are on a continuing basis, that is, quotas continue in effect each year unless changed.

The quotas in effect for 1956-57, as in the previous year, were 800,000 bushels of wheat and 4 million pounds of wheat products. Separate quotas again were in effect for individual countries at the same levels indicated in the 1955-56 report.
2. Need for Continuing Import Quotas on Wheat

During the 1956 crop season, the US Government has in operation several agricultural programmes for wheat. These include a price support programme, an acreage allotment and marketing quota programme in connection with the price support programme, a Soil Bank programme, and related storage and disposal operations. These are described in detail below.

It is necessary to continue import quotas on wheat and wheat products to prevent imports from materially interfering with these programmes and operations.

(a) Programmes - Price support for wheat is mandatory every year under Title I of the Agricultural Act of 1949, as amended, within an over-all range of 75 to 90 per cent of parity except when producers disapprove marketing quotas. About 77 per cent of the wheat producers voting in a referendum held in June 1955 approved marketing quotas for the 1956 crop. Consequently, price support for the 1956 crop was mandatory within the over-all range indicated above.

The US average support level for 1956-crop wheat is $2 per bushel. This is slightly below the $2.08 support level for 1955 and considerably below the $2.24 per bushel support level for 1954.

Acreage allotments and marketing quotas also are in effect for the 1956 crop in conjunction with the price support programme. As pointed out above, marketing quotas were approved by a much larger percentage of the farmers voting in a referendum than the minimum of two-thirds of the voters required.

The national acreage allotment established for 1956 under the marketing quota operation was set at the minimum level of 55 million acres authorized by law, the same as for the 1955 crop. It is more than 10 per cent lower than the national acreage allotment of 62 million acres established by law for the 1954 crop.

During 1956, the US Government inaugurated an acreage reserve programme for wheat under the Soil Bank Act. This programme provides for payments to farmers who plant less wheat than their farm acreage allotment and who comply with other programme requirements. The objective of this acreage reserve is to bring about a better balance between supply and utilization by reducing the quantity of new crop wheat produced. Payments to farmers participating in the 1956 acreage reserve generally are based upon the yield of the land placed in the reserve multiplied by a rate of $1.20 per bushel. While the programme started too late in the 1956 crop year to achieve the goals being sought, 110,000 wheat producers placed 5.7 million acres in the acreage reserve in 1956. The programme is authorized for 3 more years (1957, 1958 and 1959 crops) under the Agricultural Act of 1956.

Several of the wheat programmes for the 1957 crop already have been announced. Acreage allotments and marketing quotas will be in effect since 87 per cent of the producers voting in a referendum in July 1956 approved marketing quotas. The national acreage allotment established for the 1957 crop is again at the minimum level of 55 million acres. A rate of $1.20 per bushel has been announced for the wheat acreage reserve for 1957. Under this programme, a target or goal of 15 million acres has been established which represents nearly a 25 per cent acreage reduction from the acreage allotment.
(b) **Supply situation** - The United States is confronted with a very serious surplus situation on wheat. No material improvement in this surplus situation is expected until 1957-58, and the extent of this improvement will depend upon the participation by farmers in the Soil Bank programme.

The supply of wheat in the United States for the 1956-57 crop year is estimated at 1,974 million bushels, almost the same as the 1955-56 record high of 1,971 million bushels. This supply is equal to more than two years' domestic utilization and exports.

**This supply is made up as follows:**

**Carryover** - The carryover at the start of the marketing year on July 1, 1956, was 1,030 million bushels, or slightly larger than the 1,026 million bushels a year earlier and the highest on record. The wheat carryover in the United States has increased each year since July 1, 1952, from 256 million bushels to the record high figure indicated above.

About 95 per cent of the wheat carryover was owned by the Commodity Credit Corporation of the United States Department of Agriculture. These Government stocks are equivalent to over a year's domestic use and exports and about double the 500 million bushels which might be considered as an adequate carryover under existing circumstances. The Government-owned stocks are nearly as large as average domestic production during the past five years. They represent an investment of nearly $2-1/2 billion.

**Production** - The 1956 wheat crop is estimated at 939 million bushels, almost the same as the 937 million bushels produced in 1955. The crop, however, is considerably below the level of other recent years.

**Imports** - Imports under the quotas referred to above, as well as of wheat unfit for human consumption and certified seed wheat which are not covered by quotas, are estimated at 5 million bushels, about the same as the average amount imported in recent years.

**Disappearance** - Domestic use and exports of wheat in 1956-57 probably will exceed slightly the 941 million bushels estimated to have been used domestically or exported in 1955-56. Since domestic consumption changes little from year to year, the extent to which disappearance will vary from the 1955-56 level will depend upon the volume of exports, which in 1955-56 were the highest since 1951-52.

**Carryover and of season** - On the basis of the supply and disappearance information indicated above, it is expected that the carryover of wheat on July 1, 1957 will be down slightly to about 1,022 million bushels. If this materializes, it would be the first year since the 1951-52 season in which the total carryover has declined. As at the start of the marketing season in 1957, it is anticipated that practically all of the carryover will be owned or controlled by the CCC.

**Price support activity** - Relatively extensive price support activity is expected again in 1956-57. However, the total quantity placed under support is expected to be below the 320 million bushels placed under support in the 1955-56 season. While redemptions and cancellations under the support programme are likely to be above the 41 million bushels for the 1955-56 season, it still is anticipated that the bulk of the wheat placed under support will be acquired by CCC. Nevertheless, acquisitions probably will be somewhat less than the 265 million bushels estimated to be acquired from the 1955 crop.
Disposals of CCC-owned wheat in the 1956-57 season probably will be considerably less than the 289 million bushels sold or donated for domestic and export use in 1955-56, due to the new wheat export programme under which beginning September 4 1956, approximately half of the wheat exported is expected to come from free market supplies. However, dispositions may be a little larger than acquisitions. As a result, there is a possibility that there may be a moderate reduction in the excessively large stocks of wheat owned by CCC by the end of the 1956-57 season. Nevertheless, CCC stocks still will continue close to the 1 billion bushel level.

The inauguration of the Soil Bank Programme on a full scale beginning with the 1957 crop has revised somewhat the prospects for reduction in CCC-owned stocks outlined in the 1955-56 report. In this previous report, it was stated that the reduction in CCC-owned stocks to more desirable levels probably would be a relatively slow process, barring a crop failure in the United States or an unexpected increase in demand. This situation in part was due to the fact that the minimum national acreage allotment permitted under marketing quota legislation of 55 million acres with average yields of 15.7 bushels per seeded acre would produce a crop of about 850 million bushels annually, or only slightly under the anticipated domestic consumption and exports. This situation, however, could be changed drastically under the Soil Bank. As pointed out above, a Soil Bank goal of 15 million acres has been announced for 1957. If this goal is achieved, on the basis of average yields it could result in a reduction in production of 200 to 250 million bushels a year. Obviously, the effect of the Soil Bank programme will depend upon the acreage taken out of the production of wheat, the yields on this land, and the yields obtained in land in production. Nevertheless, since the acreage reserve is expected to be in full effect for three years under present legislation, namely the 1957, 1958, and 1959 crops, it does offer a very good potential for reducing the size of the wheat surplus.

The inauguration of the Soil Bank programme for wheat reflects the disposal problem referred to in the 1955-56 report. In that report it was pointed out that there was no indication of any significant increase in disposals in the years ahead, since the amounts used for human food are not increasing despite an increase in population and the quantities used for seed are decreasing because of smaller acreage. The amount of wheat used for feeding livestock is much lower than in earlier years because of larger supplies of corn and other feed grains. The over-all ample supplies of wheat throughout the world make it difficult for the United States to expand exports. Despite this outlook, the United States is further exploring the possibility of developing new outlets for wheat. Under the Agricultural Act of 1956, a special commission has been established to recommend legislation which, in its opinion, will bring about the greatest practical use for industrial purposes of agricultural products not needed for human or animal consumption.

3. Steps Taken with a View to the Solution of the Problem of Surplus

The steps taken by the United States with a view to the solution of the problem of the wheat surplus generally have been discussed above. Briefly, they are as follows:

(a) Acreage used for wheat production has been reduced rather sharply under acreage allotments and marketing quotas to the minimum specified by law. The national acreage allotment (which serves as a basis for determining the size of the acreage allotted to individual farms) was established at 55 million acres
for 1956. This is 30 per cent below the acreage seeded to wheat in 1953 prior to the imposition of quotas. When marketing quotas are in effect, any farmer who exceeds his wheat farm acreage allotment becomes ineligible for wheat price support on that farm. In addition, any producer who exceeds his marketing quote must pay a penalty of 45 per cent of the May 1 parity price on such excess quantity.

(b) In 1956 the United States instituted an acreage reserve programme under the Soil Bank authorized by the Agricultural Act of 1956. Under this programme, payments are being made to farmers who plant less than their acreage allotment. The Act was passed too late to permit extensive operations in the 1956 crop year. Nevertheless, wheat farmers placed nearly 6 million acres in the acreage reserve for 1956. The acreage reserve for wheat is not expected to become fully operative until the 1957 crop. Under existing legislation, the programme will continue in effect through the 1959 crop year. The goal of 15 million acres established for the 1957 crop, if achieved would result in a reduction in acreage of nearly 25 per cent below the national acreage allotment. This reduction would be in addition to the sharp cutbacks which already have occurred and which are discussed above. They are made possible under the Soil Bank only because the rate of payment is being established at levels which will maintain net farm income from wheat on land placed in the acreage reserve at not less than the levels which would have been attained if farmers had planted the crop. The total cost of this programme will be relatively large. The Act provides a maximum for any year of $375 million for use in making payments under the wheat acreage reserve.

(c) Downward adjustments have been made in the wheat price support levels. The national average support price for the 1956 crop is $2 per bushel, considerably below the $2.24 per bushel for the 1954 crop and $2.08 for the 1955 crop. It is the lowest support level since the 1950 crop.

(d) During the 1956-57 marketing year, the US Government is continuing disposal operations aimed at increasing outlets for wheat. These include donations for overseas famine relief under Title II of P.L. 480 and donations of flour for domestic relief under section 32 of the Act of August 24, 1935. A basic change was made in the wheat export subsidy programme under which, beginning September 4, 1956, supplies for export will be obtained generally from free market supplies instead of from sales of CCC-owned stocks, and payments on wheat exports generally will be made in kind (e.g. wheat). This programme is aimed at returning more responsibility for wheat marketings to the private trade.

During 1956-57, the United States will continue to take the positive actions outlined above to help bring about a better balance between supply and utilization. The ultimate solution to the problem of wheat surplus, however, depends upon action by other countries as well as by the United States, since wheat is a world crop produced and used in nearly all countries.
1. **Section 22 Quotas in Effect 1956-57**

No change was made in 1956-57 in the annual import quota for rye, including rye flour, and rye meal. As indicated in the report submitted in 1955-56, when the present rye quote went into effect in July 1955 it was announced that the quote would apply to both the 1955-56 and 1956-57 seasons. The quote, therefore, will terminate on June 30, 1957. Thereafter import controls can be imposed only as a result of a new section 22 investigation based on the situation at that time.

The quota for 1956-57 is the same as that in effect for 1955-56, namely, 186 million pounds, equivalent to about 3.3 million bushels of rye grain. Of this total, not more than 15,000 pounds may be imported in the form of rye flour or rye meal. Furthermore, not more than 182,280,000 pounds may be imported from Canada and not more than 3,720,000 pounds from other countries.

2. **Need for Continuing Quotas**

There has been no significant change in the situation which led to the imposition of import quotas on rye, including rye flour and rye meal for the two-year period beginning July 1, 1955. As pointed out in the 1955-56 report, these quotas were imposed because (a) domestic supplies were expected to be much larger than domestic utilization, (b) a price support programme was in effect for the 1955 and 1956 crops, and (c) large quantities of rye were available in exporting countries at prices below United States support levels. Under these conditions, it was practically certain that unrestricted imports would materially interfere with and render ineffective the Department's price support programme for rye.

The 1956 crop of rye is being supported at a national average price of $1.27 a bushel, or 76 per cent of parity. Support at this level was mandatory for the 1956 crop under the Agricultural Act of 1956. While the 1956 support level is somewhat above that for 1955, it is substantially below that for 1954, when it was $1.43 per bushel based on 85 per cent of parity. Except for 1955, it is the lowest support level for rye since 1949.

The supply of rye in 1956-57 again is expected to exceed disappearance substantially. In view of the smaller total supply, the carryover is expected to decline somewhat at the end of the marketing season, but still to be above the average in recent years.

**Total supply** - The total supply of rye, including imports at the quota level, is expected to amount to 41.7 million bushels on the basis of the August crop report. A supply at this level would be considerably below the 49.5 million bushels in 1955-56, and the lowest since 1953-54. However, it would still be considerably above the 1950-54 average of 34.1 million bushels. The total supply is made up of the following:

**Carryover** - The carryover at the start of the marketing year July 1, 1956, is estimated at 16.3 million bushels, about the same as a year earlier. Such a carryover is over twice as large as the 1950-54 average. A large part of the July 1 stocks was owned by CCC. On that date the CCC owned 11.4 million bushels compared with 6.5 million bushels on July 1, 1955. This inventory represented an investment of about $14 million.
Production - Production from the 1956 crop, on the basis of August 1 conditions, is estimated at 22.0 million bushels. The crop is considerably below the 29.7 million bushel crop of 1955 as well as slightly below the 1954 crop. However, it is almost 10 per cent above the 1950-54 average.

Imports - Imports at the quote level would amount to 3.3 million bushels and about 100,000 bushels of certified seed may be imported ex-quota. Imports totalling 3.4 million bushels are expected in 1956-57, about the same as in the 1955-56 year when the quota was filled.

Utilization - Domestic utilization of rye for food, industrial use, feed and seed is expected to amount to 24 million bushels. At this level, domestic utilization would be slightly below the relatively large 26.6 million bushels estimated to have been used in 1955-56 but about 10 per cent above the 1950-54 average. The reduction reflects the smaller quantity likely to be fed in view of the large supply of feed grains.

Exports - Exports are expected to be about 7 million bushels, about the same as in 1955-56 and considerably above average. However, practically all these exports will come from Government-owned stocks at prices reflecting substantial losses to the Government.

Carryover July 1, 1957 - The carryover at the end of the 1956-57 season, on the basis of the above estimates of supply and utilization, is expected to drop to 11 million bushels compared with the 16.3 million bushels at the start of the season. Nevertheless, such a carryover is still relatively large and above average. The bulk of these stocks will continue to be owned by CCC.

Under these circumstances, relatively strong price support activity is expected in 1956-57 despite import controls. However, the quantity placed under support probably will not be as large as the record 13 million bushels placed under support in 1955-56. Redemptions by farmers probably will be very small as in the previous year, since the supply is far in excess of domestic use and exports are moving primarily from Government stocks. As a result, most of the rye placed under support probably will be acquired by CCC.

3. Steps Taken with a View to the Solution of the Problem of Surplus

Efforts were continued in 1956-57 to adjust production and use of rye. One means of adjustment has been to maintain support prices at levels lower than those in effect in the years prior to 1955.

It is too early to indicate the extent to which Soil Bank operations will affect rye production, since land used for the production of rye is eligible only under the conservation reserve programme, which, due to the lateness in approval of the Soil Bank programme, is not expected to affect rye until the 1957 crop year. Encouragement for greater use of rye included donations for emergency relief and domestic as well as foreign sales. Through these and other programmes, it is hoped ultimately to bring the supply and requirements in better balance.

Flaxseed, Including Linseed Oil

1. Controls in Effect for 1956-57

No change was made in 1956-57 in the Section 22 import controls on flaxseed and linseed oil. These controls are in the form of fees of 50 per cent ad valorem which are in addition to the applicable import duties on flaxseed and
linseed oil. As pointed out in the 1955-56 report, the United States has not bound the import duty on either flaxseed or linseed oil to any country under GATT.

2. Reasons Why Such Restrictions Continue to be Applied

The flaxseed situation in the United States changed moderately in 1955-56, but the temporary nature of this change, together with 1956 crop prospects in the United States and foreign countries, required the continuation of import controls over flaxseed and linseed oil so as to prevent imports from materially interfering with the Department's flaxseed programme.

The level at which flaxseed is supported has been lowered substantially in the last three years, under the provisions of Title III of the Agricultural Act of 1949, as amended. Flaxseed from the 1956 crop is supported at a national average price of $3.09 per bushel, or 70 per cent of parity, reflecting a moderate increase of 18 cents from the national average support price of $2.91, or 65 per cent of parity, that applied to 1955 crop production. Flaxseed from the 1953 crop was supported at a national average of $3.79 per bushel or 80 per cent of parity. Thus the decline in the support level in the past 3 years has been 70 cents per bushel, or 19 per cent. In fact, except for 1955, the 1956 support level is the lowest since 1951.

Commercial flaxseed supplies in the 1956-57 season are expected to be about 12 million bushels (27 per cent of the 1956 crop) in excess of probable domestic use. The total volume to which price support will be extended probably will be nearly as high as the 8.6 million bushels placed under price support in 1955-56. A considerable part of this excess is likely to be delivered to CCC under the price support programme since export prospects for US flaxseed in 1956-57 are not very good.

The 1956 crop is estimated at about 44 million bushels, about the same as the 41.3 million bushels produced in 1955. Domestic oil use may be equivalent to about 28 million bushels of flaxseed (about the same as the amount used in 1955-56). About 4 million bushels will be disappearing as seed and cleaning loss.

The principal reason for the extremely poor US export prospect is the large export availability in Canada and other foreign countries at prices below the US 1956 support level. On the basis of these availabilities, US exports are expected to be not over one-third as large as they were in 1955-56. These exports moved in the summer of 1956 before the large supplies from other sources became available.

In early September, it was estimated that supplies of flaxseed outside the US available for export in 1956-57 amounted to around 50 million bushels. The exportable surplus not only was over 40 per cent larger than the 35 million bushels exported from these countries in 1955-56, but also nearly equivalent to total exports from all countries, including the US, of 52 million bushels in the same year.

The large export availability outside the US not only represents strong export competition for the US, but at the same time points to the fact that imports of lower priced flaxseed into the US would be excessively large in the absence of import controls. Since domestic supplies are more than adequate to meet domestic needs, such imports, in turn, could only result in additional
acquisitions under price support end would thus materially interfere with the
Price support programme.

Present indications ere that stocks of flaxseed end linseed oil at the
end of the 1956-57 season will increese to 11 million bushels compared with
4 million bushels at the beginning of the season when they were relatively low.
Over half of these stocks probably will be owned by CCC.

3. Steps Taken with a View to the Solution of Surpluses

(a) Price support levels for flaxseed have been reduced 70 cents per bushel,
or 19 per cent, in the last three years. The support level for the 1956 crop
is $3.09 per bushel, or 70 per cent of parity, compared with $3.79 per bushel,
or 80 per cent of parity, in 1953.

(b) By the start of the 1956-57 season, CCC had succeeded in liquidating
nearly all of the abnormally large stocks of flaxseed and linseed oil which were
acquired under price support operations in recent years. However, this was
done at heavy loss to the government. The CCC lost $7.6 million on sales of
flaxseed and linseed oil in 1955-56, $22.8 million in 1954-55, and $51.3
million in 1953-54. As late as June 1, 1956, the CCC owned 23.6 million pounds
of linseed oil, but practically all of this has been sold.

(c) A Soil Bank programme has been undertaken which could affect acreage
planted to flaxseed beginning with the 1957 crops. The programme was announced
too late in the 1956 crop year to have any effect on 1956 plantings. Land
currently planted to flex is also eligible under the conservation reserve
programme, and to the extent to which this land is attracted into the conser­
vation reserve, the programme will tend to reduce flaxseed production. The
Soil Bank programme may also reduce flaxseed production indirectly by providing
a means of cutting back production of the basic crops, thereby lessening the
need for further reductions in acreage allotments for these crops. Such
reductions in the past have resulted in a shift in acreage from these allotment
crops to flaxseed.

It is too early to indicate the extent to which the Soil Bank will
affect flaxseed production. Through these and other programmes, it is hoped
ultimately to bring supplies end requirements of flaxseed more in balance.
However, production of flaxseed is expanding in other countries and most of
this increase in production is moving into export outlets. Under these
circumstances, the ability of the US to eliminate the need for import controls
depends not only upon developments in the US, but also upon developments in
other countries producing flaxseed in excess of domestic requirements.

Peanuts and Peanut Oil

1. Controls in Effect for 1956-57

(a) Peanuts - Import controls on peanuts were relaxed for a short period
of time during 1956-57 to permit imports of large size peanuts without reference
to the annual quote. This relaxation occurred after a supplemental investiga­
tion undertaken by the Tariff Commission.

Under this relaxation, Virginia-type peanuts, shelled (not including
peanuts blanched, salted, prepared or preserved), of size averaging in
representative samples not more than 40 kernels per ounce, were permitted to be imported during the period August 30 through September 10, 1956, unrestricted by quotas and subject only to a fee of 7 cents per pound, but not in excess of 50 per cent ad valorem, in addition to the duty of 7 1/2 per pound. These imports were in addition to the import quota of 1,709,000 pounds, shelled basis, during the marketing year which began August 1, 1956. This quota is the same as that in effect in 1955-56. As pointed out in the 1955-56 report, the peanut quota (a) is on a continuing basis, that is, it continues in effect from year to year unless modified; (b) includes peanuts whether shelled, unshelled, blanched, salted, prepared, or preserved (including roasted peanuts but not including peanut butter); and (c) is global, that is, no specific country quotas are established.

(b) Peanut oil - No change was made in 1956-57 in the ad valorem fee applicable to imports of peanut oil. Imports of peanut oil in excess of 80 million pounds during the quota year July 1 - June 30 are subject to an ad valorem fee of 25 per cent in addition to the applicable import duty of 4 1/2 per pound. This fee likewise is on a continuing basis, unless modified.

2. Reasons why Such Restrictions Continue to be Applied

Import controls on peanuts and peanut oil are being continued in 1956-57 to prevent imports from materially interfering with the price support, acreage allotment, marketing quota, and disposal operations in effect for peanuts.

Peanut price support is mandatory each year under Title I of the Agricultural Act of 1949, as amended. For the 1956 crop, prices are being supported at a national average of $227.04 per short ton, or 86 per cent of the parity price. This support is somewhat lower than the announced national average support price of $244.80 per short ton for the 1955 crop. The reduction in support level is due to the use, for the first time on peanuts, of the transitional parity price as prescribed by the Agricultural Adjustment Act of 1938, as amended, and to the fact that the 1956 crop is being supported at 86 per cent of the effective parity compared with 90 per cent for the 1955 crop. The support level in terms of per cent of parity is determined in accordance with the Law which provides that minimum support be placed between 75 per cent and 90 per cent of parity according to the relationship of the expected supply to the normal supply. Normal supply consists of normal consumption (including exports) plus normal carryover. The 86 per cent level established for 1956 is the minimum prescribed by the supply relationship.

Marketing quotes are in effect during the 1956 marketing year. Quotes for 1956, as well as for the 1954 and 1955 marketing years, were approved by 94 per cent of peanut farmers voting in a referendum held in December 1953. In peanuts, as in tobacco, farmers can approve quotes for a three-year period with the understanding that quotes will be imposed only if warranted by the supply situation. The proportion of farmers voting in favour of marketing quotes was much higher than the minimum of two-thirds required by existing legislation.

A national acreage allotment of 1,650,342 acres is in effect in connection with marketing quotes for the 1956 crop. This allotment was the minimum prescribed by law adjusted upward by 40,342 acres for Virginia and Valencia peanuts to provide for increased production of the large size peanuts produced primarily in the Virginia-Caroline area. This increased acreage allotment was
made in accordance with the law, in view of relatively short supplies of the large size Virginia-type peanuts expected in the 1956-57 marketing year resulting from the short 1955 crop.

During 1956, the US Government inaugurated an acreage reserve programme for peanuts under the Soil Bank. This programme provides for payments to farmers who plant less than their farm acreage allotment and who comply with other programme requirements. The objective of this acreage reserve, as explained in more detail earlier in this report, is to bring about a better balance between supply and utilization by reducing the quantity of new-crop peanuts produced. Payments to participating farmers in 1956 generally were based upon the yield of the land placed in reserve multiplied by three cents per pound. Producers of Virginia-Valencia-type peanuts are not eligible to participate in the 1956 crop acreage reserve because allotments of these types of peanuts were increased in 1956 due to a shortage in supply.

While the acreage reserve programme for peanuts started too late to achieve the goals being sought for the remaining crop years in which the Soil Bank will be in effect (1957, 1958 and 1959), over 5,000 agreements were signed with peanut producers placing approximately 44,000 acres in the acreage reserve for 1956.

The table below shows for the period 1950-1956 United States peanut production, estimated domestic consumption, and price support loan and purchase acquisitions:

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>Production</th>
<th>Domestic Consumption</th>
<th>Price Support Loans and Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>2,025</td>
<td>1,236</td>
<td>1,322</td>
</tr>
<tr>
<td>1951</td>
<td>1,659</td>
<td>1,222</td>
<td>880</td>
</tr>
<tr>
<td>1952</td>
<td>1,355</td>
<td>1,270</td>
<td>110</td>
</tr>
<tr>
<td>1953</td>
<td>1,574</td>
<td>1,282</td>
<td>450</td>
</tr>
<tr>
<td>1954</td>
<td>1,008</td>
<td>1,264</td>
<td>14</td>
</tr>
<tr>
<td>1955</td>
<td>1,565</td>
<td>1,192</td>
<td>214</td>
</tr>
<tr>
<td>1956</td>
<td>1,445 2/</td>
<td>1,280</td>
<td></td>
</tr>
</tbody>
</table>

1/ In some years portions of the loans and purchases were sold back to the trade for edible purposes.
2/ Estimate based on September 1 1956 crop condition.

Peanut supplies in 1956 in the United States are expected to be in excess of domestic food and farm use, but the excess is estimated to be less than that which occurred from the 1955 crop. Stocks at the start of the 1956-57 year on August 1 were 387 million pounds, a level somewhat higher than in recent years. Although production from the 1956 crop may be slightly lower than in 1955, domestic food and farm use probably will be larger during the 1956-57 marketing year than in the previous year. This increased use will come in part from the lower prices indicated by the lower level of support and in part from some tendency for consumption of peanuts in the United States to increase as population increases.
Sizeable price support activities are expected in the 1956-57 year, but the quantity of peanuts placed under price support loans and subsequently diverted into oil for domestic and export use is expected to be less than from the 1955 crop. During the 1955-56 marketing season, 300 million pounds of peanuts were placed under CCC loans and by the end of the marketing year approximately 200 million pounds had been diverted into oil. Carryover stocks of the CCC on August 1 approximated 70 million pounds. Disposal of surplus stocks by the CCC has usually resulted in large losses for the US Government.

3. Steps Taken with a View to the Solution of the Problem of Surplus

The US has taken positive steps toward a solution to the peanut surplus problem through acreage allotments and marketing quotas. These will be supplemented by the Soil Bank beginning in 1957.

The penalty rate on peanuts marketed in excess of the farm marketing quota has been increased. Beginning with the 1956 crop, a farmer must pay a penalty of 75 per cent of the loan rate on such excess quantity, compared with 50 per cent in 1955. Furthermore, any producer whose marketings exceed his farm acreage allotment is denied price support for any peanuts produced on that farm.

As indicated earlier, the United States instituted in 1956 an acreage reserve programme under the Soil Bank authorized by the Agricultural Act of 1956. Under this programme, payments are being made to farmers who plant less than their peanut acreage allotment. Since the Act was passed late in the season it is not possible to determine the extent to which the acreage reserve will affect peanut production when it becomes fully effective beginning with the 1957 crop year. The Agricultural Act of 1956 provides a maximum of $7 million which may be used in any one year in making payments under the peanut acreage reserve.

As explained in the 1955-56 report, efforts directed towards keeping peanut supplies in line with edible requirements have been hampered by the wide range in average yields per acre. In 1955, with excellent growing conditions, except in the Virginia-Carolina area, yields were considerably above average and resulted in a large accumulation of surpluses. The 1954 crop, on the other hand, suffered from drought conditions and failed to produce a sufficient supply to meet the domestic edible requirements. Surplus accumulated in years of high production has been used advantageously to offset the short supply of low production years. During the 1954-55 marketing year following the short crop in 1954, CCC stocks accumulated from the previous crop years were exhausted.

Dairy Products

1. Section 22 Quotes in Effect

No change was made in 1956-57 in the annual import quotes established under Section 22 for dried milk products, butter and certain varieties and types of cheese. As pointed out in the 1955-56 report, these quotes are on a continuing basis; that is, they continue in effect from year to year unless modified.

The quotes in effect in the period July 1, 1956 – June 30, 1957, are as follows: dried cream, 500 pounds; butter, 707,000 pounds; dried whole milk, 7,000 pounds; dried buttermilk, 496,000 pounds; malted milk and compounds,
6,000 pounds; dried skim milk, 1,807,000 pounds; cheddar cheese, 2,780,100 pounds; blue-mold cheese, 4,167,000 pounds; Edam and Gouda cheese, 4,600,200 pounds; Italian (cow's milk) cheese, 9,200,100 pounds.

2. Reasons why Restrictions Continue to be Applied

The US Government made considerable progress in 1955-56 in liquidating stocks of dairy products acquired under price support and in encouraging domestic consumption. However, it still was necessary to purchase relatively large quantities of butter, cheddar cheese, and nonfat dry milk solids under the price support programme in 1955-56, and there are prospects of further relatively large purchases in 1956-57. Under these circumstances, it is necessary to continue restrictions on imports of certain manufactured dairy products in 1956-57 without change to prevent imports of these products from materially interfering with and rendering ineffective the mandatory programme for supporting prices to producers for milk and butterfat and the utilization of dairy products acquired under this price support programme.

Title II of the Agricultural Act of 1949, as amended, requires the Secretary of Agriculture to support prices to producers of milk and butterfat at such level from 75 to 90 per cent of parity as the Secretary determines necessary to assure an adequate supply. It requires this support to be carried out by loans on, or purchases of, milk and its products.

The announced US average support prices for the marketing year April 1, 1956 to March 30, 1957 are $3.25 per hundred pounds for manufacturing milk and 58.6 cents per pound for butterfat in farm separated cream. These support prices are 84 per cent of parity equivalent price for manufacturing milk and 81 per cent of parity price for butterfat. The 1956 support levels are slightly above the level of $3.15 per cwt, for manufacturing milk and 56.2 cents per pound for butterfat established in the 1955-56 and 1954-55 seasons. However, otherwise they are the lowest for butterfat since 1949 and for manufacturing milk since 1950-51.

In carrying out this price support responsibility in 1956-57, as in 1955-56, the Commodity Credit Corporation of the US Department of Agriculture confined its price support purchases to butter, cheddar cheese, and nonfat dry milk solids, the dairy products that can be most readily purchased, stored, handled, and utilized in available outlets. However, as explained in the 1955-56 report, the purpose of these purchases (as well as their effect) is to support the prices of milk and butterfat in all uses. This purpose is accomplished by the Government's standing offer to buy and remove from the market, in the form of butter, cheddar cheese, and nonfat dry milk, all of the milk and butterfat produced in excess of the quantities that can be commercially marketed in domestic and export outlets in the forms of those three products, fluid milk, other types of cheese and other dairy products at prices corresponding to the support prices to producers for milk and butterfat.

In 1956-57, as well as in the previous years in which import controls have been in effect, the levels at which the Department of Agriculture has been buying these three dairy products and maintaining the general price level of dairy products have been far enough above prices of dairy products in foreign markets to attract imports of dairy products into the United States. Under these circumstances, in the absence of import restrictions imports of dairy products would increase, CCC's price support purchases would increase correspondingly and to that extent CCC would support returns to producers for
milk and butterfat in the exporting countries. The Section 22 import controls continue to be needed to assure against this possibility.

Except for 1951-52, the US Government has acquired significant quantities of butter, cheese, and nonfat dry milk solids under price support (see Table 1). Price support purchases in recent years have ranged from the equivalent of a small fraction of a per cent of total milk production in 1952-52 to 10 per cent in 1953-54. Purchases in the 1955-56 marketing year were equivalent to 4.1 per cent of milk production and consisted of about 180 million pounds of butter, 157 million pounds of cheese, and 624 million pounds of nonfat dry milk.

Substantial price support purchases have continued to be made in the 1956-57 marketing year. Milk production in the first 4 months of the 1956-57 marketing year has been higher than in the preceding year. However, the increase in consumption of milk and its products in commercial outlets was approximately the same as the increase in milk production and, consequently, Government price support purchases of butter and cheese were about the same as a year earlier. Purchases of nonfat dry milk were larger than a year earlier. Purchases in the period April through July of the current marketing year were 107 million pounds of butter, 71 million pounds of cheese, and 360 million pounds of nonfat dry milk.

Statistics with respect to milk production and utilization in the United States in recent years are shown in the attached Table 2.

Total milk production has been moderately upward, even though the number of milk cows in the United States has declined in recent years, because production per cow has increased. The increase in production per cow has resulted from herd improvement encouraged by widespread artificial breeding and improved feeds and feeding practices.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of milk cows on farms</th>
<th>Production per cow</th>
<th>Total milk production</th>
<th>Utilization of milk 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>thousands</td>
<td>pounds</td>
<td>mil.pounds</td>
<td>Fluid Consumption</td>
</tr>
<tr>
<td>1949</td>
<td>22,024</td>
<td>5,272</td>
<td>116,103</td>
<td>52,300</td>
</tr>
<tr>
<td>1950</td>
<td>21,944</td>
<td>5,314</td>
<td>116,602</td>
<td>52,900</td>
</tr>
<tr>
<td>1951</td>
<td>21,505</td>
<td>5,333</td>
<td>114,681</td>
<td>54,100</td>
</tr>
<tr>
<td>1952</td>
<td>21,338</td>
<td>5,374</td>
<td>114,6'1</td>
<td>54,900</td>
</tr>
<tr>
<td>1953</td>
<td>21,691</td>
<td>5,542</td>
<td>120,221</td>
<td>55,100</td>
</tr>
<tr>
<td>1954</td>
<td>21,581</td>
<td>5,657</td>
<td>122,094</td>
<td>55,200</td>
</tr>
<tr>
<td>1955</td>
<td>21,232</td>
<td>5,615</td>
<td>123,454</td>
<td>58,300</td>
</tr>
</tbody>
</table>

1/ Utilization includes, in addition to the figures shown, quantities fed to calves, exports or carryovers, and certain other uses.

Figures on utilization show an increase in quantities being used for fluid purposes and a leveling off in the quantities used for manufacturing purposes. Fluid milk consumption in the United States has increased steadily each year from 52.3 billion pounds in 1949 to 58.3 billion pounds in 1955. A further increase is expected in 1956. On the other hand, the quantity manufactured
into dairy products has remained relatively stable except for a decline in 1951 and 1952 when milk production also declined. The 60.6 million pounds used for manufacturing purposes in 1955 was about equal to the 1949 volume.

3. Steps Taken with a View to the Solution of the Problem of Surplus

The United States continued its efforts to move stocks of dairy products acquired under price support back into consumption. However, as pointed out in the 1955-56 report, the utilization of the large quantities of dairy products acquired under the support programme has continued to be a major problem. It has been possible to sell only limited quantities commercially in the domestic or export markets. It has continued to be necessary, therefore, to use the products to the greatest possible extent in other outlets.

Donations and sales at token prices for domestic and foreign school lunch and welfare uses in 1955-56 continued to be the principal outlet for dairy products acquired under the support programme. A decrease in CCC inventories has been accomplished largely by the donation and sale of large quantities for these purposes at a heavy loss to the CCC. Increased utilization in these outlets has been made possible by legislation authorizing the CCC to pay additional costs involved in processing, repackaging and certain transportation costs of dairy products donated for school lunch and welfare uses, both in the United States and in foreign countries. The legislation also has authorized CCC donations to US military agencies for their increased use.

The utilization of CCC-owned dairy products in the 1955-56 marketing year was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Butter</th>
<th>Cheddar Cheese</th>
<th>Nonfat Dry Milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial domestic sales</td>
<td>.4</td>
<td>4.5</td>
<td>.8</td>
</tr>
<tr>
<td>Animal and mixed feed sales</td>
<td>-</td>
<td>-</td>
<td>93.4</td>
</tr>
<tr>
<td>Donations for domestic use 1/</td>
<td>118.7</td>
<td>86.1</td>
<td>85.8</td>
</tr>
<tr>
<td>Donations for foreign use 2/</td>
<td>208.8</td>
<td>135.1</td>
<td>371.3</td>
</tr>
<tr>
<td>Commercial export sales</td>
<td>24.4</td>
<td>7.4</td>
<td>36.3</td>
</tr>
<tr>
<td>Noncommercial export sales</td>
<td>19.0</td>
<td>6.8</td>
<td>59.8</td>
</tr>
<tr>
<td>ICA transfers 3/</td>
<td>3.6</td>
<td>16.0</td>
<td>15.5</td>
</tr>
<tr>
<td>US Army transfers</td>
<td>32.8</td>
<td>1.8</td>
<td>.3</td>
</tr>
<tr>
<td>Other 4/</td>
<td>6.6</td>
<td>-</td>
<td>1.1</td>
</tr>
</tbody>
</table>

414.3  257.7  664.3

1/ Donations to schools, charitable institutions and needy persons.
2/ Donations to US Welfare agencies for needy persons outside the US
3/ Primarily under Title II of P.L. 450 for relief purposes abroad.
4/ Includes butter sold for extending cocoa butter, for liquid milk recombining, transferred to the Veterans Administration, and donation of nonfat dry milk for research use.
As a result of the accelerated utilization of CCC supplies, the uncommitted CCC inventory of butter on March 31, 1956 was reduced to zero compared with 237 million pounds a year earlier. The CCC cheese inventory on March 31, 1956 was 228 million pounds compared with 329 million pounds a year earlier, and the nonfat dry milk inventory was 46 million pounds compared with 86 million pounds a year earlier. On July 31, 1956, these uncommitted stocks were as follows: butter, 16 million pounds, cheddar cheese, 215 million pounds, nonfat dry milk solids, 113 million pounds.

In addition to the above programmes to encourage increased consumption of stocks acquired, the US Government, in order to reduce the price support purchases of dairy products, continued in 1956-57 at considerable cost the special programmes to increase the consumption of fluid milk by school children, military personnel and veterans' hospital patients.

Other actions also are being taken to increase the consumption of milk and its products in the United States. For example, the Department of Agriculture is cooperating with the dairy industry and food distribution trade in programmes to stimulate increased sales and consumption.

On the production side, Congress has provided additional legislative authority to adjust production of crops which would, in turn, effect milk production. This additional authority - the Soil Bank programme - is discussed in more detail earlier in the report and is aimed at taking out of production under the acreage reserve and conservation reserve a substantial acreage of crops including feed grains, that are in large surplus. Since the Soil Bank will not be fully effective until the 1957 crop year, it is not possible at this time to indicate the extent to which it will affect milk production. A basic feature of the Soil Bank is that the retired acreage cannot be used for grazing of dairy cattle or other animals, except under very special conditions such as drought.
<table>
<thead>
<tr>
<th>Marketing Year</th>
<th>PURCHASES</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Milk Equivalent as Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning April 1</td>
<td>Milk</td>
<td>Cheddar</td>
<td>Nonfat Dry</td>
<td>Milk 1/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(except as noted)</td>
<td>Production</td>
<td>Butter</td>
<td>Cheese</td>
<td>Milk Solids</td>
<td>Equivalent</td>
<td>of Milk Production</td>
</tr>
<tr>
<td>1949 2/</td>
<td>116,103</td>
<td>114.3</td>
<td>25.5</td>
<td>325.5</td>
<td>2,541</td>
<td>2.2</td>
</tr>
<tr>
<td>1950-1951 3/</td>
<td>142,526</td>
<td>127.9</td>
<td>108.9</td>
<td>352.7</td>
<td>3,647</td>
<td>2.6</td>
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<tr>
<td>1951-1952</td>
<td>114,313</td>
<td>.2</td>
<td>.8</td>
<td>52.6</td>
<td>12</td>
<td>4/</td>
</tr>
<tr>
<td>1952-1953</td>
<td>116,480</td>
<td>143.3</td>
<td>75.2</td>
<td>210.4</td>
<td>3,618</td>
<td>3.1</td>
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<tr>
<td>1953-1954</td>
<td>121,761</td>
<td>380.2</td>
<td>456.0</td>
<td>665.9</td>
<td>12,164</td>
<td>10.0</td>
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<tr>
<td>1954-1955</td>
<td>121,673</td>
<td>210.5</td>
<td>153.4</td>
<td>523.2</td>
<td>5,744</td>
<td>4.7</td>
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<tr>
<td>1955-1956</td>
<td>125,180</td>
<td>177.6</td>
<td>157.4</td>
<td>623.7</td>
<td>5,126</td>
<td>4.1</td>
</tr>
</tbody>
</table>

1/ Milk equivalent of butter and cheese purchases, fat solids basis. (Butter x 20 and cheese x 10). Milk equivalent of nonfat dry milk solids not included to avoid duplication with butter.

2/ Calendar year.

3/ Fifteen months, January 1950 – March 1951

4/ Less than .05 per cent.
TABLE 2
Production and Utilization of Milk, United States 1949-55
(In millions of pounds)

<table>
<thead>
<tr>
<th></th>
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<tr>
<td>Milk production</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>On farms</td>
<td>116,103</td>
<td>116,602</td>
<td>114,681</td>
<td>114,671</td>
<td>120,221</td>
<td>122,094</td>
<td>123,454</td>
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<tr>
<td>Total</td>
<td>117,003</td>
<td>117,302</td>
<td>115,181</td>
<td>115,071</td>
<td>120,521</td>
<td>122,294</td>
<td>123,554</td>
</tr>
<tr>
<td>Utilization (milk equivalent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufactured in plants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creamery butter, total</td>
<td>29,149</td>
<td>28,641</td>
<td>24,906</td>
<td>24,378</td>
<td>28,877</td>
<td>29,648</td>
<td>28,370</td>
</tr>
<tr>
<td>From whey cream</td>
<td>842</td>
<td>838</td>
<td>817</td>
<td>815</td>
<td>932</td>
<td>961</td>
<td>940</td>
</tr>
<tr>
<td>Net</td>
<td>28,307</td>
<td>27,803</td>
<td>24,089</td>
<td>23,563</td>
<td>27,945</td>
<td>28,687</td>
<td>27,430</td>
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<tr>
<td>Cheese</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>American</td>
<td>9,384</td>
<td>8,972</td>
<td>8,791</td>
<td>8,551</td>
<td>10,239</td>
<td>10,473</td>
<td>10,000</td>
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<tr>
<td>Other</td>
<td>2,569</td>
<td>2,981</td>
<td>2,778</td>
<td>3,088</td>
<td>3,104</td>
<td>3,257</td>
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<tr>
<td>Canned milk</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Evaporated</td>
<td>5,898</td>
<td>6,177</td>
<td>6,221</td>
<td>6,087</td>
<td>5,448</td>
<td>5,398</td>
<td>5,000</td>
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<tr>
<td>Sweetened condensed</td>
<td>234</td>
<td>143</td>
<td>135</td>
<td>124</td>
<td>96</td>
<td>58</td>
<td>60</td>
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<td>Bulk condensed milk</td>
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<tr>
<td>Unsweetened</td>
<td>492</td>
<td>537</td>
<td>558</td>
<td>539</td>
<td>558</td>
<td>569</td>
<td>700</td>
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<tr>
<td>Sweetened</td>
<td>102</td>
<td>85</td>
<td>92</td>
<td>102</td>
<td>105</td>
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<td>110</td>
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<td>Dry whole milk</td>
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<tr>
<td>Frozen dairy products</td>
<td></td>
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<tr>
<td>Ice cream, total</td>
<td>7,837</td>
<td>7,808</td>
<td>8,017</td>
<td>8,378</td>
<td>8,550</td>
<td>8,405</td>
<td>8,880</td>
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<tr>
<td>Other 2/ total</td>
<td>290</td>
<td>388</td>
<td>472</td>
<td>563</td>
<td>671</td>
<td>766</td>
<td>830</td>
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<tr>
<td>Fat from other products 3/</td>
<td>1,306</td>
<td>1,302</td>
<td>1,488</td>
<td>1,400</td>
<td>1,424</td>
<td>1,404</td>
<td>1,480</td>
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<tr>
<td>Net from milk and cream</td>
<td>6,821</td>
<td>6,894</td>
<td>7,001</td>
<td>7,541</td>
<td>7,797</td>
<td>7,767</td>
<td>8,230</td>
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<td>Other factory products 4/</td>
<td>561</td>
<td>724</td>
<td>939</td>
<td>936</td>
<td>967</td>
<td>1,057</td>
<td>1,100</td>
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<tr>
<td>Total factory products 5/</td>
<td>55,324</td>
<td>55,170</td>
<td>51,603</td>
<td>51,305</td>
<td>57,053</td>
<td>58,087</td>
<td>57,260</td>
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<td>Farm butter</td>
<td>5,440</td>
<td>5,160</td>
<td>4,746</td>
<td>4,215</td>
<td>3,876</td>
<td>3,562</td>
<td>3,365</td>
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<td>Fluid consumption, farm 6/</td>
<td></td>
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<td></td>
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<tr>
<td>nonfarm</td>
<td>40,600</td>
<td>41,600</td>
<td>42,800</td>
<td>43,700</td>
<td>44,600</td>
<td>46,100</td>
<td>48,200</td>
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<td>Fed to calves</td>
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<td>3,286</td>
<td>3,449</td>
<td>3,348</td>
<td>3,334</td>
<td>3,344</td>
<td>3,304</td>
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<td>Exports and storage 7/</td>
<td>-242</td>
<td>-56</td>
<td>116</td>
<td>79</td>
<td>248</td>
<td>-4</td>
<td>15</td>
</tr>
<tr>
<td>Other 8/</td>
<td>1,018</td>
<td>842</td>
<td>1,167</td>
<td>1,224</td>
<td>1,306</td>
<td>1,146</td>
<td>1,310</td>
</tr>
</tbody>
</table>
Footnotes

1/ Includes an allowance for milk produced by cows not on farms.

2/ Milk sherbet, ice milk, and miscellaneous minor frozen products.

3/ Milk equivalent of butter and condensed milk used in ice cream.

4/ Includes dry cream, melted milk, dry part skim milk, dry ice cream mix, and cottage cheese.

5/ Includes net milk equivalents of butter and frozen dairy products to avoid double counting of milk from which fat was reused in making a second dairy product.

6/ Includes an allowance for fluid consumption on farms not producing milk in addition to the consumption on farms where milk is produced.

7/ Net movement of whole milk or cream into export or storage channels. A negative figure represents net imports or net out-of-storage movement during the year.

8/ Residual, including miscellaneous minor uses and any inaccuracies of independently determined production and use items.

9/ Preliminary.
1. Import quotas in effect 1956-57

Import quotas are in effect under Section 22 for short staple cotton, long staple cotton, harsh or rough cotton, and cotton waste during the 1956-57 cotton marketing year. Except for long staple cotton, the quotas are the same as those reported as being in effect in 1955-56. In accordance with the Agricultural Act of 1956, the import quota on long staple cotton was modified to re-include cotton having a staple length of 1-11/16" and longer, which had been excluded from quota restrictions in 1940 for defense reasons.

The 1956-57 import quotas for cotton which, as pointed out in the 1955-56 report, continue in effect each year unless changed, are as follows:

(a) Short staple cotton - Cotton under 1-1/3 inches (other than rough or harsh under 3/4 inch)—14,516,082 pounds annually during the quota year September 20—September 19.

(b) Long staple cotton - Cotton 1-1/3 inches and longer—45,656,420 pounds annually during the quota year August 1—July 31.

(c) Cotton waste - Cotton card strips made from cotton having a staple length of less than 1-3/16 inches, comber waste, lap waste, sliver waste, and roving waste—5,482,509 pounds annually during the quota year September 20—September 19.

(d) Rough or harsh cotton under 3/4 inch—70,000,000 pounds annually during the quota year September 20—September 19.

The modification of the long staple cotton quota on May 28, 1956, was as follows:

(1) The quota year was shifted from a February 1—January 31 basis to a crop year basis—August 1—July 31. This shift was made so as to permit entry under the quota to conform more nearly with the normal marketing practices and requirements for this type of cotton. It was felt that the use of these dates also would be more equitable to the foreign countries shipping long staple cotton to the United States and eliminate the need for establishing specific country import quotas.

(2) The definition of cotton subject to the quota was broadened to include cotton 1-11/16 inches and longer. Since cotton 1-11/16 inches and longer originally was included in the quota when it was established on September 20, 1939, it was not necessary to adjust the total quota. Accordingly, the total annual quota of 45,656,420 pounds was continued.

In view of the fact that this change in control was made after the then prevailing import quota year already had started, an interim quota was provided for the period from February 1, 1956, through July 31, 1956. This quota of 22,828,210 pounds, which was half of the annual quota, applied only to long staple cotton 1-1/8 inches and up to but not including 1-11/16 inches imported in the period February 1, 1956, through May 27, 1956, and to all long staple...
cotton imported between May 28, 1956, and July 31, 1956. The quota change was made to correct an import situation which had developed in recent years in the face of a large domestic supply of long staple cotton.

When the long staple cotton quota was established initially on September 20, 1939, the quota of 45,656,420 pounds (the quota currently in effect) included all cotton having a staple length 1-1/8 inches and over. However, due to changed circumstances, namely, defense needs arising as a result of World War II, on December 19, 1940, the quota on long staple cotton was modified to exclude cotton having a staple length of 1-11/16 inches or longer without changing the size of the over-all quota. Controls on cotton 1-11/16 inches and longer were not re-imposed after defense needs ceased to exist because there was no immediate prospect that in the absence of controls imports of cotton 1-11/16 inches and longer would increase sufficiently to materially interfere with the cotton programs being conducted by the Department. In recent years, however, this situation has changed. Imports of cotton of 1-11/16 inches and longer increased and large stocks of long staple cotton accumulated in the United States. In addition, further increases in imports threatened unless controls were re-imposed. Under these circumstances, it appeared likely that the objective of the import control on long staple cotton would be nullified by the continued exemption of cotton of 1-11/16 inches and longer. It was under these circumstances that the original quota established on September 20, 1939, was reimposed effective May 28, 1956.

2. Need for Continuing Import Quotas on Cotton and Cotton Waste

During the 1956 crop season, the United States Government has in operation several agricultural programs for cotton. These include a price support program, an acreage allotment and marketing quota program, a Soil Bank program, and related surplus disposal operations. These are described in detail below.

It is necessary to continue import quotas on cotton and cotton waste to prevent imports from materially interfering with these domestic cotton programs and related operations:

Upland cotton

(a) Programs — Price support for upland cotton is mandatory every year under Title 1 of the Agricultural Act of 1949, as amended, within an overall range of 75 to 90 per cent of parity except when producers disapprove marketing quotas. About 93 per cent of the cotton producers voting in a referendum held December 1955 approved marketing quotas. Consequently, price support for the 1956 crop was mandatory.

The 1956 crop of upland cotton is being supported at an average level reflecting 82½ per cent of parity. This compares with support at 90 per cent of parity for the 1955 crop. This is the lowest percentage of parity at which upland cotton has been supported since the 1940 crop.
The US average support level for middling 7/8 inch upland cotton announced for the 1956 crop is 29.34 cents per pound. This is 2.36 cents per pound below the level of 31.70 cents per pound in effect for the 1955 crop. This reduction in the support level was due primarily to the change in percentage of parity at which the crop is being supported since the parity price at the start of the 1956 marketing year was not too much different from that at the start of the 1955 marketing year. The average support level in terms of dollars and cents is the lowest in effect since the 1950 crop.

Acreage allotments and marketing quotas also are in effect for the 1956 crop. As pointed out above, marketing quotas were approved by a much larger percentage of the farmers voting in a referendum than the minimum of two-thirds of the voters required. When marketing quotas are in effect, any producer who does not comply with his farm acreage allotment is denied price support and also must pay a heavy penalty (50 per cent of the June 15 parity price) on his excess cotton.

The national acreage allotment established for 1956 under the marketing quota operation was set at the minimum level authorized by law. The national acreage allotment of 17.4 million acres compares with an allotment of 18.1 million acres established for the 1955 crop and 21.4 million acres established for the 1954 crop. It is the smallest acreage allotment established since acreage allotments and marketing quotas were first imposed under the Agricultural Adjustment Act of 1938 beginning with the 1938 crop.

During 1956, the United States Government also inaugurated an acreage reserve programme for cotton under the Soil Bank Act. This programme provides for payments to farmers who plant less than their cotton farm acreage allotment and who comply with other program requirements. The objective of this acreage reserve, as explained in more detail earlier in this report, is to bring about a better balance between supplies and utilization by reducing the quantity of new-crop cotton produced. Payments to farmers participating in the 1956 acreage reserve generally are based upon the normal yield of the land placed in the reserve multiplied by 15 cents a pound. While the programme was started too late in the 1956 crop year to achieve the goals being sought in the remaining years in which the Soil Bank will be in effect (1957, 1958, 1959 crops), 96,000 cotton producers placed approximately 1.1 million acres in the acreage reserve in 1956.

(b) Supply situation - The supply of upland cotton in the United States for the 1956-57 crop year is estimated at about 27.0 million running bales, 1.3 million more than the revised total for the 1955-56 season. This is the sixth consecutive year in which the supply of cotton has increased over a year earlier.

This upland supply is made up as follows:

Carryover - The preliminary estimate of the Bureau of the Census of the carryover of cotton on August 1, 1956, the start of the marketing year, was

1/ Excludes 542,075 bales of excess of 1955-56 supply over distribution reported by the Bureau of the Census.
13.9 million running bales—about 2.9 million bales larger than a year ago and the highest on record. The cotton carryover in the United States has increased each year from the post-World War II low of about 2.2 million bales on August 1, 1951, to the record high figure indicated above. A substantial part of the 1956 carryover—approximately 9.8 million bales—was owned (or pledged as collateral against outstanding loans) by the Commodity Credit Corporation of the Department of Agriculture. The quantity controlled by the CCC was 1.8 million bales larger than at the start of the 1955-56 marketing year. The quantity owned or controlled by the CCC at the start of the marketing year has increased each year since August 1, 1951.

**Production**—The 1956 upland cotton crop was estimated at 13.0 million running bales (13.1 million 500-pound bales) as of August 1, 1956. This is 1.5 million running bales, or about 10 per cent, less than the quantity produced in 1955. A crop of this size would be the smallest since 1950.

**Imports**—Imports (including short staple Asiatic type) under the quotas referred to above are expected to amount to about 50,000 bales, approximately the same quantity imported in 1955-56.

**Disappearance**—Domestic use and exports of upland cotton in 1956-57 probably will equal or exceed 13.5 million bales. At this level, they will be more than 2 million bales and about 20 per cent or more above the 11.3 million bales estimated to have been used domestically and exported in 1955-56. Domestic cotton consumption in 1956-57 is expected to approach the 9.1 million bales used domestically in 1955-56. However, exports in 1956-57 are expected to be more than double the relatively low 2.2 million bales estimated to have been exported in 1955-56 when exports dropped to their lowest level since the 1947-48 season. A more precise estimate of disappearance cannot be made until more information, particularly on exports, is available.

**End of season carryover**—Preliminary supply and disappearance information indicates a prospective carryover of upland cotton on August 1, 1957, smaller than that of 1956. This would be the first time since August 1, 1951 that the carryover has declined.

**Price support activity**—While it is too early in the season to determine the specific quantity of cotton that will be placed under price support, it is anticipated that price support activity during 1956-57 again will be relatively heavy. The current crop is expected to be larger than domestic consumption. Since exports of cotton primarily are coming from CCC stocks, this situation would point to continued large acquisitions of cotton by CCC from the 1956 crop.

1/ An excess of 1955-56 supply over distribution of 542,075 bales was reported by the Bureau of the Census. Census indicates that the discrepancy may be an understatement of the cotton carryover on July 31, 1956, and that the carryover may be revised to eliminate this discrepancy.
Extra long staple cotton

(a) Programmes - Price support for extra long staple cotton is mandatory under Title I of the Agricultural Act of 1949, as amended, within an overall range of 75 to 90 per cent of parity whenever producers do not disapprove marketing quotas. In December 1955, 90 per cent of the extra long staple cotton producers voting in a referendum approved marketing quotas for the 1956 crop of extra long staple cotton. Consequently, price support for the 1956 crop is mandatory. The 1956 crop is being supported at 75 per cent of parity—the minimum percentage of parity within the overall range of 75 to 90 per cent at which extra long staple cotton may be supported. The percentage of parity is the same as the 75 per cent of parity at which the 1955 crop was supported and considerably below the 90 per cent of parity at which the 1954 crop was supported.

The following US average support levels for extra long staple cotton have been announced for the 1956 crop: American-Egyptian cotton, 56.70 cents per pound; Sea Island and SeaLand cotton, 51.7 cents per pound. These levels are slightly (about 1.4 cents per pound) above the average levels announced for the 1955 crop due to an increase in parity price. However, they are sharply (5 to 9 cents a pound) below the levels in effect for 1954 and considerably below the levels in effect in earlier years.

Acreage allotments and marketing quotas were continued for the 1956 crop of extra long staple cotton. As pointed out above, the favourable vote in the referendum was considerably larger than the two-thirds minimum required by law. When marketing quotas are in effect, any producer who does not comply with his farm acreage allotment is denied price support on cotton and also must pay a heavy penalty (the higher of 50 per cent of the June 15 parity price or 50 per cent of the support price) on his excess cotton.

The national average allotment for 1956 is 45,305 acres. This allotment is about 1,000 acres less than that established for the 1955 crop season.

During the 1956 crop year, the Soil Bank programme will be in effect also for extra long staple cotton. The rate of payment for extra long staple cotton is the same per pound as that for upland cotton. At the time this report was prepared, information was not available as to the total acreage of extra long staple cotton placed in the Soil Bank.

(b) Supply situation - Relatively large supplies of extra long staple cotton are in prospect for the 1956-57 season. The total supply (that is, carryover plus imports equal to the quota, plus the 1956 crop) is estimated at about 270,000 bales. This supply is smaller than the 302,000 and 297,000 bales available in 1955-56 and 1954-55, but above the 1945-49 and 1950-54 averages of 196,000 and 249,000 bales.

The 1956-57 supply is almost equal to two full years' domestic consumption and export requirements at the recent level of about 145,000 bales.
The 1956 crop was estimated at 47,200 bales of 500 pounds each as of August 1, 1956. On the other hand the total carryover at the start of the marketing year on August 1, 1956, amounted to about 130,000 bales. This 1956 carryover was about 46,000 bales below the carryover of 176,000 bales on August 1, 1955 which was the largest since 1923. A significant part of the total supply was owned by the CCC. Of this 1956 total, the CCC owned or held as collateral against loans about 43,000 bales or around a third of the total. A year earlier CCC controlled stocks of about 130,000 bales or 3/4ths of the total carryover.

It is too early in the season to indicate the specific quantity of extra long staple cotton which will be pledged and acquired by the CCC under the price support programme.

3. Steps Taken to Reduce the Surplus of Cotton

While the United States has taken positive action to help bring about a better balance between supply and utilization of cotton, as pointed out in our 1955-56 report, the solution to the cotton problem is made more difficult by the fact that cotton is a world crop produced and used in many countries. Consequently, action by a number of producing countries is necessary in order to bring about a better balance.

The steps taken by the United States to reduce production have resulted in a drop in US production of all cotton from 16.3 million running bales in 1953 to an estimated 13.0 million bales in 1956. This is a drop of nearly 20 per cent in production. The reduction in acreage from 24.3 million to 16.5 million acres was much greater.

While the United States has been cutting production sharply, other countries have been increasing acreage and their share of the world total production. For example, cotton production in other free countries has gone up from 13.9 million bales in 1953 to an estimated 16.0 million bales in 1956. Export developments followed about the same trend. As a result, the United States in recent years has been losing its normal historical position in world cotton markets.

It was this situation that led the United States to undertake two special export programmes during 1956. These programmes were as follows:

(1) A special export programme covering limited quantities of special qualities of cotton was announced early in 1956. Under this programme, the CCC sold 1 million bales of cotton having a staple length of 15/16 inch or shorter for immediate export on a competitive bid basis. These sales were suspended when they reached the maximum quantity of 1 million bales.
(2) On February 28, the CCC announced a second programme under which it would periodically offer to sell any quality of upland cotton owned for export on a competitive bid basis on the condition that this cotton could not be exported prior to August 1, 1956. Following approval of the Agricultural Act of 1956 on May 28, 1956, CCC export sales of this cotton were made in accordance with the provisions of Section 203 of that act. Section 203 directs the CCC to make cotton available for export during the 1955-56 season at prices not in excess of the price level at which cottons of comparable qualities are being offered in substantial quantity by other exporting countries so as to re-establish and maintain the fair historical share of the world market for US cotton. Under this programme, the CCC sold through September 6, 1956, about 3.5 million bales of cotton.

The steps taken by the United States to deal with the problem of future surpluses insofar as domestic measures are concerned have been discussed above. Briefly, they are as follows:

(a) Acreage used for cotton production in 1956 has been reduced under acreage allotment and marketing quota programmes rather sharply to the minimum specified by law. This has resulted in sharp cutbacks from the acres in cultivation in 1953 before acreage allotments and marketing quotas were re-imposed. The national acreage allotment for upland cotton (17.4 million acres) for 1956 is about 729,000 acres below the allotments established for 1955, and is nearly 4.0 million acres (or about 19 per cent) below the allotment established for the 1954 crop. The acreage in cultivation on July 1, 1956, of about 17,000,000 acres is 8,282,000 acres (or about 35 per cent) below the acreage in cultivation on July 1, 1953, the year just prior to the imposition of acreage controls. It compares with 41.4 million acres in cultivation on July 1 on the average during the representative period used in establishing import quotas (1929-1933). The national acreage allotment of 45,305 acres for extra long staple cotton is about one-half of the acreage in cultivation in 1953 prior to the imposition of marketing quotas. The marketing quota for upland cotton of 10 million bales is the minimum for 1956 under existing legislation. The marketing quota for extra long staple cotton of 35,300 bales is also the minimum quota authorized by law.

When marketing quotas are in effect, any producer who has a marketing excess of cotton is required to pay on such excess quantity 50 per cent of the June 15 parity price, in the case of upland cotton, and either the same per cent of parity or 50 per cent of the support price, whichever is higher, in the case of extra long staple cotton. A producer who knowingly exceeds his farm cotton acreage allotment on any farm is ineligible for cotton price support on that farm.

(b) In 1956, the United States instituted an acreage reserve programme under the Soil Bank authorized by the Agricultural Act of 1956. Under this programme, payments are being made to farmers who plant less than their farm acreage allotment. This act was passed too late to permit any extensive
operations in the 1956 crop year. Nevertheless, cotton farmers placed over
a million acres in the acreage reserve of 1956. The acreage reserve is not
expected to become fully operative for cotton until the 1957 crop year. Under
existing legislation, the programme will continue in effect through the 1959
crop year. While the goal for the 1957 crop has not as yet been established,
it is anticipated that this goal will be within the range of 3 to 5 million
acres. Achievement of such a goal would result in a further reduction of
from 15 to 25 per cent in the acreage planted to cotton below the acreage
allotment. These reductions would be in addition to the sharp cutbacks which
already have occurred and which are discussed above. They are made possible
under the Soil Bank only because the rate of payment is being established at
levels which will maintain net farm income from cotton at, at least, the same
levels which would have been obtained if farmers had planted the crop.

(c) Adjustments have been made in the price support levels for cotton
which have resulted in a support level significantly below the levels which
have prevailed in recent years. For example, the 1956 price support level
for upland cotton has been established at 82 1/2 per cent of parity as compared
with 90 per cent in 1955. The 1956 price support level for extra long staple
cotton has been established at 75 per cent of parity, the minimum level permitted
by law.