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UNITED STATES TARIFF COMMISSION

CERTAIN DAIRY PRODUCTS

Report to the President on Investigation No. 22-27
Under Section 22 of the
Agricultural Adjustment Act, as Amended



TC Publication 274
Washington, D. C.
December 1968

UNITED STATES TARIFF COMMISSION

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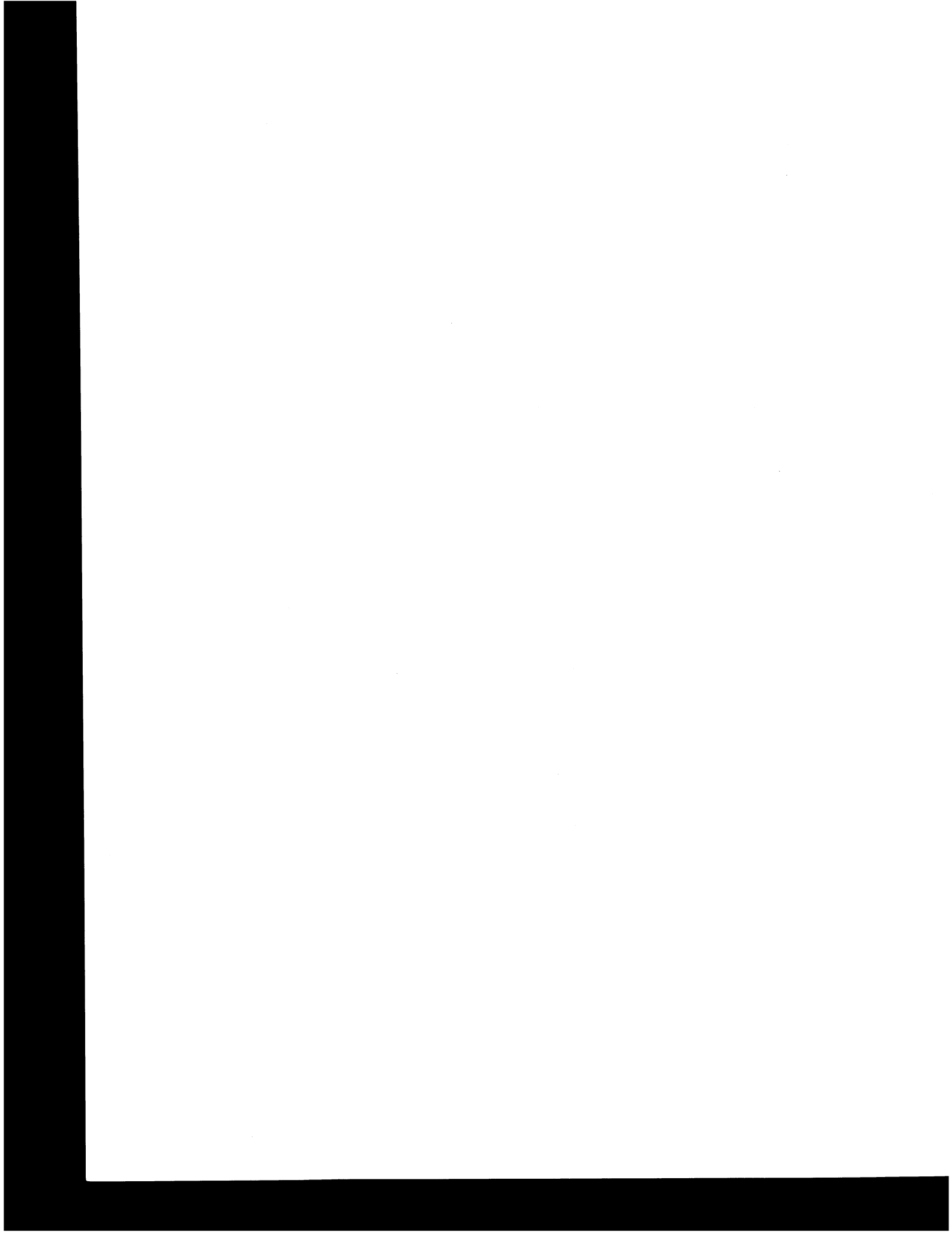
United States Tariff Commission

Washington, D.C. 20436

January 8, 1969

E R R A T A

1. Page 11, footnote 1, third line: Insert the word "may" between the words "therefore" and "constitute."
2. Page 13, finding numbered 3: Delete "3 That." Insert in place thereof "Commissioners Thunberg and Clubb find that."
3. Page 13, first line after center head "Recommendations": Delete the words "The Commission recommends"; insert in place thereof "Commissioners Thunberg and Clubb recommend."



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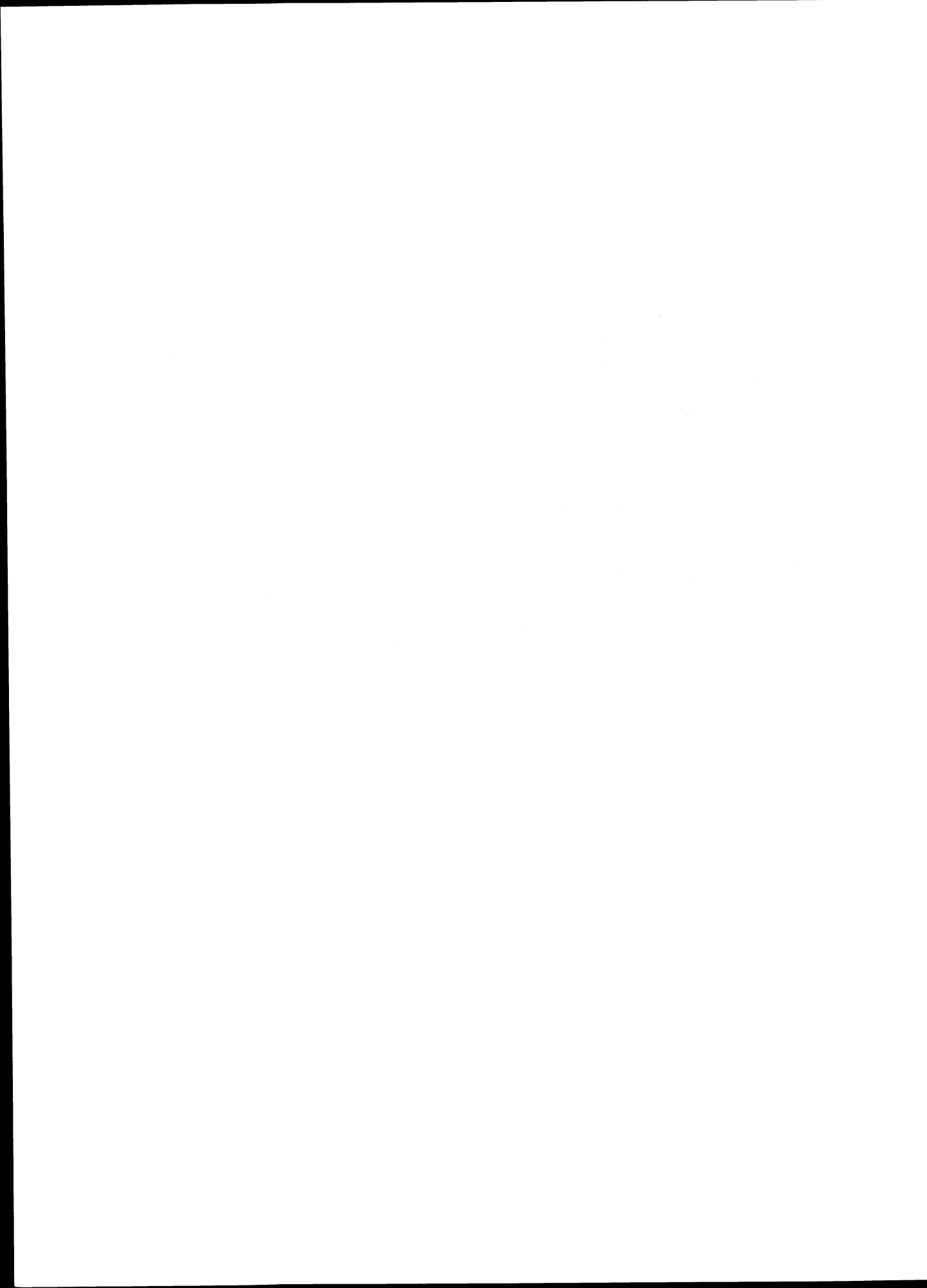
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(TC27955)



REPORT TO THE PRESIDENT

U.S. Tariff Commission,

December 20, 1968.

To the President:

Pursuant to your request of June 10, 1968, the U.S. Tariff Commission has completed an investigation under subsections (a) and (d) of section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), to determine whether certain articles are being, or are practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the U.S. Department of Agriculture for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat. You requested that the Commission report its findings and recommendations to you at the earliest practicable date. 1/

Specifically, you referred to the following articles in your request:

(1) Milk and cream, condensed or evaporated, provided for in items 115.30, 115.35, and 115.40 of the Tariff Schedules of the United States (TSUS);

1/ Public notice of the institution of the Commission's investigation was issued on June 11, 1968. The notice was posted at the Commission's offices in Washington, D.C., and in New York City, and was published in the Federal Register (33 F.R. 8758) and in the July 3, 1968 issue of the Customs Bulletin. A public hearing was held July 22-25; interested parties were afforded opportunity to produce evidence and to be heard. In addition to the information submitted at the hearing, the Commission obtained information from briefs of interested parties, from fieldwork, from other Government agencies, and from other appropriate sources.

(2) Natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced;

(3) Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses;

(4) Italian-type cheeses, made from cows' milk, not in original loaves (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), and cheese and substitutes for cheese containing, or processed from, such Italian-type cheeses, whether or not in original loaves;

(5) Cheese and substitutes for cheese other than Colby provided for in items 117.75 and 117.85 of the TSUS;

(6) Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from such cheeses;

(7) Chocolate, cocoa and confectioners' coatings and other products; all the foregoing provided for in items 156.20, 156.25, 156.30, 156.40, 156.45, and 156.47 of the TSUS, if containing over 5.5 percent by weight of butterfat; and

(8) Articles provided for in items 182.92 and 182.95 of the TSUS containing over 5.5 percent by weight of butterfat, the butterfat of which is commercially extractable, or which are capable of being used for any edible purpose for which products containing butterfat are used.

Some of the articles listed in your letter are already within the scope of import quotas imposed under section 22 of the Agricultural Adjustment Act. The current quotas on Cheddar cheese (numbered par. (2) of your request), American-type cheeses other than Colby (numbered par. (5)), and certain edible preparations in item 182.92 of the TSUS (numbered par. (8)) have been in effect since July 1, 1967 1/ and, as

1/ Presidential Proclamation No. 3790.

the result of your present request, are being reviewed by the Commission in accordance with the provisions of section 22(d). In addition import quotas are presently in effect under section 22(b) by virtue of emergency action taken on June 10, and September 24, 1968 1/ with respect to the articles described in numbered paragraphs (1) and (3) of your request and with respect to certain of the articles described in numbered paragraphs (5) and (6) thereof. 2/ The emergency action will continue in effect pending the Commission's report and Presidential action thereon.

1/ Presidential Proclamations Nos. 3856 and 3870, respectively.

2/ The emergency action with respect to the articles in numbered pars. (5) and (6) applies only to such articles if shipped otherwise than in pursuance to a purchase, or if having a purchase price (as defined in the proclamation) under 47 cents per pound.

INTRODUCTION

As compared with the domestic production of the milk equivalent thereof, U.S. imports of dairy products have been small for many years. Between 1953 (when absolute quotas were first imposed on imports of dairy products under the provisions of section 22 of the Agricultural Adjustment Act, as amended) and 1965 annual imports had been equivalent to from 0.4 to 0.7 percent of the U.S. output of milk. 1/ During 1966 and 1967, imports of dairy products (in terms of milk equivalent) rose sharply. In each of those years they were about 3 times as large as in 1965. Nonetheless, the ratio of imports to total domestic milk production for 1966 and 1967 was 2.3 and 2.4 percent, respectively.

The increase in imports for those years was attributable to a rise in imports of dairy products not subject to quantitative limitations, especially Colby cheese, butterfat-sugar mixtures such as "Junex" and similar products, and frozen cream. On June 30, 1967, the President imposed section 22 quotas on the imports of dairy products that accounted for about 95 percent of the increase in imports during 1966 and the first half of 1967. 2/

Although imports of dairy products (in terms of milk equivalent) declined in the 6-month period following the imposition of the quotas in mid-1967, they were nonetheless about double--on an annual basis--

1/ Quotas on dairy products under sec. 22 of the Agricultural Adjustment Act, as amended, were first imposed in mid-1953 (Presidential Proclamation No. 3019). Imports of some dairy products had been subject to quotas before then under the provisions of the Second War Powers Act of 1942 and the Defense Production Act of 1950.

2/ Presidential Proclamation No. 3790.

the level of imports that had existed during 1961-65 and roughly triple the level that had existed during 1953-60. During July-December 1967 imports were equivalent to 1.2 percent of domestic production of milk. In the period January-September 1968 imports of dairy products were slightly above the level of July-December 1967, being equivalent to 1.4 percent of domestic production.

When the quotas were imposed in mid-1967 the import trade in dairy products for the remainder of 1967 and early 1968 shifted largely to the articles that were then not subject to quotas. Virtually all of the increase in imports of the products not subject to quotas (in terms of milk equivalent) occurred in cheeses that were not to be sold at retail as natural cheeses (like those entered prior to mid-1967), but were to be used for further processing. During January-June 1968 aggregate imports of products under investigation but not subject to quota amounted to 393 million pounds (milk equivalent), or to 0.6 percent of domestic production of milk.

On June 4, 1968, the Secretary of Agriculture reported to the President that in consequence of accumulated surpluses abroad, certain articles (including cheeses used for processing) were being imported at prices greatly below those for domestic products, and that such articles were practically certain to continue to be imported into the United States under such conditions and in such quantities as to tend to render ineffective or materially interfere with the price-support programs conducted by the Department of Agriculture for milk, butterfat, and products made therefrom, or to reduce substantially the

amount of products processed in the United States from domestic milk. As mentioned earlier, the President on June 10, 1968, requested the Commission to make an investigation under section 22 of the Agricultural Adjustment Act, as amended, with respect to the articles listed on pages 1 and 2 herein. In conjunction with this request, the President proclaimed emergency quotas under section 22(b) on condensed or evaporated milk and cream; 1/ subsequently, on September 24, 1968, he proclaimed emergency quotas on "process" Edam and Gouda cheeses and certain Swiss or Emmenthaler, Gruyere-process, and certain "other" cheeses. 2/ The emergency actions will continue in effect pending the Commission's report in the current investigation and Presidential action thereon. By virtue of these emergency proclamations and by virtue of previous Presidential proclamations, concerning "aged" Cheddar cheese and certain butterfat-sugar mixtures, most of the imports (in terms of milk equivalent) of the products that are the subject of the current investigation have been placed under section 22 quota restrictions for the time being, although Swiss or Emmenthaler cheeses, Gruyere-process cheese, and "other" cheeses priced for export to the United States at 47 cents or more per pound, as provided for in Presidential Proclamation No. 3870 (see appendix A), are quota-free.

In terms of milk equivalent, the articles subject to this investigation (excluding butterfat-sugar mixtures provided for in item 182.92

1/ Presidential Proclamation No. 3856.

2/ Presidential Proclamation No. 3870.

and "aged" Cheddar cheese, which were already under quota before the institution of the present investigation) accounted for nearly 20 percent of the total U.S. imports of dairy products in 1967. In the period July-December 1967 they accounted for nearly 40 percent of total U.S. imports of dairy products and in January-September 1968 they accounted for about 70 percent. Of the articles subject to this investigation (exclusive of butterfat-sugar mixtures provided for in item 182.92 and "aged" Cheddar cheese), Swiss and Emmenthaler cheese with eye formation and Gruyere-process cheese accounted for 51 percent of the imports in January-September 1968; imports under the provisions for certain "other" cheeses (items 117.75 (pt.) and 117.85) accounted for 27 percent of the total; and imports of process Edam and Gouda cheese accounted for 10 percent of the total. The remainder consisted of condensed and evaporated milk and cream, Italian-type cheese not in original loaves, chocolate products, and certain edible preparations.

The following tabulation shows pertinent information on U.S. production, imports, exports, and import restrictions under section 22 with respect to the articles under consideration in this investigation.

Number in President's request	TSUS item	Articles	1965		1966		1967		Jan.-Sept. 1968		Import restrictions under section 22, Agricultural Adjustment Act, as amended	Remarks
			Million Pounds	Million Pounds	Million Pounds	Million Pounds	Million Pounds	Million Pounds	Million Pounds	Million Pounds		
1	115.30	Milk and cream, condensed or evaporated:										
		In airtight containers:										
		Not sweetened:										
		Production:	1,703.4	1,719.8	1,543.2	N.A.	N.A.					
		Imports:	1/	6	1.3	9	4.3					
		Exports:	24.7	38.4	33.8	N.A.	N.A.					
		Sweetened:										
		Production:	95.9	128.6	64.4	N.A.	N.A.					
		Imports:	1.3	2.1	4.1	3.8	4.7					
		Exports:	65.3	92.9	28.6	N.A.	N.A.					
2	115.40	Other:										
		Production:	1,345.6	1,386.0	1,260.4	N.A.	N.A.					
		Imports:	.4	.6	2/	1/	1/					
		Exports:	.6	1.4	.6	N.A.	N.A.					
		Natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months:										
		Imports:	N.A.	N.A.	.5	.5	1.2					
		Exports:										
		Imports:										
		Exports:										
		Imports:										
3	117.25(pt)	Processed Edam and Gouda cheeses:										
		Imports:	2.1	2.9	3.2	2.4	11.5					
		Exports:										
		Imports:										
		Exports:										
		Imports:										
		Exports:										
		Imports:										
		Exports:										
		Imports:										
4	117.40(pt)	Italian-type cheeses, made from cows' milk, except natural cheeses in original loaves:										
		Production:	76.0	81.0	83.0	N.A.	N.A.					
		Imports:	.1	.4	1.5	1.4	.9					
		Exports:										
		Imports:										
		Exports:										
		Imports:										
		Exports:										
		Imports:										
		Exports:										
3, 4, 5, 6	117.75(pt)	Other cheeses and substitutes for cheese (Other than Colby):										
		Production:	1,242.2	1,263.6	1,304.1	N.A.	N.A.					
		Imports:	9.2	18.1	22.9	17.8	30.7					
		Exports:	3.0	2.7	2.9	N.A.	N.A.					
		Imports:										
		Exports:										
		Imports:										
		Exports:										
		Imports:										
		Exports:										

See footnote at end of table.

Number in President's request	TSUS item	Articles	1965		1966		1967		Jan.-Sept. 1968		Remarks
			Million pounds	Million pounds	Million pounds	Million pounds	Million pounds	Million pounds			
6	117.60(pt):	Swiss or Ementhaler cheese with eye formation, Gruyere-process cheese, and cheese processed from such cheeses:									Annual emergency quotas established on September 24, 1968 (TSUS items 950.10A and 950.10B): Swiss or Ementhaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheeses; all the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound: Swiss or Ementhaler cheese with eye formation --4,271,000 lbs. Other than Swiss or Ementhaler with eye formation --3,289,000 lbs.
	117.75(pt):	Imports-----	122.7	136.7	132.2	N.A.	N.A.	N.A.			
	117.85(pt):	Gruyere-process cheese and cheese processed from Swiss or Ementhaler cheese or from Gruyere-process cheese:	10.4	14.8	14.4	10.4	34.9				
		Production-----									
		Imports-----									
		Swiss or Ementhaler cheese	.4	.4	.4	N.A.	N.A.				
		Production-----									
		Imports-----	.4	.4	.4	N.A.	N.A.				
		Chocolate, cocoa, and confectioners' coatings, if containing over 5.5 percent by weight of butterfat:	5.3	9.1	9.8	6.6	16.8				
		Chocolate:									
7	156.20(pt):	Not sweetened:									Data are not available on the domestic production of chocolate products which contain over 5.5 percent of butterfat; it is known, however, that most of the chocolate articles produced in the United States contain less than 5.5 percent of butterfat. The imported article in item 7 of the President's request with which the investigation is principally concerned is chocolate crumb (TSUS item 156.30 (pt.)); the other items were included to preclude any "quota avoidance" of possible quotas on chocolate crumb.
		Imports-----									
	156.25(pt):	Sweetened:									
		In bars or blocks weighing 10 pounds or more each:									
		Imports-----									
	156.30(pt):	Other:	1.6	.9	.8	.4	.6				
		Imports:									
		Chocolate crumb:	2.0	6.5	21.5	12.3	31.8				
		Other-----	3.9	4.2	4.4	2.3	4.3				
		Imports:									
8	156.40(pt):	Cocoa, not sweetened:									Annual quotas: Certain articles containing more than 45 percent of butterfat (TSUS item 950.12)-----Zero Certain articles containing over 5.5 percent but not over 45 percent by weight of butterfat (TSUS item 950.13) --2,580,000 lbs. The embargo on products containing more than 45 percent butterfat became effective in August 1957; the quota on products containing over 5.5 percent butterfat became effective July 1, 1967 and was based on the volume of imports in 1961-65.
	156.45(pt):	Cocoa, sweetened:									
	156.47(pt):	Confectioners' coatings-----									
		Edible preparations, not specially provided for, containing over 5.5 percent by weight of butterfat:									
		Imports:									
	182.98(pt):	Not packaged for retail sale-----	.7	107.6	100.5	99.4	.8				
		Other-----									
	182.99(pt):	Imports-----									
		Other-----									

1/ Less than 50,000 pounds.

With the exception of process Edam and Gouda cheese, Gruyere-process cheese, and butterfat-sugar mixtures, imports have supplied a small share of domestic consumption of the articles under investigation. In the United States, natural Edam and Gouda cheeses are produced, but not further processed; Gruyere-process cheese is produced in small quantities, and butterfat-sugar mixtures, as such, are not produced at all.

Findings 1/

On the basis of the investigation, the Commission finds:

1. That the articles described below are being, or are practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the United States Department of Agriculture for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat:

- (a) Milk and cream, condensed or evaporated, provided for in items 115.30, 115.35, and 115.40 of the Tariff Schedules of the United States (TSUS);
- (b) Natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced;
- (c) Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses;
- (d) Italian-type cheeses, made from cows' milk, not in original loaves (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), and cheese and substitutes for cheese containing, or processed from, such Italian-type cheeses, whether or not in original loaves;
- (e) Cheese and substitutes for cheese provided for in items 117.75 and 117.85 of the TSUS (except cheese not containing cows' milk; cheese, except cottage cheese, containing no butterfat or not over 0.5 percent by weight of butterfat; and articles with-

1/ Commissioners Leonard and Newsom did not participate in this investigation. Commissioners Thunberg and Clubb are wholly in agreement with respect to findings and recommendations and therefore constitute a majority within the meaning of section 330(d) of the Tariff Act of 1930, as amended. The differences between them and Chairman Metzger and Vice Chairman Sutton on the findings are indicated in footnotes.

in the scope of other import quotas imposed under section 22); 1/

- (f) Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheeses;
- (g) Chocolate provided for in item 156.30 of the TSUS, if containing over 5.5 percent by weight of butterfat (except articles which are ready to eat and are in retail packages of not over one pound each, net weight); 2/
- (h) Articles provided for in items 182.92 and 182.95 of the TSUS containing over 5.5 percent by weight of butterfat, the butterfat of which is commercially extractable, or which are capable of being used for any edible purposes (except articles which, as imported, are not suitable for use as ingredients in the commercial production of edible articles).

2. That the articles specifically excepted above from findings 1(e), 1(g) and 1(h) and the articles in items 156.20, 156.25, 156.40, 156.45, and 156.47 of the TSUS are not being and are not practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the United States Department of Agriculture for milk and butterfat, or to reduce

1/ For the purposes of this finding, the emergency quota imposed by Proclamation 3870 is to be disregarded since it will be terminated when the President takes final action after receipt of the Commission's report.

2/ Vice Chairman Sutton, in addition to finding affirmatively with respect to the articles in item 156.30, also finds in the affirmative with respect to the articles in items 156.20, 156.25, 156.40, 156.45 and 156.47 of the TSUS, if containing over 5.5 percent by weight of butterfat, but subject to the exception above noted with respect to articles which are ready to eat and in retail packages of not over one pound each net weight.

substantially the amount of products processed in the United States from domestic milk and butterfat. 1/

3. That for the purposes of the 50-percent clause in the first proviso to section 22(b), the representative period for imports described in findings 1(a), 1(c), 1(d), 1(e), 1(f) and 1(g) is the calendar years 1965 through 1967, inclusive. 2/

Recommendations 3/

The Commission recommends that the President issue a proclamation pursuant to section 22(b)--

- (a) establishing for each calendar year after 1968 quantitative limitations on the products covered by finding 1, as follows:

Finding 1(a): 3,935,000 pounds
 Finding 1(c): 2,907,000 pounds
 Finding 1(d): 740,000 pounds
 Finding 1(e): 17,606,000 pounds
 Finding 1(f): Natural -- 13,904,000 pounds
 Other ---- 8,528,000 pounds
 Finding 1(g): Item 156.30: 10,436,000 pounds
 Finding 1(h): Same quota quantities as at present
 under items 950.12 and 950.13

- (b) allocating "aged" Cheddar (finding 1(b)) by country.

1/ Chairman Metzger also finds in the negative with respect to--
 (1) cheese and substitutes for cheese described in finding 1(e) and the Swiss or Emmenthaler cheese with eye formation described in finding 1(f) if having a purchase price (as defined in Presidential Proclamation 3870 of September 24, 1968) of 37 cents or more per pound.
 (2) Gruyere process cheese in individually wrapped pieces weighing not over 3 ounces each (finding 1(f)); and
 (3) chocolate in item 156.30 (finding 1(g)).

2/ Chairman Metzger finds that the representative period is the calendar year 1967. Vice Chairman Sutton finds that the representative period is the calendar years 1963 through 1965, inclusive.

3/ See footnote 1/, page 11. The differences between Commissioners Thunberg and Clubb and Chairman Metzger and Vice Chairman Sutton on the recommendations are fully explained in the individual statements of each Commissioner.

The Commission recommends that the proposed quotas be administered by means of a licensing system to assure an equitable distribution of the quotas among importers, users, and supplying countries. Such licensing procedures, to be administered by the U.S. Department of Agriculture, would be in keeping with the administration of nearly all other quantitative restrictions on U.S. imports of dairy products. To be equitable, the allocation of the quotas among supplying countries, while based upon the shares they supplied during a representative period, must reflect any special factors that have affected or may currently be affecting trade in the articles concerned. The principles set forth in Article XIII of the General Agreement on Tariffs and Trade (GATT) should be fully observed in the administration of the quotas. This article provides rules for the administration of quantitative restrictions to which the United States and the other GATT members have agreed.

Statement of Commissioner Thunberg
in which Commissioner Clubb Concurs

Mounting agricultural surpluses--including surpluses of dairy products--which are presently inundating the European Economic Community (EEC), buttressed by the Community's policy of subsidizing exports, make it clear that milk products from Europe can be landed in the United States at price levels substantially below those which have prevailed in this country in recent years. Pressures to minimize the costs of the Community's Common Agricultural Policy will, moreover, encourage the conversion of milk into any product which can be sold abroad for more than the cost of delivering it. In addition, excess dairy product output in the EEC has caused the accumulation of surpluses in other dairy-producing countries which formerly had exported sizable quantities to members of the Common Market. Exports of these third countries (primarily Denmark, Switzerland, Finland, and Austria), having been replaced by domestic output in the EEC, are increasingly seeking outlets in the high-priced U.S. market. The existence of this surplus milk production in Europe makes practically certain mounting imports of virtually all dairy products whose entry into the United States is not subject to quantitative restrictions.

These facts--surplus production and subsidized exports abroad--combined with the near-term likelihood of continuing price rises in the United States clearly imply that an attempt to regulate only imports of low-priced cheese is futile. Permitting unrestricted entry to table-quality cheese priced higher than a stated minimum (e.g., higher than 37 or 47 cents per pound) will cause increased production and exports of this type of cheese from the surplus countries to the United States market. Other things being equal, as costs of U.S. dairy farmers continue to increase, present percentages of parity prices can be maintained only by raising U.S. support prices. With higher support prices imports would increasingly displace U.S. domestic production. Quite apart from the difficulties of administering such a price-determined quantitative restriction, therefore--and these administrative difficulties are many--relative price conditions are such that unrestricted imports of high-priced table-quality cheeses would be disruptive to domestic support programs. The requirements of section 22 of the Agricultural Adjustment Act, as amended, therefore, make essential restrictions on all imports of dairy products--of products, that is, in which the cost of milk or butterfat represents a significant fraction of total cost.

An estimate of the amount of dairy products which could be imported into the United States without endangering the price-support program for milk is especially difficult both because of the many policy decisions required by law of the Secretary of Agriculture and the President in regard to prices, support levels, parity and production, and because of varying prices and agricultural policies abroad. Nonetheless a study of recent market trends suggests that imports in the range of one to one-and-a-quarter billion pounds (milk equivalent) could be absorbed with no further accumulation of Government stocks, given present levels of production, consumption and prices. ^{1/}

^{1/} During the first part of the year 1966 at the then prevailing prices demand and supply relationships for dairy products in the United States appeared to be in approximate balance. Aggregate stocks, commercial and Government, appeared stable at about 4.5 billion pounds (milk equivalent); imports amounted to nearly one billion pounds at an annual rate.

During the preceding four years, 1962-65, total stocks held in the country had been steadily reduced from a level of 12 billion pounds in 1962. During the same period imports fluctuated around 850 million pounds annually, varying from 800 million in 1962 to 925 million in 1965. This was an interval of stability in parity levels at 75 percent with the CCC support objective for manufacturing milk rising gently from 3.11 cents per pound in 1962 to 3.24 cents in 1965. During these years the market price of butter at Chicago averaged 59 cents per pound.

On June 30, 1966, the CCC support price for milk for manufacturing was raised to 4 cents per pound, or 89.5 percent of parity from a level of 75 percent of parity that prevailed during the period 1962-65. The market price of butter at Chicago rose to 69 cents per pound; imports rose to a rate approaching 3 billion pounds a year and aggregate stocks began again to accumulate.

My recommendations for quantitative restrictions on imports of the dairy products under investigation, together with those restrictions already existing, aggregate approximately one billion pounds. Because U.S. price-support programs do not include milk other than cow's milk (such as sheep's milk or goat's milk), my estimate of aggregate import capability is concerned with cow's milk and cow's milk products. My recommendations for quantitative restrictions consequently exclude products of milk other than cow's milk and are distributed among the categories under investigation in proportion to U.S. imports in 1965-67 (average) as shown in the accompanying table. ^{1/} Because milk accounts for nearly 50 percent of the cost of producing chocolate crumb in the United States, I have included within the proposed quotas articles provided for in TSUS item 156.30 if containing over 5.5 percent by weight of butterfat (except articles which are ready to eat and are in retail packages of not over one pound net weight).

Because milk represents less than one quarter of the total cost of the chocolate and cocoa items covered by this investigation,

^{1/} For purposes of the 50-percent clause in the first proviso to section 22(b), the representative period for imports of the articles under investigation would thus become the calendar years 1965-67, inclusive.

other than chocolate crumb, I find no material interference, or practical certainty thereof, with the support programs for milk and butterfat, and, therefore, make no recommendations for quantitative restrictions on such items.

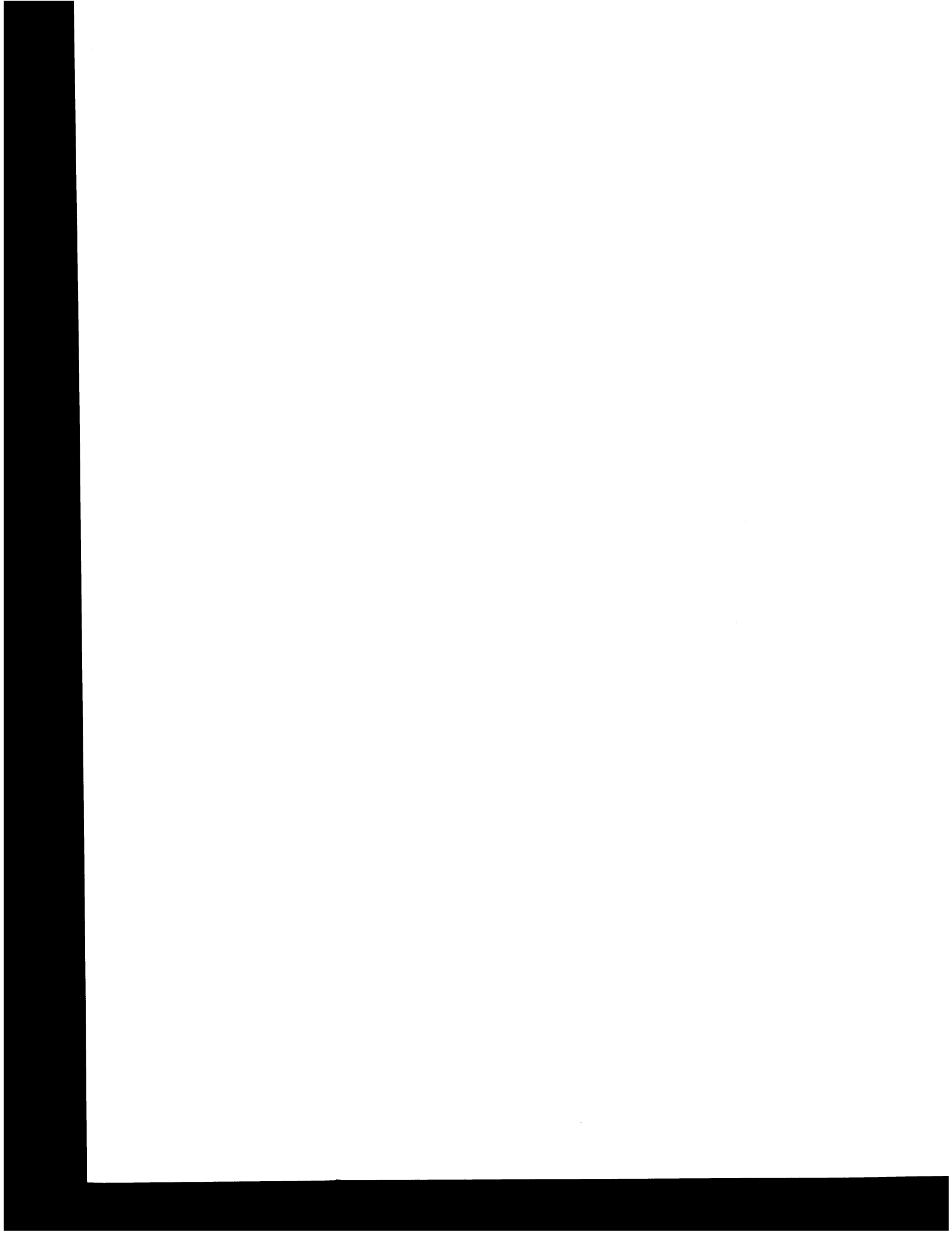
On "aged" Cheddar cheese, I recommend continuation of the existing quantitative restriction of 1,225,000 pounds annually, with country allocations. On the edible preparations in bulk classifiable under TSUS item 182.92 (consisting largely of butterfat-sugar mixtures), I recommend continuation of the existing annual quota of 2,580,000 pounds and redefinition of the quota provision to include the same type products in retail-size containers (now entered under TSUS item 182.95) with no change in the amount of the quota.

The quantitative restrictions I recommend are shown in the following tabulation, which also shows the computations used in arriving at the recommended amounts:

Product (abbreviated description)	Average annual U.S. imports 1965-67	Milk equivalent of average imports		Factor used to convert product weight to milk equivalent	Recommended quantitative restrictions	
		Quantity	Percent of total		Milk equivalent	Product weight
	<u>Million pounds</u>	<u>Million pounds</u>		<u>Pounds</u>	<u>Million pounds</u>	<u>Thousand pounds</u>
Condensed and evaporated milk and cream-----	3.5	8.0	2.2	2.20	8.7	3,935
Process Edam and Gouda cheeses-----	2.7	20.7	5.6	7.58	22.0	2,907
Italian-type cheeses not in original loaves-----	.7	5.5	1.5	7.98	5.9	740
Swiss or Emmentaler cheese-----	13.2	111.9	30.0	8.49	118.0	13,904
Gruyere-process cheese-----	8.1	73.5	19.7	9.09	77.5	8,528
Certain "other" cheese (except cheese not containing cow's milk)-----	16.8	130.2	34.9	7.80	137.3	17,606
Chocolate crumb-----	10.0	22.8	6.1	2.30	24.0	10,456
Total-----	<u>1/</u>	<u>372.6</u>	<u>100.0</u>	<u>1/</u>	<u>393.4</u>	<u>1/</u>

1/ Not meaningful.

I recommend that the quotas proposed in the tabulation be administered by means of a licensing system, such as that currently employed by the Department of Agriculture in administering quantitative restrictions on U.S. imports of most dairy products, so as to assure an equitable distribution of the quotas among importers, users, and supplying countries. To be equitable in the allocation of the quotas among supplying countries, the distribution of trade should, to the fullest extent practicable, reflect any special factors which may have affected or may be affecting the trade in the product in the representative period. Thus, in the case at hand, special consideration should be given to those countries which have not in recent years disrupted the domestic market--even though they possessed the capability of doing so--by restricting, or by not subsidizing, their exports to the United States. These countries should not now be penalized in the allocation of quotas because of their cooperation in such efforts. Rather, I suggest that the principles of Article XIII of the GATT be fully observed.



Concurring Statement of Commissioner Clubb

I concur in Commissioner Thunberg's findings, recommendations, and considerations in support thereof, but a more complete statement of my views may be desirable.

The President has directed the Commission, pursuant to Section 22 of the Agricultural Adjustment Act, ^{1/} to determine in substance whether the importation of certain dairy products threatens to interfere materially with the operation of the domestic price support program for milk and butterfat and, if so, to make recommendations for import restrictions which will prevent the interference. ^{2/}

^{1/} Originally enacted as 1935 amendment to the Agricultural Adjustment Act of 1933 (49 Stat. 773), and designated as Section 22 of that Act. Later made applicable to the Soil Conservation Act (49 Stat. 1152), and reenacted as part of the Agricultural Marketing Agreement Act of 1937 (50 Stat. 246). Now codified at 7 U.S.C. § 624 (1964), it is still commonly known as Section 22. It reads in pertinent part as follows:

(a) Whenever the Secretary of Agriculture has reason to believe that any article or articles are being or are practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with . . . any loan, purchase, or other program or operation undertaken by the Department of Agriculture . . . with respect to any agricultural commodity or product thereof, . . . he shall so advise the President, and, if the President agrees that there is reason for such belief, the President shall cause an immediate investigation to be made by the United States Tariff Commission. . . . Such investigation shall be made after due notice and opportunity for hearing to interested parties, and shall be conducted subject to such regulations as the President shall specify.

(b) If, on the basis of such investigation and report to him of findings and recommendations made in connection therewith, the President finds the existence of such facts, he shall by proclamation impose . . . such quantitative limitations on any article or articles which may be entered, or withdrawn from warehouse, for consumption as he finds and declares shown by such investigation to be necessary in order that the entry of such article or articles will not render or tend to render ineffective, or materially interfere with, any program or operation referred to in subsection (a) of this section

The price support program for milk and butterfat grew out of the efforts of the Government to help the United States farm population recover from the effects of the great depression of the 1930's. Under the Agricultural Adjustment Act of 1933 ^{3/} the Government attempted, on the one hand, to limit the domestic production of farm commodities and on the other to offer stated minimum prices for the amount that was produced. ^{4/}

^{2/} The President's letter of June 10, 1968, (33 Fed. Reg. 8758-59) first states that the required preliminary Section 22 proceedings had taken place with respect to certain condensed and evaporated milk and cream, aged Cheddar cheese, processed Edam and Gouda cheese, certain Italian-type cheese, certain "other" cheeses, Swiss, Emmenthaler and Gruyere-process cheese, certain chocolate products and other dairy products, and then stated:

The United States Tariff Commission is therefore directed to make an immediate investigation under section 22 of the Agricultural Adjustment Act, as amended, to determine whether the above-described articles are being, or are practically certain to be, imported under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with the price support programs now conducted by the Department of Agriculture for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat, and to report its findings and recommendations to me at the earliest practicable date.

^{3/} 7 U.S.C. § 601 et seq. (1964).

^{4/} Under the present price-support program for milk and butterfat, the Department of Agriculture sets a milk price objective and the Commodity Credit Corporation (CCC) stands ready to buy certain products made from milk at prices designed to maintain the milk price at the support level. Thus, when the price of milk declines, the CCC buys butter, nonfat dry milk, and Cheddar cheese. By purchasing those quantities offered to it, the CCC keeps the price of milk from falling below the support level. Production of milk is not limited, however.

Section 22 was added in 1935 ^{5/} when it became clear that the higher support price for butter in the United States was attracting increased imports. The sponsor of the amendment explained that it was necessary because:

During the past winter, just as soon as butter got near the parity price, they started shipping in boatloads of butter from foreign countries, which depreciated the price of our butter. It is impossible under the present circumstances to get prices above the world level and our 14-cent tariff. Just as soon as it gets above that price they start importing butter from foreign countries and it puts the price of our butter down. 79 Cong. Rec. 9469, (1935). (Remarks of Cong. Boileau.)

This sentiment was echoed in the House report approving the provision, ^{6/} and in the Senate debates. ^{7/}

^{5/} When the Agricultural Adjustment Act was held unconstitutional in 1936 (United States v. Butter 297 U.S.1) Congress enacted a new price-support program by way of an amendment to the Soil Conservation Act, (49 Stat. 1152 (1936), and made Section 22 of the Agricultural Adjustment Act applicable to it. Subsequently Section 22 was reenacted in the Agricultural Marketing Agreement Act of 1937 (50 Stat. 246).

^{6/} Efforts to restore agricultural prices in this country will not be wholly successful if competitive foreign imported articles are allowed to take the domestic market away from the domestic products. H.R. Rep. No. 1241, 74th Cong., 1st Sess. 21 (1935).

See also the House debates which make it clear that Section 22 was designed to prevent the price depressing effects of imports. Thus, the author of the provision stated:

The bill . . . sets up certain regulations to be followed which will result in the fixing of a quota or the imposition of a tax upon the imports of those commodities, if the Tariff Commission finds that those imports or threatened imports actually are depressing the price of our domestically produced commodities.

. . . .

Accordingly, the question now before the Commission is whether imports of the products specified by the President are, or are practically certain to, either prevent the price-support objective for milk and butterfat from being achieved, or require the CCC to purchase excessive quantities of dairy products in order to achieve it.

6/ Continued:

I am satisfied that this provision of the bill will be of immeasurable benefit to many of the farmers in this country, particularly the dairy farmers, who have, during the past few months, suffered as a result of the importation of butter, which has depressed our price level and kept it below a fair exchange value. 79 Cong. Rec. 9467-68 (1935). (Emphasis added.)

Similarly, at another point in the House debates Congressman Boileau stated:

For instance, in the case of butter . . . if the Agricultural Department should enter into a program of buying butter for the purpose of relieving bad conditions in the market, . . . the President would be compelled, if he found that the importations of butter were affecting the price, to either put on a tax or impose a quota, or in some other way restrict the importation of that commodity. . . .

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If butter, for instance, is selling at 10 cents below parity, and we can prove that there have been millions of pounds of butter imported into this country since the first of the year, and if we can show that this importation of butter has caused the price of butter to be below parity, as I believe we can, then there is no discretion left in the President, because under those circumstances he shall cause this investigation to be made. (Emphasis added.) 79 Cong. Rec. 9468 (1935).

7/ The provision was omitted from the Senate Committee version of the bill, but added on the Senate floor, where, on introducing the amendment, Senator LaFollette said:

We have embarked upon a program of endeavoring, by the Agricultural Adjustment Act, to lift the domestic prices of certain agricultural commodities named therein to the parity price, or fair-exchange-value price.

The price of milk has been slightly lower than the support objective recently. However, over the past two and one-half years the Secretary of Agriculture has found it necessary to increase the domestic price support objective for manufacturing milk by 24 percent (from \$3.24 per cwt. to \$4.28 per cwt.) in order to achieve the higher level of milk production in the United States believed desirable. ^{8/} The latest stage of the increase became effective in

7/ Continued:

Mr. President, having adopted that policy, it would be not only futile but inconsistent for us to permit imports to be brought into this country to break the prices of the commodities which are affected by the Agricultural Adjustment Act, and which we are endeavoring to lift to the fair-exchange value or the parity price. 79 Cong. Rec. 11498-8 (1935).

^{8/} Thus, when the price support objective for milk was increased from \$3.50 to \$4.00 in June 1966, a Department of Agriculture press release quoted the Secretary as stating that such action was necessary to avert a "dangerously tight supply situation and to reverse trends in the dairy industry which have seen dairy farmers leaving the farm at an alarming rate at the same time that cows are being slaughtered at record volume." In addition, the Secretary is reported to have said:

I am taking these steps today to insure consumers adequate [sic.] supplies of milk and dairy products in the months ahead, and to provide dairy farmers with an opportunity to share more equally in the general prosperity most Americans enjoy today.

I have been deeply concerned for many months about the decline in dairy production, and the implicit threat which a continuation of this trend would have to consumer supplies of milk and dairy products.

.

If these trends continue, and dairy supplies continue to decline, then I am fearful that unprecedented increases in consumer prices could result.

April 1968. Accordingly, the slightly lower price this year probably reflects in large part the ordinary delay between the announcement and the achievement of higher support prices.

This price performance appears to have been accomplished without abnormally high purchases of dairy products by the CCC. Purchases have varied over the past ten years from less than one billion pounds milk equivalent in the lowest year to almost 11 billion pounds milk equivalent in the highest. (See Fig. A.) The great bulk of these purchases have been utilized under the National School Lunch Program, various welfare and foreign aid programs, or have been donated to the military. Accordingly, large stocks have not been accumulated despite the CCC purchases.

8/ Continued:

Thus, these actions today will encourage dairy farmers to continue in dairying, to slow up their culling of herds and to increase their feeding rate. It also will insure that the dairy farmer, who has always been on the low end of the economic totem pole, will receive a deserved increase in what he earns for his skill and labor. USDA Press Release No. 1994-66.

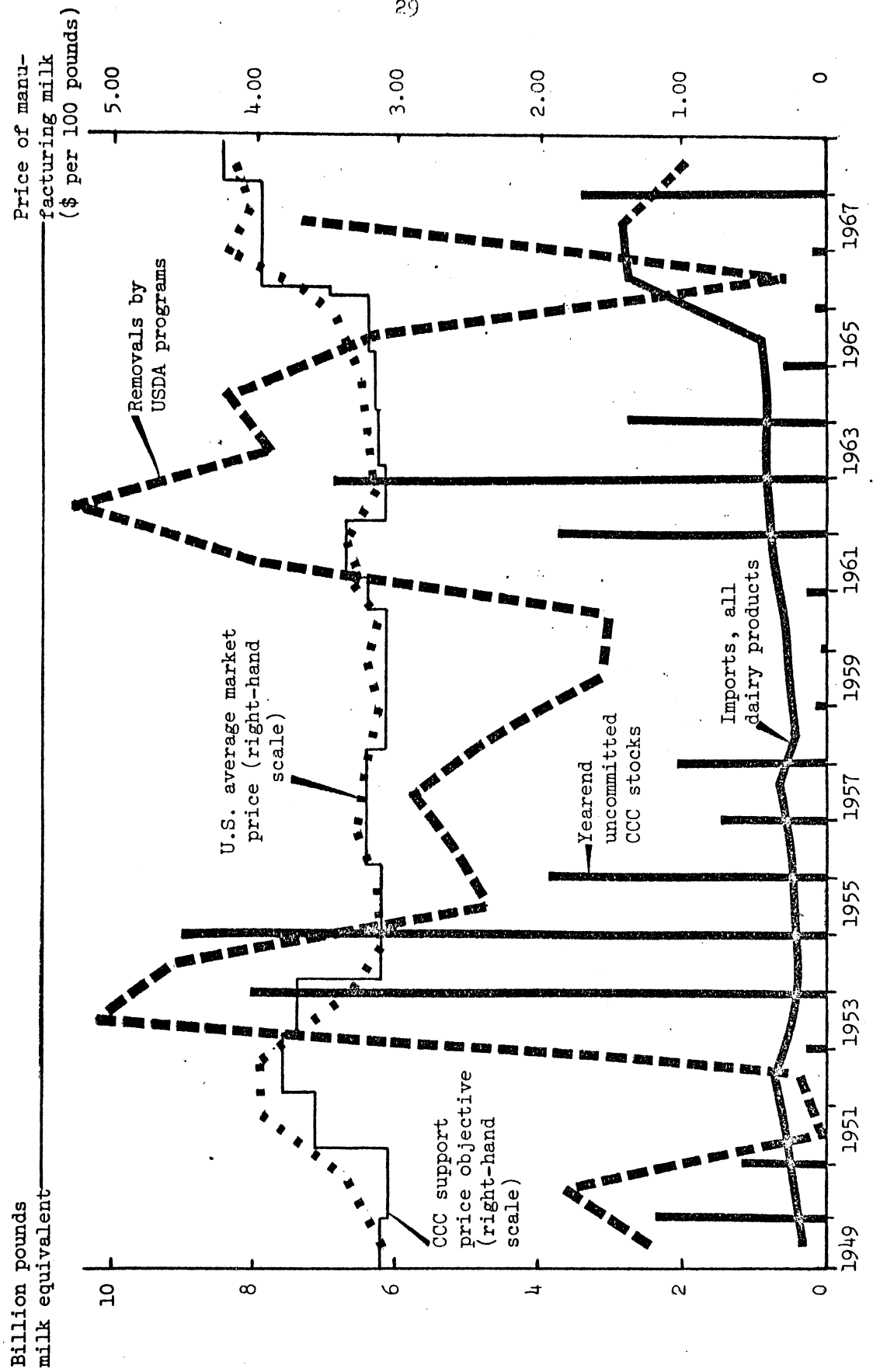
On March 20, 1968, when the support objective was again increased, the Department issued a press release attributing the following statements to the Secretary:

He said the actions were being taken to insure adequate supplies of milk for the year ahead. . . .

". . . While price support increases in 1966 and higher minimum prices for fluid milk in the Federal market order areas have helped to slow the decline [in milk production], they have not reversed it," the Secretary said.

"The action I am announcing today will assure the American consumer of an adequate supply of milk by strengthening the price paid to producers, who now face higher operating costs than a year earlier," the Secretary said. USDA Press Release No. 907-68.

Figure A.--Dairy products: CCC support objective, market prices, CCC stocks, removals by USDA programs, and imports, 1949-68



It seems clear that some of the disposal programs have become so ingrained into areas of public policy other than farm price supports that they can no longer be counted entirely, or perhaps even primarily, as surplus disposal programs. Rather, at least some represent a continuing Government commitment which apparently will be met regardless of availability of surplus stocks. Thus, in 1965, when prices were above support levels, but sufficient surplus stocks were not on hand to fuel the welfare-disposal programs, Congress enacted legislation permitting the Department to buy additional stocks at the market price.^{9/} This action seems to affirm that some Department of Agriculture purchases will be made whether or not required for price support reasons.^{10/} The authorization to purchase supplies above the support

^{9/} 79 Stat. 1187 (1965), which reads as follows:

Sec. 709. The Secretary of Agriculture is hereby authorized to use funds of the Commodity Credit Corporation to purchase sufficient supplies of dairy products at market prices to meet the requirements of any programs for the schools (other than fluid milk in the case of schools), domestic relief distribution, community action, foreign distribution, and such other programs as are authorized by law, when there are insufficient stocks of dairy products in the hands of Commodity Credit Corporation available for these purposes.

During fiscal year 1967, \$14.2 million was expended under this authority (Table 4, p. A-110) to purchase dairy products with a milk equivalent of approximately 359 million pounds.

^{10/} The Senate Report on this provision stated:

Domestic and foreign school lunch, welfare, and other programs have been extremely important outlets for large stocks of dairy products acquired under the mandatory dairy price-support program. These uses have helped prevent the accumulation of stocks beyond available storage space. Through them, the United States has shared the abundance of American agriculture with needy people at home and abroad.

price, plus the Secretary's increase in the support objective in order to prevent shortages, suggests that the stocks acquired in recent years have not been excessive.

10/ Continued:

Donation programs of this scope and magnitude require extensive planning and negotiating on the part of many people and many governments. They must negotiate for program supplies well in advance of program uses. Wide fluctuations in supplies and temporary interruptions in the flow of supplies involve major, serious problems in establishing and operating the programs, as well as in international public relations. This is emphasized by the fact that half of the nonfat dry milk acquired under the support program since 1954 has been used in the food-for-peace program.

There have been two principal problems in assuring a reasonably uniform and continuous flow of nonfat dry milk in the donation outlets. One is the wide seasonal variation in production and therefore in the volume of surplus available for program uses. The second problem is the wide fluctuations in commercial sales. CCC's sales of dairy products to both the domestic and export commercial markets have been extremely erratic as a result of changing market supply and demand conditions.

Section 709 would be useful in making possible more definite and reliable planning, and administering on a continuing basis, the human food programs which undoubtedly will be needed as outlets for future surpluses. S. Rep. 687 on H.R. 9811, 89th Cong., 1st Sess. (1965), p. 72.

It seems clear, however, that unless restrained, imports of the specified dairy products are practically certain to interfere materially with the price-support program in the future. In large part this is true because at the same time that prices in the United States are being supported at record levels, export prices to the United States are being depressed by EEC surpluses and export subsidies. The Common Market countries have stimulated greatly increased production of milk with the institution of the Common Agricultural Policy. Unable to consume the increased production, the EEC countries have been rapidly accumulating stocks of dairy products, and in effort to keep such stocks at manageable levels, the EEC has begun a vigorous export promotion program fueled by export subsidies (apparently up to 158% of the cost has been authorized for some products--see p. A-30) designed to insure that EEC dairy products will be available at sufficiently low prices to enter any market open to them.

Under these conditions United States importers and foreign exporters are encouraged to convert milk into any form in which it can lawfully enter the United States. It is therefore not surprising that those quota free products made from cow's milk (e.g., natural cheese, processed cheese, and condensed and evaporated milk) as well as those products in which milk is a significant ingredient (e.g., chocolate crumb and Junex) have been imported in increasing volume. Frequently, products have been tailored so that they fall just outside the quota description, thus achieving quota free entry until governmental action can be taken to stop them. Given the present foreign

and domestic price relationships, it is clear that unrestricted imports of the specified products are practically certain to interfere with the price-support program.

Suggested Quota Levels

In my judgment the important consideration in setting quota levels is to arrive at an overall level of milk equivalent which may be imported without interfering materially with the price-support program. While such a level cannot be set with mathematical precision, Commissioner Thunberg and I place it in the neighborhood of $1-1\frac{1}{4}$ billion pounds. Existing quotas are subtracted from 1 billion and the remainder is distributed among the products involved in this investigation ^{11/} in accordance with the 1965-67 experience (the representative period generally suggested by the Department of Agriculture at the hearing) as described in Commissioner Thunberg's statement. The products formerly under quota plus those involved in this proceeding make up virtually all of the dairy products imported into the United States (with the exception of sheep's milk cheese and other less competitive articles). Accordingly, implementation of our recommendation would hold the total level of dairy imports to the desired level of approximately $1-1\frac{1}{4}$ billion pounds milk equivalent, until the new and inevitable avoidance schemes are devised. (See below, Suggestion for Future Consideration of Dairy Import Restrictions.)

^{11/} Those products, that is, on which affirmative action is recommended (excluding those products which are already subject to permanent quotas).

Our differences with Vice Chairman Sutton are very slight. Instead of starting out with the overall level of milk equivalent which can be safely imported, and then distributing that amount over all dairy products, he has started out by setting a quota for each product involved in this investigation (using a different representative period). The aggregate of the existing quotas plus those recommended by the Vice Chairman would permit imports in the neighborhood of 860 million pounds milk equivalent. When sheep's milk cheese and other less competitive dairy products are added, the total milk equivalent amounts to about 1 billion pounds. The corresponding figure under the majority's recommendation would be about 1.17 billion pounds. Differences on specific products are more pronounced, however, being influenced both by the different total amount, and the different representative period used.

The majority's differences with Chairman Metzger are somewhat more substantial. Like the Vice Chairman, he begins with quotas for the individual products which together with existing quotas amount to about 900 million pounds milk equivalent. In addition, however, the Chairman would leave quota free chocolate products, certain higher priced cheese, and Gruyere-process cheese in small packages and, in my judgment, it is not possible to predict how much would be imported under these exceptions, if quotas are established for everything else. I feel that such exceptions merely invite new avoidance schemes, and accordingly recommend that they be held to a minimum. If imports of these products remain small, they can be imported under

the recommended quotas. If they remain quota free, and imports become more substantial, a new section 22 proceeding would soon no doubt be required.

Suggestion for Future Consideration of Dairy Import Restrictions

Restrictions on dairy imports have grown over the years in a haphazard fashion with little attempt being made to establish a coordinated system. This has resulted in the present constantly troublesome, patchwork system of quotas for narrowly defined individual products. About one-half of competitive dairy imports were covered by such quotas before this investigation, and if the Commission's recommendations are adopted, virtually all of the other half will be. Such controls will probably be with us for some time. Accordingly, it would probably be desirable to establish them on a basis that would permit maximum flexibility to provide for new products and new producers, and to provide greater consumer satisfaction.

The history of dairy import controls established pursuant to Section 22 ^{12/} has been one of constant readjustment in order to prevent "evasions" of the quota restrictions. The original controls

^{12/} Prior to World War II dairy imports were restricted only by tariffs and health regulations. Under the Second War Powers Act of 1942 and War Food Order 63 import quotas were established on butter, dried skim milk, dried whole milk, condensed and evaporated milk, and cheese. Quotas on cheese, evaporated milk, dried skim milk, dried whole milk, and condensed milk were removed in 1947, but controls on butter, and later butter oil, were continued under various acts.

The import control authority under the Second War Powers Act was permitted to expire on July 31, 1951, and the Agricultural Import Order (which replaced War Food Order 63) thereupon terminated, but the controls on butter and butter oil were continued under § 104 of the Defense Production Act amendments of 1951. (The foregoing

established in 1953, imposed quotas on narrowly defined categories of dairy products, including butter and certain cheeses. In 1955 the Secretary asked for additional action under section 22 because

Certain manufactured dairy products which have not been considered by the Bureau of Customs to be subject to the Proclamation, are indistinguishable from articles controlled under the import quota, and imports of such articles will greatly reduce the effectiveness of the Proclamation. . . .

.

Recourse to some minor variation or modification in composition, characteristics, or appearance provide an almost limitless means of evading the Proclamation, and result in rendering the Proclamation ineffective.

Other avoidance schemes soon followed. In 1957 butter oil, hitherto little used in the United States, suitable for use in ice cream, but not covered by a precise wording of existing quotas on butter, was brought under section 22 controls when imports increased sharply. Later in 1957 a new product called "Exylone" was developed, which did not answer to the quota descriptions for either butter or butter oil, but which was nonetheless high in butterfat content and suitable for use in ice cream. When imports of this product jumped dramatically over a period of a few months, it, too, was brought

12/ Continued:

historical material is taken from USDA Production and Marketing Administration Memorandum entitled "Import Control Authority and Actions Prior to Controls Under Section 104", dated May 4, 1953.) In 1951 imports of cheese were also subjected to quantitative restrictions and all three restrictions were continued under that authority until July 1, 1953, when new controls were established under Section 22 of the Agricultural Adjustment Act following a Tariff Commission determination that upon the expiration of Section 104 controls, these products were practically certain to be imported in such quantities as to interfere with the domestic price support program. (See, Report to the President under Section 22 of the Agricultural Adjustment Act, Specified Manufactured Dairy Products, etc., U.S. Tariff Commission, June 1953, pp. 17-20.)

under section 22 controls. In June 1967 additional section 22 action became necessary to control the sudden increase in imports of Colby cheese and a product called "Junex." (This latter perhaps derived its name from "Junior Exylone" because it was similar to Exylone but had a lower butterfat content.) It fit none of the existing quota descriptions, but nonetheless was suitable for use in ice cream. Now, only slightly more than a year later it has again become necessary to take section 22 action to counter sudden increases in still other dairy products, and it is probably only a matter of time until new products are developed or existant ones are modified so as to avoid falling into one of the many narrowly defined categories of existing quotas. Such products, being quota free, will no doubt require additional action under section 22.

Probably most of the avoidance problems which have arisen, and will arise, under the present system could be remedied by the institution of overall country quotas for milk equivalent. Under such a system, the total amount of milk which could be imported without interfering with the price-support program would be estimated (here suggested as $1-1\frac{1}{4}$ billion pounds), and this amount would be divided among exporting countries in accordance with an equitable formula. When any dairy product was imported, its milk equivalent (21.5 lbs. for a pound of butter, 10 lbs. for certain cheeses, etc.) would be calculated and charged off against the quota for the exporting country, until the country's milk equivalent quota had been filled. In this way it would not be necessary to take new section 22 action each time a new dairy product was developed, or an existing one modified.

Rather, the milk equivalent of the new product would simply be charged off against the exporting country's quota for the year. If successful, such a system would put an end to the dairy "quota game", (see, U.S. Tariff Commission Report to the President on Inv. No. 16 (Certain Articles Containing 45 Percent or More of Butterfat. . . .) Section 22 AAA, July 1957, p. 12) wherein the exporters, on one side, constantly try to devise products which will not fit existing quotas, and the government administrators, on the other, try to devise narrowly defined quotas to fit the new trade situation.

Not only would such a system present less opportunity for avoidance, but experience suggests it might also promote greater competition among foreign dairy product manufacturers in the United States market, thus creating an atmosphere in which the United States consumer is likely to get a greater variety of products at lower prices. Moreover, since this system would not permit overall imports of dairy products to be increased, there is no reason to believe that it would have any adverse effect upon U.S. milk producers or the price-support program.

It may be possible that such a system could be established under section 22. In any event, it should not be discarded without more detailed study. ^{13/} Accordingly, the President may wish to consider the possibility of asking the Commission to undertake such a study.

^{13/} See S. 612, and Hearings on S. 612, Senate Agriculture and Forestry Committee (Subcommittee), 90th Cong., 1st Sess. (May 16-19, 1967). See also, Hearings of the House Appropriations Committee (Subcommittee) on Department of Agriculture and Related Agencies Appropriations, 90 Cong., 1st Sess. (Feb. 27, 1967), pp. 74-75.

Statement of Chairman Metzger In Support of
His Findings and Recommendations

On the basis of the evidence before the Commission in this investigation, I have found that condensed and evaporated milk and cream, certain cheeses, and certain butterfat-sugar mixtures in retail-size containers are being, or are practically certain to be, imported under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the Department of Agriculture's price-support programs for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat. For the reasons indicated below, I have concluded that imports at the 1967 levels have not caused "material" interference with the Department's programs, but that future imports, if not restrained, are "practically certain" to cause such interference within the meaning of section 22 of the Agricultural Adjustment Act, as amended. Accordingly, I have recommended import quotas--equal to the 1967 imports--which in my view are necessary to prevent such future interference with the price-support programs for milk and butterfat.

Before 1966, aggregate imports of all dairy products, in terms of milk equivalent, were equal to less than 1 percent of U.S. production. In 1966, the imports increased sharply and were equivalent to 2.3 percent of domestic production. The imports continued to rise during the first half of 1967, but, with the imposition in mid-1967 of quantitative import restrictions on certain products pursuant to section 22, they were sharply

curtailed during the last half of the year. The 1967 imports, more than three-fourths of which entered during the first half of the year, were equivalent to 2.4 percent of domestic production in that year. The quota restrictions imposed in mid-1967 became fully effective in 1968, and as a consequence, the ratio of imports to domestic production declined to 1.4 percent in January-September 1968. Meanwhile, aggregate imports of the products covered by the present investigation (excluding aged Cheddar cheese and butterfat-sugar mixtures in bulk, on which quotas were established in mid-1967) increased significantly in the last half of 1967 and the first three quarters of 1968. Imports of such products amounted to 11 percent, in terms of milk equivalent, of the total U.S. imports of dairy products in the first half of 1967, to 37 percent of the total in the last half of 1967, and to 68 percent of the total in the first three quarters of 1968. These percentage increases reflect not only increases in imports of non-quota products, but also the marked decline in imports of products on which quotas were imposed in mid-1967.

However, the aggregate imports in 1967 of dairy products that were quota-free throughout the year, and which are covered by the present investigation, amounted to only four-tenths of 1 percent (on a milk-equivalent basis) of the U.S. production of milk. Such imports could have had no more than an extremely minor effect on U.S. market prices of the dairy products under Government support. Neither the Secretary of Agriculture nor the President have indicated in their action in this investigation to date or in their reference of the matter to the Commission that any stated global amount of imports of dairy products constitutes material

interference with the Department's programs. They limited themselves to specific findings on specific products. Indeed, no specific amount of imports, such as one billion pounds milk equivalent, or one and one-quarter billion pounds, has ever been stated by the Secretary of Agriculture or the President to constitute the outer limit of imports of dairy products which would not materially interfere with domestic programs. In the absence of such a finding by the Secretary of Agriculture and the President, or by the Congress, I perceive no basis upon which the Commission can assume that any greater amount of imports materially interferes with the programs of the Department of Agriculture within the meaning of Section 22. ^{1/} Hence any overall figure selected is, in my view, arbitrary, unless an independent economic analysis justifies it. It is highly questionable whether such an analysis is authorized in the absence of the preliminary statutory determinations required by section 22 of the Secretary of Agriculture and the President. At all events, such an analysis has not been made.

Commodity Credit Corporation purchases of butter, Cheddar cheese, and nonfat dry milk under the support programs, and net expenditures in connection therewith, were not unusually large in 1967--in fact they were smaller than in several earlier years, when imports of all dairy products were at much lower levels. The support programs are operating effectively. Accordingly, if the 1967 level of imports of the products under investiga-

^{1/} Under section 22, the Secretary of Agriculture must have "reason to believe" that "articles are being or are practically certain" to be imported "under such conditions and in such quantities" as to render or tend to render ineffective, or materially interfere with the Department's programs; he must so advise the President and the President, if he "agrees that there is reason for such belief", shall cause the Tariff Commission to make an investigation.

tion has interfered at all with the Department's programs--which does not appear to be the case--the interference cannot be considered to be "material" within the meaning of section 22. The Congress, it must be recalled, did not mandate import controls upon "any" interference with support programs. It insisted that "material" interference be found.

* * * * *

Following the announcement of the present investigation in June 1968, imports of the non-quota products increased sharply as a result of importers' efforts to build up inventories in anticipation of possible quota restrictions later in the year. As a result, imports in January-September 1968 of the products here under investigation (excluding aged Cheddar cheese and butterfat-sugar mixtures) rose to the equivalent of 1.0 percent of the U.S. production of milk. The emergency quotas imposed by the President in June and September 1968, on several of the products here under investigation, if continued on an annual basis in 1969, will reduce the level of imports substantially below that of 1968.

Without quota restrictions on most of the articles under consideration in this investigation, imports are practically certain to increase in 1969 and subsequent years and to cause material interference with the programs for milk and butterfat. The overwhelming reason for the expansion of U.S. imports in recent years and the "practical certainty" of much greater, and "materially interfering", increases in the future is the substantial rise in production of dairy products in several foreign countries and a rapid accumulation of surplus stocks abroad, largely induced by government policies and programs that encourage production and lead to export subsidies for the purpose of moving the surplus stocks into international trade. The outstanding example of a government program that has given rise to increased U.S. imports of dairy products is the Common Agricultural Policy (CAP) of the European Economic Community (EEC).

Milk and other dairy products are among the several groups of agricultural products that are subject to the CAP, which was developed to provide a broad price-support program for key agricultural products on a Community-wide basis. The CAP consists of a series of regulations which affect the production and support the marketing of each group of these products. It was designed to substitute a common policy for the multitude of price-support systems and protective controls that had existed in the member states before the establishment of the EEC.

The CAP price-support system for milk and other dairy products encompasses the establishment and coordination of the following principal mechanisms: a target price for milk; intervention prices for butter, skim milk powder, and certain cheeses; threshold prices for pilot products in each of twelve dairy product groups; variable import levies; and export subsidies or refunds. The target price for milk is essentially a price "goal", which the Community seeks to attain for this product; it is designed to assure an "adequate" standard of living and employment to domestic producers, develop intra-Community trade, and insure the sale of the domestic output of the product during the marketing year. The intervention prices for butter, skim milk powder, and certain cheeses are actual support prices that member states stand ready to pay to assure that the domestic prices for these products do not fall materially below designated

levels; they are the prices at which Government agencies in the member states are obliged to purchase all quantities of the domestic product offered on the market. The intervention prices are fixed at levels slightly below the corresponding target prices for the respective products. The threshold prices for the twelve pilot products are determined administratively as the minimum prices at which imports may be entered for sale in the domestic markets of member states; they are generally fixed on the basis of the internal market prices prevailing in each of the member states, and are used as bases for determining the height of the variable import levies. The variable import levies are designed to isolate the market for domestically-produced products from foreign competition; they are employed to assure that imports do not enter the domestic market at price levels that may interfere with the attainment of the target prices. Accordingly, they are fixed at levels that equate the cost of imports with the domestic prices of the respective products. The refunds or subsidies to individual exporters in the Community are authorized under the CAP to encourage the member states to participate in world trade. Their amounts are fixed at levels not to exceed the difference between exporters' f.o.b. prices and world prices. Thus, the Community's price-support system for milk and other dairy products is a closely-knit, interdependent system in which pressure exerted on any one of its component mechanisms will conceivably disturb the balance of the entire system.

The regulations to support a common agricultural policy for milk and other dairy products became fully operative in all member states on November 1, 1964. On July 24, 1966 the EEC Council fixed a common target price for milk (a single ex factory price for milk), thus setting the general lines of the Community's policy for the milk industry; and two years later, on June 27, 1968, it adopted new basic regulations (Regl. No. 804/68) that purported to unify the Community's dairy markets. Implementation of these latter regulations began in the six member countries on July 29, 1968.

During the intervening period from July 1966 to June 1968, the conditions on the milk and other dairy products markets in the member countries changed radically. The new common regulations were approved by the Council in the face of a milk market in serious disequilibrium--one in which the gap between production and consumption, including exports, to third countries, grew wider and wider and led to a surplus of milk and the accumulation of large and increasing stocks of butter and other dairy products. The accumulation of surplus stocks was the result of a target price that had been set at a time when no over-production was anticipated and at a level that kept many marginal, inefficient producers in operation. High support prices (intervention prices) further aggravated the situation.

The adoption by the Council of the new regulations in June 1968 did not appreciably alter the broad framework of EEC's common price-support system for milk and other dairy products. In fact, in reaching its decisions, the Council assumed that the general conditions

affecting the Community's milk market had not materially changed after July 1966. Thus, according to a recent publication of the EEC, "The Council has not . . . reached agreement as yet on the underlying economic and structural problems affecting milk policy, and in particular on the guidance to be given this policy, to produce a healthier situation in the dairying industry in the future." 2/ Accordingly, until the Council revises its policy regarding the production and marketing of milk to conform with existing demand and supply conditions, the accumulation of surplus stocks most likely will continue unabated.

A new definition of target price, adopted by the Council in June 1968, makes its attainment contingent upon sales opportunities available in the Common Market and abroad. The attainment of the target price for milk is of paramount importance to the Community; it is reflected in the high support (intervention prices) given to butter and skim milk powder because they, in turn, provide support for the utilization of milk. Since greater sales opportunities in the domestic markets are at best limited, any further growth in the production of dairy products is more likely to be reflected in increased efforts by the Community to expand its exports to third countries. Moreover, since the prevailing prices for these products in world markets are considerably lower than in the EEC markets, larger exports from the Community can be achieved only through substantial subsidization.

2/ Newsletter on the Common Agricultural Policy: European Communities, Joint Information Service, No. 10, July 1968, p. 3.

In the period 1965-67 annual production of cows' milk in the EEC increased from 146 billion pounds to 162 billion pounds; output in 1968 is estimated by the U.S. Department of Agriculture to be about 167 billion pounds. A plan which would have reduced the common milk price to farmers by 2.5 percent, and which called for cash subsidies to farmers who reduced their dairy cow numbers and expanded their beef herds, was rejected by the European Parliament (consisting of members from the six national parliaments of the EEC) in March 1968. The plan, had it been adopted, might have reduced milk output in the EEC.

The production of milk in the EEC in recent years has increased more rapidly than has consumption, causing stocks in the form of butter to increase sharply. Aggregate stocks of butter on hand on September 1 in five EEC countries increased from 395 million pounds in 1965 to 757 million pounds in 1968. The average annual rate of increase of these stocks was 24 percent. As butter stocks rose, other outlets for the increased supply of milk were sought. One such outlet was the U.S. market, where prices for dairy products were higher than world prices. Dairy processors in the EEC converted increased amounts of milk into canned milk and certain low-price cheeses, which were not subject to quantitative limitations in the United States. When U.S. imports of such products increased sharply, and every indication was that they would continue to do so, the President took emergency action to limit them.

Because of its price-support policies, the EEC has had to rely on export subsidies to channel surplus dairy products into foreign trade. The following tabulation shows, for each of the products under investigation, the common export subsidy authorized by the EEC for shipments to the United States and the ratio of the subsidy to the export price in a recent month in the country that is an important EEC supplier of U.S. imports:

Commodity and EEC country	EEC authorized subsidy	Ratio of subsidy to export price
	Cents per pound:	Percent
Evaporated milk, canned, Netherlands-:	13.61 :	111
Condensed milk, canned, Netherlands---:	4.99 :	37
Condensed or evaporated milk, in bulk:	24.72 :	*
"Aged" Cheddar cheese, France-----:	13.60 :	44
Process Edam and Gouda cheese, West :	:	:
Germany-----:	18.14 :	82
Italian-type cheese, not in original :	:	:
loaves, Italy-----:	22.68 :	68
"Other" cheese, West Germany-----:	15.22-20.87 :	61-84
Swiss cheese, West Germany-----:	17.24 :	73
Gruyere-process cheese, West :	:	:
Germany-----:	17.24 :	68
Chocolate crumb, Netherlands-----:	9.85 :	62
Butterfat-sugar mixtures, Belgium---:	32.37 :	158
:	:	:

* Not available.

So long as price-support policies in the EEC encourage increase output and the resulting burdensome stocks, export subsidies are likely to be employed to aid shipments to the United States of dairy products not subject to section 22 import limitations. And so long as the EEC in the interest of its CAP closes its own market to "third country" producers such as Denmark and Austria, a side effect will be that the dairy products of these countries will seek outlets in other markets, such as the United States.

In a statement made on November 15, 1968, at the 25th Session of the General Agreement on Tariffs and Trade, U.S. delegate Henry Brodie summarized effectively the growing problem when he commented on price supports and subsidies as follows:

" . . . We can see growing around the world the destructive pattern of high production stimulated by price supports leading to subsidies which in turn lead to trade distortions and new and increased import protection. This in turn gives still further impetus to the expansion of production in importing countries. Some way must soon be found to reverse the worsening trend. The problems are growing in number, scope and intensity. The European CAP, to cite but one example, has developed an extremely costly and highly protective system, the application of which has seriously exacerbated the problems of both importing and exporting countries. . . ."

Data respecting the subsidies paid on current exports of dairy products to the United States by countries other than those in the EEC are not readily available to the Commission. Testimony presented at the hearing indicates that Finland and Austria have subsidized exports of dairy products to the United States and that the United Kingdom, Canada, Denmark, and New Zealand have not done so.

* * * * *

Considerations bearing on my finding and recommendation with respect to each of the dairy-product items identified in the President's request are set forth below.

(1) Milk and cream, condensed or evaporated, provided for in items 115.30, 115.35, and 115.40 of the Tariff Schedules of the United States (TSUS).

U.S. imports in recent years of the articles described above have been as follows:

	<u>Pounds</u>
1965-----	1,799,000
1966-----	3,289,000
1967-----	5,391,000
1968 (Jan.-Sept.)-----	9,019,000

On June 10, 1968, the President imposed emergency quotas on condensed and evaporated milk and cream which, on an annual basis, were equal to the 1967 imports. Because of the surplus stocks of dairy products abroad and foreign export subsidies on condensed and evaporated milk, the U.S. imports are practically certain to increase greatly above the 1967 levels, in the absence of quantitative restrictions, and in combination with imports of other dairy products, to cause material interference with the support programs for milk and butterfat. In order to prevent such interference, I have recommended continuation of the emergency quotas proclaimed by the President on June 10, 1968.

(2) Natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced.

U.S. imports under the above provision, hereinafter referred to as "aged" Cheddar, are subject to an annual quota of 1,225,000 pounds within the overall quota of 10,037,500 pounds on Cheddar cheese. Before 1968, virtually all imports meeting the above specifications consisted of high-quality aged Cheddar for table use from Canada. In 1968, however, a substantial portion of the imports consisted of low-priced aged Cheddar from France used in the United States for processing in competition with domestic cheese used for

the same purposes. Imports, by countries, since the quota was established in mid-1967 have been as follows: 3/

	<u>Canada</u> (pounds)	<u>France</u> (pounds)	<u>Total</u> (pounds)
1967 (July-Dec.)-----	211,797	-	211,797
1968 (Jan.-June)-----	125,282	487,218	612,500
1968 (July-Dec.)-----	223,140	389,360	612,500

Imports of the low-priced aged Cheddar are likely to continue to constitute a large part of the imports under the quota and to prevent importation of high-quality table cheese in the amounts intended when the provision was established. I have recommended continuation of the present annual quota of 1,225,000 pounds, with allocation on a country basis.

(3) Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses.

U.S. imports in recent years of processed Edam and Gouda cheeses have been as follows:

	<u>Pounds</u>
1965-----	2,088,000
1966-----	2,949,000
1967-----	3,151,000
1968 (Jan.-Sept.)-----	11,507,000

On September 24, 1968, the President imposed an emergency quota, which on an annual basis is equal to the 1967 imports. Because of the surplus stocks of dairy products abroad and foreign export subsidies on processed Edam and Gouda cheeses, U.S. imports are practically certain to

3/ Not more than half of the annual quota may be entered during the first half of a calendar year. The quota for the last half of 1968 was filled on July 2, 1968.

continue to increase above the 1967 level (in the absence of quantitative restrictions) and, in combination with imports of other dairy products, to cause material interference with the domestic price-support programs for milk and butterfat. In order to prevent such interference, I have recommended continuation of the emergency quota proclaimed by the President on September 24, 1968.

(4) Italian-type cheeses, made from cows' milk, not in original loaves (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), and cheese and substitutes for cheese containing, or processed from, such Italian-type cheeses, whether or not in original loaves.

Imports of the Italian-type cheeses described above have been as follows in recent years:

	<u>Pounds</u>
1965-----	97,000
1966-----	451,000
1967-----	1,494,000
1968 (Jan.-Sept.)-----	929,000

Imports were somewhat smaller in the first nine months of 1968 than in the corresponding period of 1967, largely because inclement weather in Argentina, the principal supplier, curtailed the production of dairy products in that country. Imports are practically certain to continue their upward movement in 1969 and, in combination with imports of other dairy products, to cause material interference with the domestic support programs. In order to prevent such interference, I have recommended an annual quota equal to the 1967 imports.

(5) Cheese and substitutes for cheese other than Colby provided for in items 117.75 and 117.85 of the TSUS.

U.S. imports in recent years under the above provision have been as follows:

	<u>Pounds</u>
1965-----	9,204,000
1966-----	18,068,000
1967-----	22,991,000
1968 (Jan.-Sept.)-----	30,678,000

The imports include hundreds of varieties of cheese, which fall into 3 general categories: (a) Natural cheese, (b) processed cheese, and (c) mixtures of various kinds of cheese. Traditional imports have consisted of numerous types of specialty cheeses (either natural or processed), most of them high-priced and used for consumption without further processing. The increase in imports in recent years has been accounted for mainly by comparatively low-priced cheeses (including natural, processed, and mixtures) that are used in the United States for further processing or used as ingredients in certain food products.

On September 24, 1968, the President imposed an emergency quota on the cheeses here considered having a purchase price of less than 47 cents per pound; ^{4/} on an annual basis, the quota is 17,501,000 pounds--approximately equal to the imports in 1967 having an export value of less than 47 cents per pound. The 47-cent figure was selected because it is the present support price in the United States for Cheddar cheese.

Because of the Common Agricultural Policy of the EEC, the resultant surplus stocks of dairy products abroad, foreign export subsidies on cheese, and the third-country side effects hitherto noted, imports of the low-priced cheeses here considered will undoubtedly continue to increase in the absence of quantitative restrictions. Imports above the 1967 level, in combination with increased imports of other dairy products,

^{4/} The purchase price, as defined in the President's proclamation, is the aggregate price received by the exporter, including all expenses incident to placing the merchandise in condition, packed ready for shipment to the United States, but excluding transportation, insurance, duty, and other charges incident to bringing the merchandise from the place of shipment from the country of exportation to the place of delivery in the United States.

are practically certain to result in material interference with the price-support programs. In order to prevent such interference, I have recommended an annual quota of 13,408,000 pounds on cheese having a purchase price of less than 37 cents per pound; this recommended quota is approximately equal to the 1967 imports valued at less than 37 cents per pound. I have selected a price break of 37 cents instead of 47 cents for the reasons indicated below.

Cheese purchased abroad at a price of 37 cents per pound, f.o.b. foreign point of shipment, must sell in the United States at more than 47 cents per pound if the importer is to make a profit. The sum of transportation and insurance costs, U.S. duty, miscellaneous expenses, and importer's profit generally exceeds 10 cents per pound. It appears, therefore, that imported cheese having a purchase price of 37 cents or more per pound will not be sold in the United States at a price as low as that currently being paid by the Commodity Credit Corporation for Cheddar cheese under the support program.

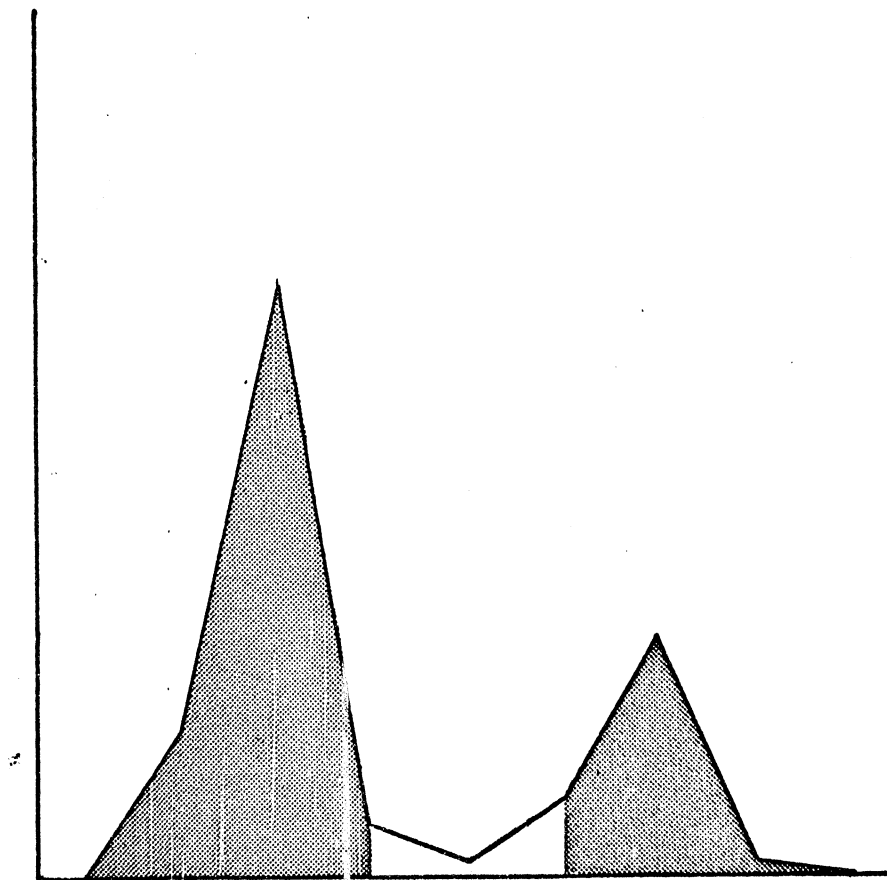
Accordingly, 37 cents marks the distinguishing line between the "low" and "high quality table cheese" as well as does 47 cents--and hence satisfies the requirement of the Department of Agriculture, which, as the guardian of its price support programs, has stated flatly (Tr. p. 28) that high quality table cheeses are not now and are not practically certain to be interfering materially with its programs.

A price break should be set at a point that would create as few questions of customs classification and difficulties of administration

as possible. That is, it should not lie close to a point where a substantial volume of trade occurs. I believe that 37 cents per pound would serve the purposes of distinction--it would separate the "low" quality cheeses from the "inoffensive" imports of high quality table use cheese--and at the same time be a more administratively feasible line of demarcation.

The optimal situation is illustrated by the following diagram:

Volume
of imports



Price

A price break within either of the shaded areas would not be advisable because of the difficulties involved in customs administration. A

price break in the unshaded area would give rise to fewer problems and would cause the least disruption of trade (assuming prices remained fairly stable). Based on data available for the periods January-April 1967 and January-April 1968, imports of the "other" cheeses here considered include substantial quantities of cheese having values close to 47 cents per pound and very small quantities having values close to 37 cents per pound, as shown by figures B and C on the following page. 5/

5/ A similar situation exists with respect to Swiss or Emmenthaler cheese, which is considered in the following section of this statement.

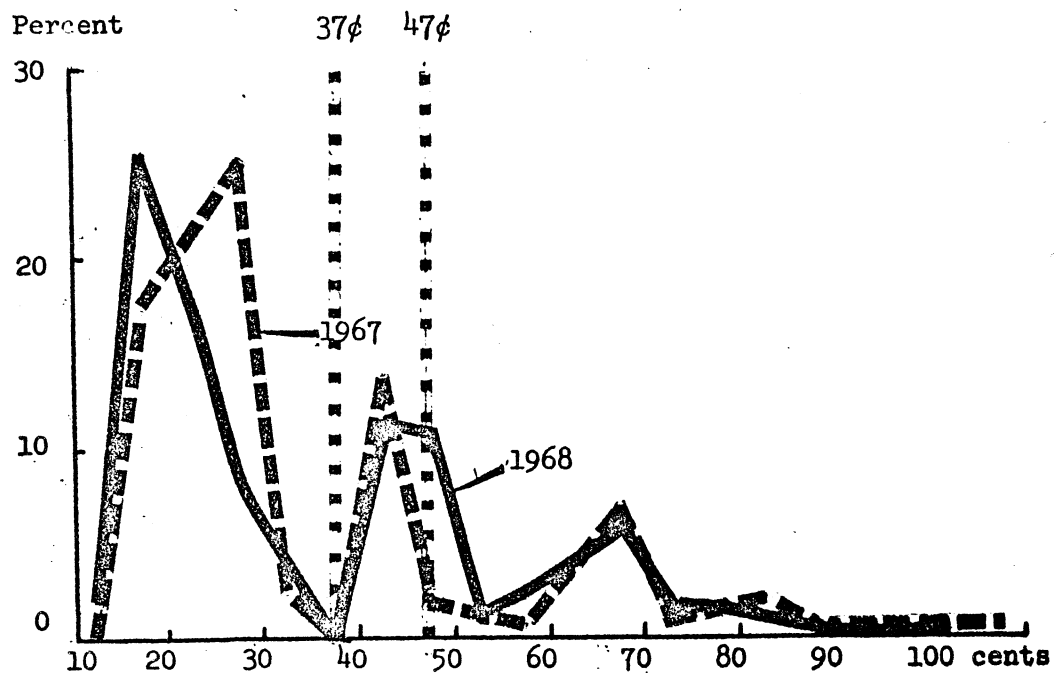


Fig. B. --"Other" cheese: Percentage distribution of imports from major suppliers in 1967 and 1968 samples

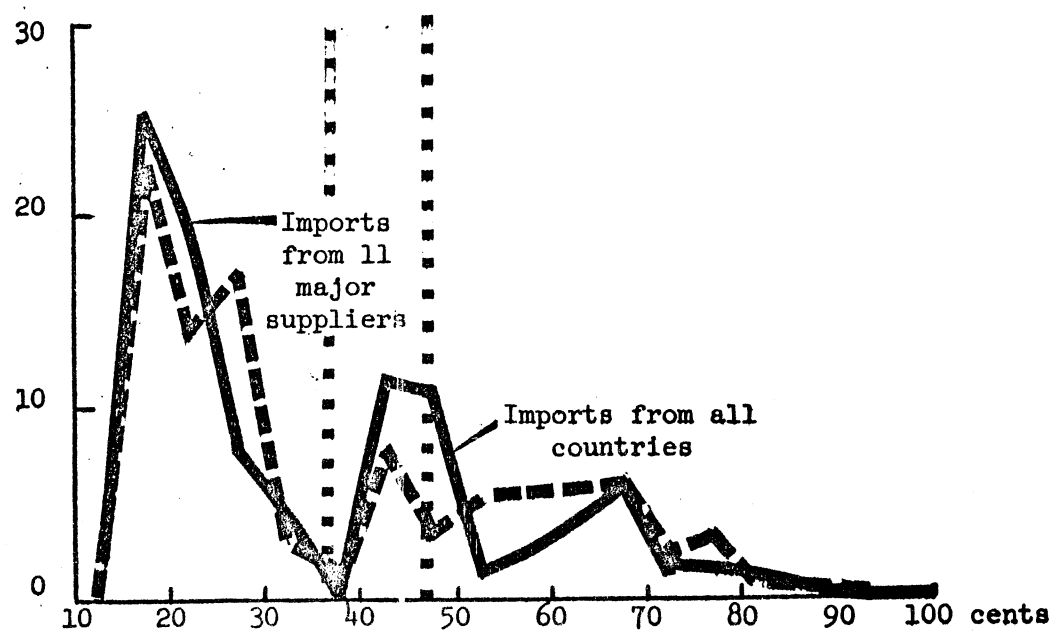


Fig. C. --"Other" cheese: Percentage distribution of imports in two 1968 samples

Hence, it is recommended that the price break be made at 37 cents per pound, rather than 47 cents per pound.

It is recognized that the use of a price break will involve significant problems of administration. 6/ I have considered other possible methods of limiting imports of those cheeses that are practically certain to cause material interference with the programs and at the same time permit quota-free entry of cheeses that will not cause interference. The disadvantages of the alternatives, however, appear to be much greater than those connected with the use of a 37-cent price break.

6/ Precise computation of the f.o.b. value will be required on all imports. Those having an f.o.b. value in the vicinity of the price-break will require particularly careful evaluation inasmuch as the value determination could permit or deny entry of a given shipment. Customs personnel will have to be certain that any prices over the price-break have not been artificially raised so as to obtain nonquota status. Notwithstanding careful evaluation by Customs there are several methods whereby cheese normally valued below the price-break could be imported at values above the break, and thus escape quota limitations. These include the mingling of cheeses of different qualities having an average value above the price break, and unwarranted upward adjustment of prices. Also, as the Department of Agriculture noted, the prices applied to imports by one branch of an international dairy firm from an overseas branch of the same firm are not market prices determined by arms'-length purchases.

The recommendation of a 37-cent price break is based on trade patterns in 1967 and 1968. Apart from any changes in pricing practices resulting from attempts to evade the quotas, the market for cheese normally fluctuates within a given year as well as from year to year. Use of a fixed price-break of 37 cents (or 47 cents) could require readjustment as the market shifts.

At the hearing the Commission questioned the use of a fixed price-break (e.g., 47 cents) when the CCC purchase price for cheese can be changed as desired by the Secretary of Agriculture. In its supplemental brief the Department indicated that it had considered a flexible price break that would vary with the CCC purchase price, but "concluded that [this] would entail unnecessary administrative complications." The Department stated that should the fixed price become outdated, the Secretary would recommend the necessary adjustment through section-22 procedures.

One alternative is to restrict imports of only those cheeses to be used for processing. The Department of Agriculture, however, pointed out that lower-valued cheeses are used as table cheese and thus would not be restricted. Of importance too, is the difficulty of administration of use-provision restrictions. The Commission, in the Tariff Classification Study, which led to the revised tariff schedules that were placed into effect on August 31, 1963, cast doubts upon classifications dependent on use. A considerable burden would be placed on the Bureau of Customs to (a) define processing, (b) trace shipments through the various dealers, assemblers, and wholesalers to determine the ultimate use of a given shipment, (c) account for any loss through spoilage and trimming, (d) account for parts of wheels or blocks of cheese which may be entered initially for table use but which are later cut off and processed.

A second alternative, which was proposed at the hearing, is to grade all imported cheese and permit unrestricted entry of high-quality cheeses. Such a method entails difficulties for several reasons: (1) The cost would be high if not prohibitively so, (2) grading standards have not been prepared and accepted on all types of cheese, and (3) the grade of a particular lot of cheese can change after storage and transportation.

A third alternative, which appears to commend itself to some, is to restrict imports of all cheeses, including the high-quality table use cheeses which a representative of the Secretary of Agriculture has specifically stated to the Commission (Tr. pp. 28 and 38) are priced at levels which make them unattractive to domestic cheese processors and on which

the Department does not seek any avoidable import restrictions--they are not now materially interfering and are not anticipated to interfere with the Department's support programs. I have substantial doubt whether the Commission is empowered to make a finding of interference under Section 22 under circumstances where the prerequisite preliminary statutory determinations by the Secretary of Agriculture and the President have not been made; I must read the President's letter to the Commission together with the Secretary's determination and transmittal to him. ^{7/} Wholly apart from that question, however, it is incongruous, to say the least, to impose an unnecessary restriction upon international trade in dairy or indeed any other product merely because it may be administratively convenient to do so in connection with products which it has been found necessary to control. This would be true even were there no other means available to control imports of such other products in a relatively effective manner. Here, however, there are such means--the use of a price break. The Secretary of Agriculture has considered that means to be suitable and the President has utilized it in his emergency proclamation of September 24, 1968. In my opinion, a fair chance for it to operate is called for--at a 37¢ break rather than 47¢--before any unnecessarily restrictive method is considered seriously, much less adopted.

^{7/} Under Section 22 procedures, the Secretary of Agriculture must have "reason to believe" that "articles are being or are practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with" the Department's programs; he must "so advise the President" if he has such reason to believe. If the President "agrees that there is reason for such belief", he must "cause an immediate investigation to be made" by the Tariff Commission.

In this case, the Secretary so advised the President in regard to a number of dairy products but in his letter of advice specifically informed him that his "reason to believe" that there was material interference from imports did not extend to high quality table cheeses. The President's agreement with this advice and request for investigation must be read, in my view, in the light of the Secretary's specific disavowal of any reason to believe that interference resulted from the high quality table use cheeses.

(6) Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from such cheeses.

(a) Swiss or Emmenthaler cheese with eye formation

U.S. imports of Swiss or Emmenthaler cheese in recent years have been as follows:

	<u>Pounds</u>
1965-----	10,419,000
1966-----	14,751,000
1967-----	14,355,000
1968 (Jan.-Sept.)-----	34,864,000

The imports of Swiss or Emmenthaler cheese have consisted of two general types: (a) Natural cheese for table use and (b) grinders cheese. Grinders Swiss cheese is natural cheese that has developed imperfections while being produced. It is not marketed as natural cheese for table use, but is processed and sold at retail as pasteurized process Swiss cheese or used as an ingredient in cheese foods or cheese spreads. Grinders cheese has accounted for most of the increase in imports in recent years.

On September 24, 1968, the President imposed an emergency annual quota of 4,271,000 pounds on Swiss or Emmenthaler cheese having a purchase price of less than 47 cents per pound. The purpose of this action was to limit the imports of grinders cheese without restricting imports of high-priced table cheese.

Because of the circumstances adverted to heretofore, imports of low-priced grinders cheese will certainly continue to increase in the absence of quantitative restrictions. Imports above the 1967 level, accompanied by increased imports of other dairy products, are

practically certain to result in material interference with the price support programs. In order to prevent such interference, I have recommended an annual quota of 949,000 pounds on Swiss cheese having a purchase price of less than 37 cents per pound. This recommended quota is approximately equal to the 1967 imports valued at less than 37 cents per pound. The reasons for the selection of the 37-cent break are the same as those indicated in the preceding section of this statement pertaining to "cheese and substitutes for cheese other than Colby provided for in items 117.75 and 117.85 of the TSUS." Figures D and E on the following page show that the 37-cent break for Swiss or Emmenthaler cheese is more appropriate than a 47-cent break as far as customs administration is concerned.

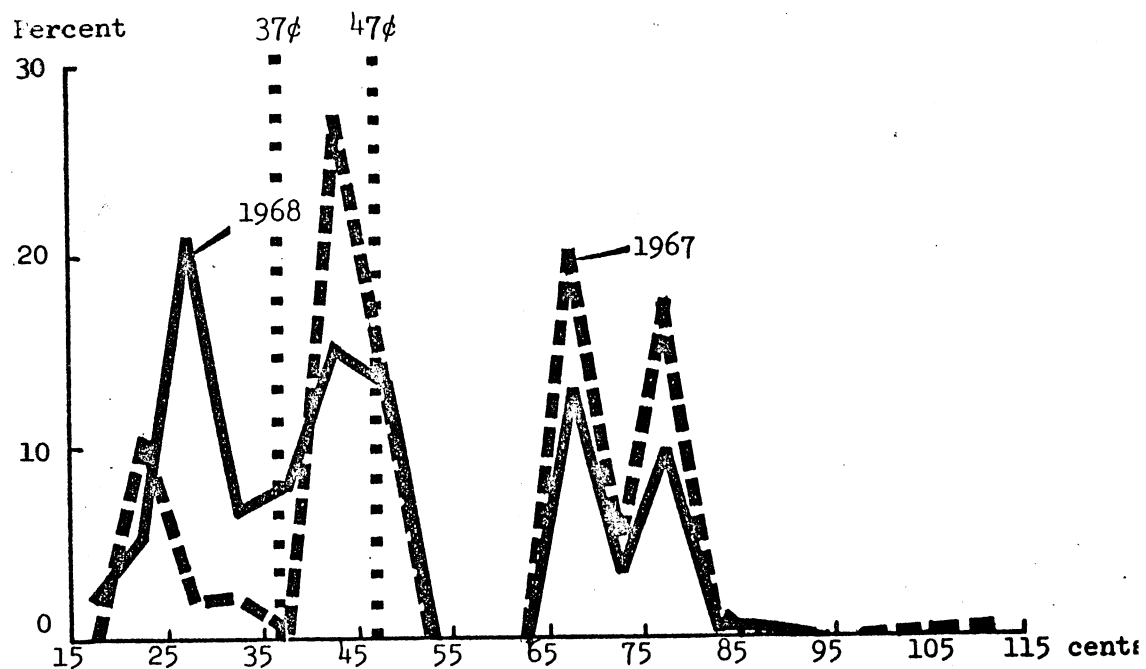


Fig. D.--Swiss and Emmentaler cheeses: Percentage distribution of imports from major suppliers in 1967 and 1968 samples

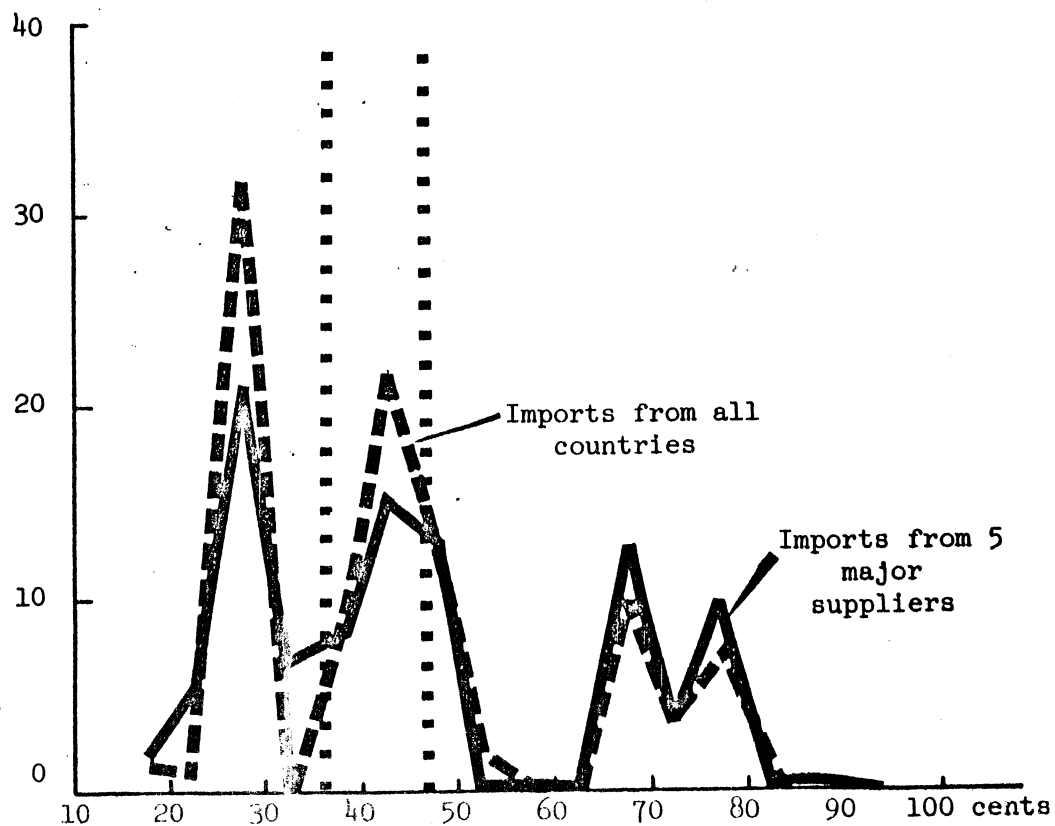


Fig. E.--Swiss and Emmentaler cheeses: Percentage distribution of imports in two 1968 samples

(b) Gruyere process cheese and cheese containing, or processed from, Gruyere cheese or a combination of Gruyere and Swiss or Emmenthaler cheeses

U.S. imports of Gruyere process cheese in recent years have been as follows: 8/

	<u>Pounds</u>
1965-----	5,313,000
1966-----	9,123,000
1967-----	9,836,000
1968 (Jan.-Sept.)-----	16,800,000

The imports have consisted of two general types: (a) Wedge-shaped pieces weighing about 1 ounce each, 9/ wrapped in foil, and packed in circular boxes--all for table use, and (b) 5-pound loaves, used principally for cheese sandwiches by the institutional trade (restaurants, hotels, and hospitals), but also to some extent marketed at the retail level. The 5-pound loaves have accounted for most of the increase in imports in recent years.

On September 24, 1968, the President imposed an annual quota of 3,289,000 pounds on Gruyere process cheese having a purchase price of less than 47 cents per pound. The purpose of this action was to limit the imports of Gruyere process cheese in large loaves without restricting imports of the small wedges.

I have found that imports of the large loaves are practically certain to increase above the 1967 level, in the absence of quantitative restrictions, and to cause material interference. In order

8/ Imports entered as Gruyere process cheese from Switzerland, the principal supplier, have consisted of cheese processed from natural Gruyere in combination with cheese processed from natural Swiss or Emmenthaler.

9/ Some imports have consisted of wedges weighing somewhat more than 1 ounce.

to prevent such interference I have recommended an annual quota of 6,238,000 pounds on Gruyere process cheese, excluding that imported as individually wrapped pieces weighing not more than 3 ounces each. The recommended quota is approximately equal to the 1967 imports valued at less than 47 cents per pound. Most, if not all, of the small individually wrapped pieces are valued at more than 47 cents per pound and most of the large loaves are valued at less than 47 cents per pound.

My recommendation here avoids the necessity of using a price break; all of the low-quality cheese is put under quota, while the high-quality table-use cheese is free of quota. The costs involved in packaging in small wedges appear to preclude substantial evasion even better than a price break formula.

(7) Chocolate, cocoa and confectioners' coatings and other products; all the foregoing provided for in items 156.20, 156.25, 156.30, 156.40, 156.45, and 156.47 of the TSUS, if containing over 5.5 percent by weight of butterfat.

The Department of Agriculture is concerned essentially about imports of chocolate crumb entered under TSUS item 156.30. That item provides for sweetened chocolate not in bars or blocks weighing 10 pounds or more each. The other TSUS items listed above were included in the President's request for consideration as possible tariff categories that might be utilized for avoidance of any quotas that have been or may be imposed on products containing butterfat.

U.S. imports under TSUS item 156.30 in recent years have been as follows:

	<u>Chocolate</u> <u>crumb</u> (pounds)	<u>Other articles, such as</u> <u>solid chocolate candy</u> <u>bars</u> (pounds)
1965-----	1,962,000	13,001,000
1966-----	6,500,000	13,930,000
1967-----	21,544,000	14,759,000
1968 (Jan.-Sept.)--	31,789,000	14,456,000

Chocolate crumb is an intermediate product used in the manufacture of milk chocolate by the addition of cocoa butter. It imparts a distinctive flavor to milk chocolate. The imported chocolate crumb is purchased in the United States primarily by chocolate manufacturers who do not have their own facilities for the manufacture of chocolate crumb. Such producers use the imported crumb instead of dry whole milk or milk crumb purchased in the United States.^{10/} The major domestic chocolate manufacturers, who account for more than half of the U.S. output of milk chocolate, produce chocolate crumb exclusively for their own use.

Less than 1 percent of the total U.S. supply of milk solids goes into the manufacture of milk chocolate. The chocolate crumb imported in 1967 accounted for about 7 percent of the total milk solids used in the United States in the manufacture of milk chocolate, and was equivalent to about one-twentieth of 1 percent of the domestic consumption of milk in that year.

^{10/} Manufacturers that use chocolate crumb to make milk chocolate blend the crumb with cocoa butter. When dry whole milk is used, it is blended with sugar, chocolate liquor, and cocoa butter. When milk crumb is used, it is blended with chocolate liquor and cocoa butter.

Imports of chocolate crumb are likely to continue to increase, but the extent of the increase is limited because of the limited requirements of the manufacturers of milk chocolate who do not have their own facilities for the production of chocolate crumb. It can be assumed that domestic manufacturers with facilities for the production of crumb will not increase their imports of crumb.

Indeed, curtailment of imports would affect adversely the domestic competitors of a few major producers of chocolate products who have their own crumb production. Smaller competitors of the large producers might well be prevented by price factors from competing successfully with them, even should the smaller competitors learn how to produce the distinctively flavored product from domestic materials. Two domestic manufacturers of crumb presently import crumb; one anticipates supplying all its crumb requirements from expanded domestic production facilities within a few years..

Some imports of a certain type of crumb from Belgium in 1968 were used in the manufacture of chocolate ice cream. Evidence before the Commission, however, indicates that imports of this type of product were discontinued in August 1968 and are not likely to be resumed.

For the reasons indicated above, I have found that chocolate crumb is not being, nor is it practically certain to be, imported under such conditions and in such quantities as to cause material interference with the price-support programs for milk and butterfat. With respect to the other tariff categories specified in (7) above, I have found no convincing

evidence that they may be used to avoid quotas on other products containing butterfat.

(8) Articles provided for in items 182.92 and 182.95 of the TSUS containing over 5.5 percent by weight of butterfat, the butterfat of which is commercially extractable, or which are capable of being used for any edible purpose for which products containing butterfat are used.

TSUS item 182.92 covers miscellaneous edible preparations in bulk packages and containing over 5.5 percent by weight of butterfat. 11/ Virtually all of the imports thereunder consist of butterfat-sugar mixtures used in the United States in the manufacture of ice cream. The imports, which reached a volume of 107,621,000 pounds in 1966, are now restricted by a quota (imposed in mid-1967) of 2,580,000 pounds per year. The quota applies only to products in bulk packages.

Beginning in July 1968, entries of butterfat-sugar mixtures in retail-size containers (under TSUS item 182.95) began in significant volume in circumvention of the quota on mixtures in bulk: The imports in retail-size containers amounted to about 2,000,000 pounds in the 5-1/2-month period from July 1 to December 15, 1968.

I have recommended that the quota provision for preparations in bulk referred to above be redefined to include the same type products in retail-size packages, with no change in the amount of the quota.

* * * * *

Under the first proviso of section 22(b) no quota limitation may be imposed which is proportionately less than 50 percent of the total

11/ Imports of preparations classifiable under item 182.92 if containing more than 45 percent by weight of butterfat are prohibited pursuant to action under section 22 in 1957.

imports of the articles involved in a representative period as determined by the President. For purposes of this proviso, I have recommended that the representative period for imports of the articles on which quotas are proposed be the calendar year 1967.

For all of the foregoing items on which quotas are recommended, I also recommend country allocations in accordance with the provisions of Article XIII of the General Agreement on Tariffs and Trade, taking into account the historic pattern of shipments to the United States by each country, and with due account being taken of any special factors which may have affected or may be affecting the trade in the respective products, such as restraint from the payment of export subsidies by some countries, and past restraint by some countries in the exportation of dairy products to avoid interference with U.S. programs. I also recommend that consideration be given to regulating the quotas by means of a licensing system administered by the Department of Agriculture in such a manner as to provide equitable distribution of the quotas among importers and users.

STATEMENT OF VICE CHAIRMAN SUTTON

Findings

On the basis of the investigation, I find:

1. That the articles described below are being, or are practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the United States Department of Agriculture for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat.

- (a) Milk and cream, condensed or evaporated, provided for in items 115.30, 115.35, and 115.40 of the Tariff Schedules of the United States (TSUS);
- (b) Natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced;
- (c) Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses;
- (d) Italian-type cheeses, made from cows' milk, not in original loaves (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), and cheese and substitutes for cheese containing, or processed from, such Italian-type cheeses, whether or not in original loaves;
- (e) Cheese and substitutes for cheese provided for in items 117.75 and 117.85 of the TSUS (except cheese not containing cows' milk; cheese, except cottage cheese, containing no butterfat or not over 0.5 percent by weight of butterfat; and articles within the scope of other import quotas imposed under section 22); ^{1/}

^{1/} For the purposes of this finding, the emergency quota imposed by Proclamation 3870 is to be disregarded since it will be terminated when the President takes final action after receipt of the Commission's report.

- (f) Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheeses;
- (g) Chocolate, cocoa and confectioners' coatings and other products; all the foregoing provided for in items 156.20, 156.25, 156.30, 156.40, 156.45 and 156.47 of the TSUS, if containing over 5.5 percent by weight of butterfat (except articles which are ready to eat and are in retail packages of not over one pound each, net weight); and
- (h) Articles provided for in items 182.92 and 182.95 of the TSUS containing over 5.5 percent by weight of butterfat, the butterfat of which is commercially extractable, or which are capable of being used for any edible purposes (except articles which, as imported, are not suitable for use as ingredients in the commercial production of edible articles).

2. That the articles specifically excepted above from findings 1(e), 1(g) and 1(h) are not being and are not practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price-support programs of the United States Department of Agriculture for milk and butterfat, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat.

3. That for the purposes of the 50-percent clause in the first proviso to section 22(b), the representative period for imports described in findings 1(a), 1(c), 1(d), 1(e), 1(f) and 1(g) is the calendar years 1963 through 1965, inclusive.

Recommendations

I recommend that the President issue a proclamation pursuant to section 22(b)--

- (a) establishing for each calendar year after 1968 quantitative limitations on the products covered by my finding 1, as follows:

Finding 1(a): 1,800,000 pounds
 Finding 1(c): 2,088,000 pounds
 Finding 1(d): 322,000 pounds
 Finding 1(e): 9,204,000 pounds
 Finding 1(f): Natural -- 11,692,000 pounds
 Other ---- 5,313,000 pounds
 Finding 1(g): Item 156.25: 1,626,000 pounds
 Item 156.30: 2,068,000 pounds
 Other items: None
 Finding 1(h): Same quota quantities as at present
 under items 950.12 and 950.13.

- (b) allocating "aged" Cheddar (finding 1(b)) by country.

I recommend that the proposed quotas be administered by means of a licensing system to assure an equitable distribution of the quotas among importers, users, and supplying countries. Such licensing procedures, to be administered by the U.S. Department of Agriculture, would be in keeping with the administration of nearly all other quantitative restrictions on U.S. imports of dairy products. To be equitable, the allocation of the quotas among supplying countries, while based upon the shares they supplied during a representative period, must reflect any special factors that have affected or may currently be affecting trade in the articles concerned. The principles set forth

in article XIII of the General Agreement on Tariffs and Trade (GATT) should be fully observed in the administration of the quotas. This article provides rules for the administration of quantitative restrictions to which the United States and the other GATT members have agreed.

Considerations

I believe that my findings and recommendations are consistent with the requirements of section 22 and with the past actions of the President in regard to imports of dairy products. In support thereof, I submit the following considerations which have been evolved and developed from the facts obtained in this investigation and more fully set forth elsewhere in this report.

Origin and Development of Import Controls on Dairy Products under Section 22

The Agricultural Act of 1949, as amended, requires the Secretary of Agriculture to support the prices of whole milk, butterfat, and products made therefrom, at such level between 75 percent and 90 percent of parity as will assure adequate domestic production thereof.

Among other things designed to support the prices of dairy products, the Department of Agriculture maintains a purchase program for three basic manufactured dairy products--butter, Cheddar cheese, and nonfat dry milk; and the Department stands ready at all times to purchase these three products at designated support prices.

The maintenance of the price-support programs for dairy products has resulted in incentives which have made the importing of dairy products more profitable. Such imports, if permitted to flow unabated, could significantly increase the costs to the Department of Agriculture of the purchase program and prevent or materially interfere with the price and production objectives of the total price-support programs. Consequently, certain import controls have been imposed by the United States to protect its price-support programs for dairy products.

For a short time prior to July 1, 1953, temporary import quotas were imposed on certain dairy products by the Secretary of Agriculture under authority conferred upon him by section 104 of the Defense Production Act of 1950, as amended (50 U.S.C. App. sec. 2074). In anticipation of the expiration of these temporary quotas, the President, on the basis of a report on Investigation No. 22-6 from the Tariff Commission pursuant to section 22 of the Agricultural Adjustment Act, as amended, imposed by proclamation, effective July 1, 1953, import quotas on the same dairy products that had been subject to temporary quotas under section 104.

Since 1953, two types of actions under section 22 have been taken:

- (1) the original quotas imposed on four classes of cheeses (Blue-mold,

Cheddar, natural Edam and Gouda, and natural Italian-type in original loaves) have been liberalized or enlarged to permit foreign products to share in the increased United States consumption of such cheeses; and (2) import quotas have been established for previously uncontrolled imports which appeared for the first time in U.S. markets in significant quantities and which, in large part, were products designed for the purpose of avoiding the then existing quota provisions. In this second category of actions were those resulting from Investigations Nos. 22-14 (1957) and 22-16 (1957) with respect to butter substitutes, including butter oil, and certain articles containing butterfat, respectively, and those resulting from Investigation No. 22-26 (1967) with respect to certain fresh or frozen milk or cream, certain butterfat-sugar mixtures containing over 5.5 percent of butterfat ("Junex"), and American-type cheeses other than Cheddar (primarily Colby).

The Current Import Problem Affecting the Price-Support Programs

The bulk of the imports of dairy products which are the subject of the current investigation are--as with previous imports of uncontrolled products--comprised of products designed to avoid the existing quotas on dairy products. Generally, such imports, including the cheeses, are destined for commercial processing before entering the retail market. Despite the action taken by the President in June 1967 on the basis of Investigation No. 22-26 (Proclamation 3790) to impose import quotas on products which together accounted for about 95 percent of the increase in imports during 1966 and the first half of 1967, and

his expectation that such action, coupled with the quotas then already in effect, would reduce annual imports to the "normal level" of approximately one billion pounds of milk equivalent which prevailed before 1966, ^{1/} imports of the uncontrolled dairy products have continued to increase markedly in 1968. Imports of dairy products amounted to about 1.5 billion pounds of milk equivalent in the first 10 months of 1968, and are expected to amount to almost 2 billion pounds for the entire year. It is estimated that from one-third to almost one-half of such poundage for the year will have been supplied by the products involved in the current investigation.

U.S. prices of butterfat, the lower limits of which are determined by the price-support programs of the Department of Agriculture, have made the U.S. market for dairy products attractive to foreign producers. In addition, beginning in 1966, many foreign countries have been diverting part of their supplies of milk to dairy products not subject to U.S. quota restrictions because their internal stocks of dairy products (primarily in the form of butter or cheese) had become exceedingly large as a result of artificially stimulated output. In order to move their excess production into international markets, it appears that some countries subsidize their exports of dairy products substantially.

^{1/} On June 30, 1967, the President issued the following statement simultaneously with the promulgation of Proclamation 3790: "I have today signed a proclamation which will reduce dairy imports to the normal level which prevailed before 1966. On the basis of these new quotas, annual imports will be approximately one billion pounds of milk equivalent. * * * "

Not only have such subsidized dairy product exports depressed world market prices for dairy products, but they have also stimulated exports of certain quota-free dairy products to the United States where market prices, which are supported by the Department of Agriculture, are generally higher than world prices. Thus, the effect of such subsidies has been not only to exert pressure on the United States import quota system, but also to depress or, at best, prevent increases that my otherwise have occurred in the U.S. market prices for dairy products. As the market prices are depressed, or prevented from increasing, additional quantities of dairy products are purchased by the Government at the prevailing support price.

From time to time over the years the Secretary of Agriculture has increased the price-support levels when the output of milk has declined. The most recent of such increases occurred on April 1, 1968, when the support price for manufacturing milk was increased from \$4.00 to \$4.28 per hundred pounds, the highest in the last two decades. Nonetheless, the higher support levels announced in 1968 have failed to increase the output of milk. In the period January-October 1968, output was about 1.4 percent below that of the comparable period of 1967. Although the output of milk has been smaller in 1968 than in 1967, total supplies have not declined as much as would have been expected because of the volume of imports. Thus, market prices have not been as high as they otherwise would have been and substantial quantities of dairy products have been purchased by the Government. In terms of milk equivalent,

the Department of Agriculture purchased about 4.9 billion pounds of dairy products in the period January-October 1968, or about 4.9 percent of the U.S. production of milk--a high level of Government purchasing. The 1.5 billion pounds of milk equivalent that was imported during January-October 1968, largely in the form of non-quota products, undoubtedly displaced a large part of the 4.9 billion pounds of milk equivalent that ultimately was purchased by the Government during that period.

Because of the price pull of the U.S. market for dairy products, the large stocks of dairy products abroad, and the export subsidies bestowed by many countries, if controls are not imposed on the products covered by my affirmative findings, the import trade in such products will continue to increase at a rapid pace. Moreover, the character of the import trade will continue to be of such nature as to continue to "avoid" the existing quota provisions.

The imports of chocolate in item 156.25 apparently have not yet felt the impact of the avoidance practices, but, in my opinion, they are practically certain to occur if quotas are imposed on the other products in this investigation.

Although no imports containing over 5.5 percent by weight of butterfat have occurred under items 156.20, 156.40, 156.45 and 156.47, they are practically certain to occur in the future if customs practices permit and quotas are imposed on the other products in this investigation, particularly sweetened chocolate in items 156.25 and 156.30.

"Aged" Cheddar cheese.--The foregoing considerations are not wholly applicable to the problem which has arisen in connection with "aged" Cheddar cheese (see my recommendation (b)). Briefly, the problem which the Secretary of Agriculture submitted to the President, and the President in turn submitted to the Commission for investigation, concerns the unexpected and unintended use of the special "aged" Cheddar cheese quota by importers of Cheddar from France for processing. This special quota, which was established by Proclamation No. 3790 beginning July 1, 1967, was expected and intended to apply to high-priced Canadian imports destined exclusively for table use. Since this special quota was established, the bulk of the imports have been comprised of relatively low-priced French cheese that met the literal requirements of the quota description but was destined for processing rather than for table use.

This special quota is a minimum quota of 1,225,000 pounds out of the total Cheddar quota of 10,037,500 pounds, which special quota--unlike the remaining quota which is controlled by licenses issued by the Department of Agriculture--is administered by Customs on a first-come first-served basis from all countries and without the requirement of an import license from the Department of Agriculture. Historically, all aged Cheddar imports of the type in question had been high-priced imports from Canada. It was the expectation of the Department of Agriculture that only such Canadian products would meet the proclaimed requirements for such cheese and that, therefore, subjecting such imports to the license requirement would unnecessarily burden the Department's facilities. In fact, however, it appears that the French were able very quickly to export cheese meeting the literal requirements of the proclaimed description. This French Cheddar has consistently been a relatively low-price Cheddar which is used for processing rather than for table use. The French have thus obtained an additional outlet in the United States otherwise unavailable to them under the licensing arrangements applicable to other Cheddar cheeses. The practical effect, therefore, has been to increase the residual quota of 8,812,500 pounds by the amount of such license-free French imports. Out of the minimum quota quantity of 1,225,000 pounds available for "aged" Cheddar in 1968,

the French imports accounted for 877,000 pounds, or about 70 percent of the total. Thus, in effect, the residual quota for 1968 was increased by approximately 10 percent.

Butterfat-sugar mixtures in retail packages.--Imports of butterfat-sugar mixtures such as "Exylone" first entered in significant volume in 1957. Following a section 22 embargo on articles containing over 45 percent of butterfat, mixtures such as "Junex" containing slightly less than 45 percent butterfat began to be imported. Since July 1967 imports of these mixtures containing over 5.5 percent of butterfat but not packaged for distribution in the retail trade have been subject to section 22 quotas. Mixtures packaged in small (1 pound or less) containers have begun to be imported in recent months; in the period July 1-December 15, 1968, such imports amounted to 2.0 million pounds. These imports--which technically comply with the retail packaging concept, but which, in fact, are moving into commercial channels for use in making ice cream and candy--are being imported in such quantities as to interfere with the price-support programs. In other words, these imported products were packaged in small containers solely to "avoid" the quota on bulk shipments.

The Recommended Remedy--Import Quotas

For reasons which follow, I have recommended the imposition of import quotas, rather than import fees, to remedy the material interference caused by the imports in question. The substantial subsidies bestowed by certain foreign government on exports of dairy products

have greatly lowered the U.S. customs value on such products, thereby diminishing the effect of the existing ad valorem duties on most such products. In addition, an additional import fee of even 50 percent ad valorem--the maximum permitted under section 22-- would probably prove ineffective as a control on the imports involved in this investigation in view of the artificially low, unstable export values resulting from the export subsidies.

The only law which, if applicable, would permit such subsidies to be wholly offset is section 303, Tariff Act of 1930. In my opinion, it is likely, as contended by certain importers at the Commission's public hearing, that the current proceedings (and possibly certain of the earlier proceedings) under section 22 would not have been necessary if export subsidies had not been bestowed by certain foreign governments, or if it were possible to offset such subsidies by countervailing action. Inasmuch as affirmative action by the Treasury Department on complaints lodged with them seeking redress under section 303 does not appear imminent, it is my view that the imposition of import quotas is the only feasible remedy available under section 22 with respect to the dairy products in question.

The representative period for imports. Any proclamation imposing quantitative limitations under section 22 on any article or articles cannot reduce the--

* * * permissible total quantity to proportionately less than 50 per centum of the total quantity of such article or articles which was entered, or withdrawn from warehouse, for consumption during a representative period as determined by the President.

In accordance with this requirement I have, as indicated above, found that the representative period for imports not the subject of existing permanent quotas is the calendar years 1963 through 1965, inclusive. The basis for this finding is clearly delineated in the following table which shows imports during 1963-67 and the first 9 months of 1968 (in thousands of pounds):

Article	1963	1964	1965	1966	1967	Jan.-Sept. 1968
Milk and cream, condensed or evaporated: (finding 1(a))-----	613	991	1,799	3,289	5,390	9,017
"Process" Edam and Gouda cheese (finding 1(c))-----	1,614	1,677	2,088	2,949	3,151	11,507
Italian-type cheese, not in original loaves (finding 1(d))-----	1/ 113	322	97	451	1,494	929
Certain "other" cheese (finding 1(e))-----	7,070	8,288	9,204	18,068	22,991	30,678
Swiss cheese with eye formation, Gruyere-process cheese, and process Swiss cheese (finding 1(f)):						
Natural-----	11,692	11,506	10,419	14,751	14,355	34,867
Other-----	4,830	5,173	5,313	9,123	9,836	16,800
Chocolate, cocoa and confectioners' coatings, etc. (finding 1(g)):						
156.25-----	587	820	1,626	890	804	554
156.30-----	1,088	2,068	1,962	6,500	21,544	31,789
Other-----	-	-	-	-	-	-

1/ Estimated.

It will be observed from this table that for the products in question the imports in the period 1963-1965 were fairly stable; that uniformly^{1/} for all classes significant increases in imports were recorded in 1966 and continued at an accelerated rate in 1967 and 1968. As previously stated, analysis shows these products to be primarily of types designed to avoid the existing quota provisions. In my view, the period in which such increases in imports occurred cannot properly be regarded as being the whole, or part, of a representative period within the meaning of the statute. To do so makes the "representative period" concept meaningless; it not only improperly increases the minimum permissible quantities of articles which may be imported but also affects the equities of the foreign countries that supplied, and the importers who imported, the traditional imports of dairy products.

I believe, on the other hand, that it is permissible and appropriate under the statute--where circumstances so justify and the programs are not threatened thereby--to establish annual quotas for the traditional imports at quantities higher than the average annual imports during such period. I have therefore recommended for each of the import classes involved annual calendar year quotas approximating in each instance the greatest quantity imported for any calendar year in the representative period.

"Aged" Cheddar cheese.--The establishment of the special minimum quota for aged Cheddar was designed to eliminate the burdens of the licensing system in the expectation that Canada, the historic exclusive

^{1/} Except for imports under items 156.20, 156.25, 156.40, 156.45 and 156.47 which, as previously noted, have not as yet experienced the impact of the quota avoidance practices discussed herein.

supplier of this high-priced product for table use, would continue to be the exclusive supplier under the license-free minimum quota. Since this expectation quickly proved to be groundless, it would seem that any solution now applied should be one which promises to be better and less burdensome than the original licensing system; otherwise the licensing system should be restored. Measured against this apparent desideratum, the best of the solutions proffered--short of reimposition of license requirements--would seem clearly to be allocation by country.

Butterfat-sugar mixtures in retail packages.--As indicated, these imports involve a technical avoidance of the existing quota provisions in items 950.12 and 950.13 of the TSUS applicable to bulk commercial shipments. This avoidance practice would be remedied, and the objectives of the existing quotas would be achieved, by adoption of the language in the exception to my finding 1(h). In the circumstances, no adjustment of the existing quota quantities is recommended.

Articles excepted from the recommended quotas.--The foregoing recommended quotas do not embrace certain articles excepted from my findings 1(e), 1(g) and 1(h). As stated in finding 2, imported articles described in these exceptions, in my opinion, are not, and are not practically certain to, materially interfere with the price-support programs. Such products, in general, are imported in relatively limited quantities and are destined directly for consumer use without further commercial processing.

The current imports of articles excepted from finding 1(e) for which no quota is recommended consist primarily of cheeses made from goat's milk, and cheeses, other than cottage cheese, with little or no butterfat, such as whey cheese and handcheese. The current imports of articles excepted from finding 1(g) consist of bars and other forms of sweetened chocolate packaged for retail sale. The current imports excepted from finding 1(h) include such articles as prepared meals and other edible preparations "not suitable for use as ingredients in the commercial production of edible articles". The quoted language would correct the problem associated with the butterfat-sugar mixtures, packaged in retail containers, but intended and suitable for commercial use as food ingredients.

The emergency quotas imposed by Proclamation No. 3870 of September 24, 1968 excepted from such quotas certain cheeses if their purchase price is over 47 cents per pound. I appreciate the desire of interested persons to permit imports of high-priced cheeses for table use to remain outside the scope of the proposed quota limitations. In my opinion, however, this concern should not be permitted to blind us to the weaknesses of this kind of article description, and its potential to invite further avoidances which will interfere with the domestic price-support programs.

Article descriptions distinguishing cheeses on the basis of their values or purchase-price differences are highly questionable techniques in a system of absolute quotas and increase the burdens of customs

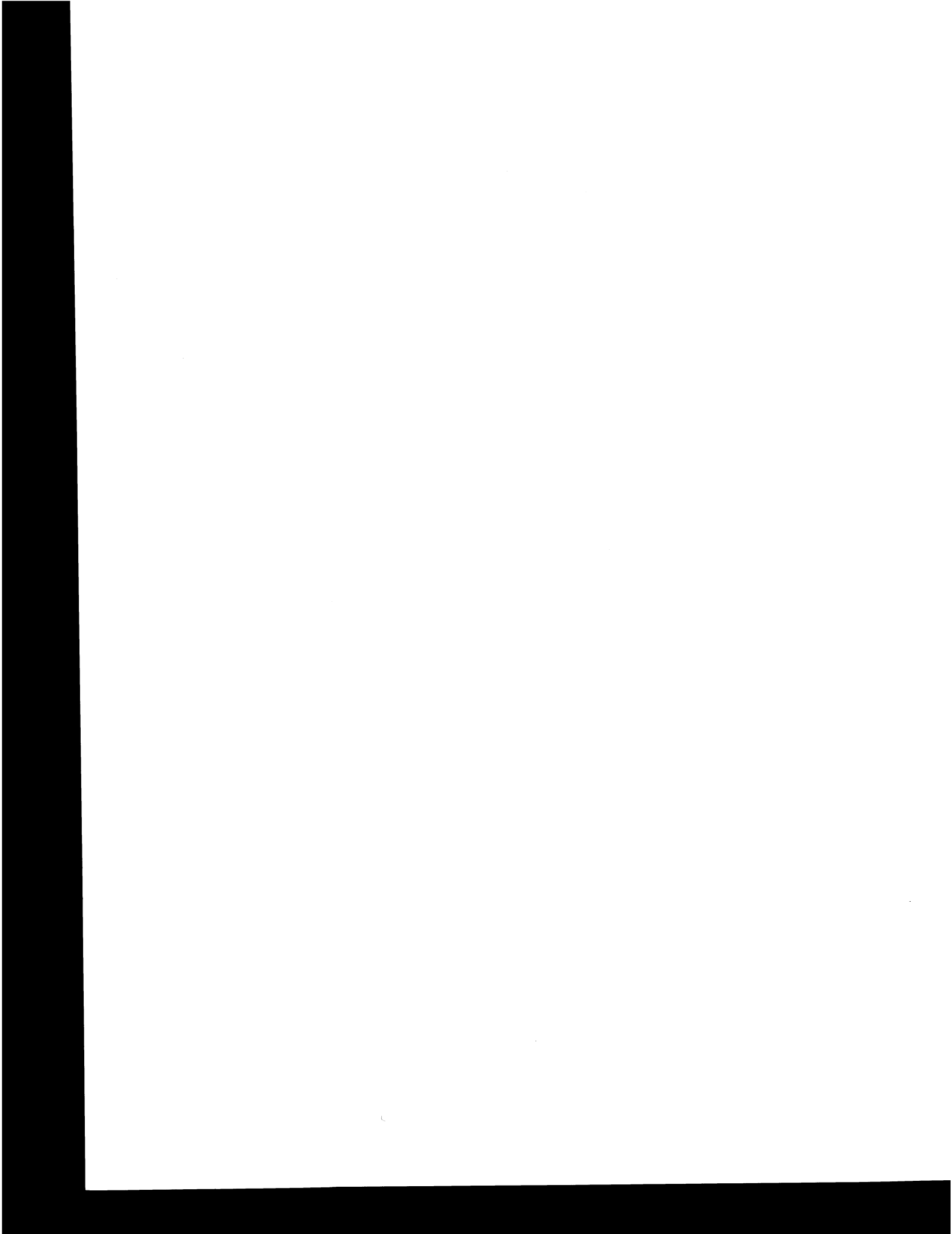
administration. Prices fluctuate and are thus not a stable basis for meaningful, consistent product differences. Moreover, prices can be and, when proper incentives are present, often are manipulated with impunity. As a result of this weakness, historical data and comparisons based thereon are compromised, if not rendered wholly invalid. As a further result, not only are the equities of traditional importers placed in jeopardy, but also the objectives of the domestic price-support programs are imperiled.

For the reasons indicated, therefore, it came as no surprise that shortly after the emergency quotas on cheese were proclaimed in September price revisions were being worked out by some importers to adjust prices over 47 cents. If import quotas based on purchase price differences are continued, the efforts to devise means to avoid such restrictions will be intensified and with assured success.

Conclusion

As important as the separate quotas on defined product classes are in recognizing the equities of individual foreign countries and importers and providing for the allocation of their respective shares of historic trade in these product classes, it is also important that the quotas on these separate classes be viewed not in isolation but as an integrated whole in the larger context of their total impact on the domestic price-support programs. The recommended quota quantities, when added to the maximum permissible imports under the existing section 22 quotas, allow a total maximum import of milk equivalent in dairy products of approximately one billion pounds, including those products now imported not

subject to quota limitations under section 22--virtually all sheep's milk cheeses. This result for imports is, as previously noted, consistent with the President's announced objective. A larger quota than recommended for any of the individual products in this investigation would increase the allowable import of milk equivalent and in all probability tend to unstabilize the domestic market and add to the costs and burdens of the programs.



INFORMATION OBTAINED IN THE INVESTIGATION

The Domestic Dairy Situation

Milk for sale in the fluid state is generally produced near the large population centers, whereas that used in manufactured products is produced largely in the North Central region of the United States. In recent years, the North Central region has accounted for nearly 70 percent of the milk used in manufactured dairy products. Wisconsin and Minnesota have been the leading States producing that milk. Other important sources have been Iowa, New York, and California. In recent years Wisconsin, Minnesota, and Iowa accounted for more than half of the U.S. production of butter, Cheddar cheese, and nonfat dry milk.

In recent years about half of the U.S. production of milk has been consumed in fluid form; virtually all of the remainder has been used to manufacture dairy products (fig. 1). In 1967 about 44 percent of the volume used in manufactured dairy products was used in butter; 29 percent was used in cheese; 16 percent, in frozen dairy products (principally ice cream); and the remaining 11 percent, in a variety of products, including condensed and evaporated milk.

Recent trends in the U.S. production of milk

During the past decade the U.S. production of milk has usually varied less than 2 percent from year to year. It increased

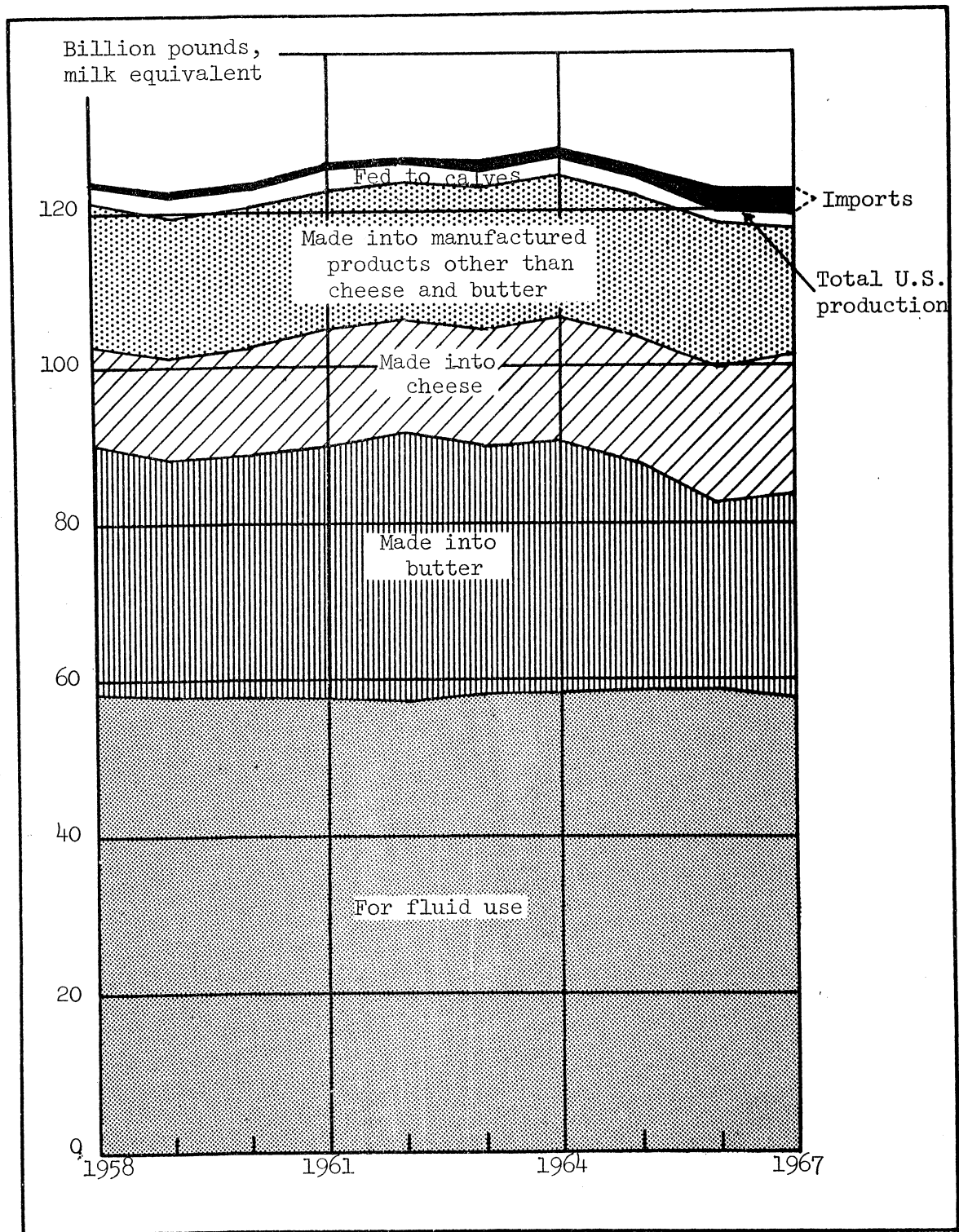


Figure 1.--U.S. production and use of milk, U.S. imports and total available supply, 1958-67

irregularly from 121 billion pounds in 1953 to a record 127 billion pounds in 1964, and then declined gradually to about 119 billion pounds in 1967 (table 1). The value of the output of milk in 1967, however, was \$6.0 billion, an alltime high. The decline in milk production in recent years is generally attributed to more favorable returns in alternative farm enterprises, particularly livestock, and to increasing opportunities for off-farm employment.

From time to time over the years the Secretary of Agriculture has increased the price-support levels when the output of milk has declined. The most recent of such increases occurred on April 1, 1968, when the support price for manufacturing milk was increased from \$4.00 to \$4.28 per hundred pounds (table 2), the highest in the last two decades.

In virtually all months of the years 1965-67 and in the first 9 months of 1968, the production of milk was below that in corresponding months of the preceding year. The output in January-September 1968 was 1.5 percent smaller than the output in the same period of 1967. The decrease in the production of milk has been due largely to a decline in the number of dairy cows on farms which was only partially offset by an increase in the output per cow. In November 1968 the Department of Agriculture estimated that the output of milk in 1968 would be about 1 percent below the level of 1967.

Since the early 1950's the U.S. dairy farmers have altered their operations considerably, through improvements in breeding, feeding, disease control, and management. In 1953 the average annual output

of milk per cow was about 5,500 pounds; in 1967 the average was about 8,800 pounds. In the same period, the number of milk cows on U.S. farms declined from 21.7 million head to 13.5 million head. The decline in the number of dairy farms in operation was at a greater rate than that in the number of dairy cows. In recent years the aggregate number of U.S. farms selling milk has decreased by about 10 percent annually, although the number of dairy farms with annual sales of \$20,000 or more has increased. The average number of cows on U.S. dairy farms increased from 26 per farm in 1959 to 31 per farm in 1964, and has since increased further. The farmers continuing to sell milk have expanded and specialized their operations to take advantage of improvements in technology, gain access to better markets, and offset rising costs.

Manufactured dairy products as an outlet for milk

About 60 billion pounds of milk a year, equal to half of the production, is used in manufactured dairy products. Notwithstanding a steady increase in the use in cheese, the quantity in all manufactured dairy products has been reduced since 1964, principally as the result of a reduction in the use in butter. The utilization by product is shown in relative detail in table 3 of the appendix, and is summarized,

in billions of pounds, for the last several years in the following tabulation:

Year	Butter	Cheese	Other factory products	Total
1962-----	34.0	14.4	17.8	66.2
1963-----	31.5	14.8	18.3	64.6
1964-----	31.9	15.7	18.5	66.1
1965-----	29.0	15.8	18.5	63.3
1966-----	24.0	16.7	18.6	59.3
1967-----	26.7	17.2	17.3	60.2

In 1967, for the first time in several years, the quantity of milk used in butter and in all manufactured dairy products increased. The increase, however, took place despite a reduction in the commercial sale, and reflected an increase in Government purchases under Federal programs for dairy products.

Federal Programs for Dairy Products

Federal Milk Marketing Orders

About half of the milk sold by farmers to handlers (processors or dealers) is marketed under Federal Milk Marketing Orders. These orders, administered by the U.S. Department of Agriculture, require milk handlers to pay farmers certain minimum prices for milk, based on its end use. Currently, 67 orders are in effect. Minimum prices for Grade A milk marketed for consumption in the fluid state (Class I) and that marketed for manufacturing use (surplus milk) are established under the orders. Federal Milk Marketing Orders for manufacturing-grade milk are permitted by law, but none have been established to date. Government price support, by the purchase of manufactured dairy products, affects the price of manufacturing milk, particularly in the Minnesota-Wisconsin area, where about half of this milk is produced. Minimum prices for milk in other areas are generally fixed at specified premiums above the price of manufacturing milk in the Minnesota-Wisconsin area. 1/

1/ For a comprehensive discussion of Federal Milk Marketing Orders, see Dairy Products, TC Publication 233, March 1968.

The price-support program

The Agricultural Act of 1949, as amended, requires the Secretary of Agriculture to support the prices of whole milk, butterfat, and products made therefrom, at such level between 75 percent and 90 percent of parity as will assure an adequate supply of milk. 1/ To achieve this objective, the Department of Agriculture maintains a purchase program for three manufactured dairy products--butter, Cheddar cheese, and nonfat dry milk. As indicated earlier, the Department also establishes minimum prices to be paid to farmers for milk under Federal Milk Marketing Orders in many areas. 2/

In advance of each marketing year (which begins April 1), the Secretary of Agriculture announces the price-support objective for milk to be used in manufacturing, and the price at which the Department of Agriculture will purchase butter, Cheddar cheese, and nonfat dry milk. 3/ The support objective of milk for manufacturing and the purchase price of the three dairy products may be altered--within the limits imposed by the legal parity objectives--whenever the Secretary deems it necessary to carry out the statute's directive. The

1/ The "parity price" of individual commodities is determined by the Secretary of Agriculture according to a statutory formula; it is, in effect, the price that a given quantity of a specific commodity would have to command in order to give the farmer the purchasing power equivalent to that in existence during a statutory base period (1910-14).

2/ Besides the Federal program, a number of States have programs to regulate the price of dairy products. For a brief description of these programs, see National Commission on Food Marketing, Organization and Competition in the Dairy Industry, June 1966, pp. 42-44.

3/ The purchase prices of butter, Cheddar cheese, and nonfat dry milk are based on historical gross processing margins (the average spread between the price of the milk used and the market price of the product) and the support objective for milk for manufacturing.

Department's offer to purchase butter, Cheddar cheese, and nonfat dry milk is not limited to specific quantities; 1/ the products offered, however, must meet certain specifications. Since November 1965, the Secretary of Agriculture has also been authorized to purchase the three products at market prices above the support price, if necessary to meet commitments under various Government programs (e.g., the school lunch program). 2/ The Department of Agriculture generally stands ready to resell dairy products to domestic commercial users for unrestricted use at announced prices, which are always above the Government purchase price. The announced resale price ordinarily sets a ceiling on the wholesale market price for the products. It is likely that the market price would exceed CCC resale price only when Government stocks are low.

During marketing years 1962-65 the Department's price-support objective for manufacturing milk was equivalent to 75 percent of parity and increased gradually from \$3.11 to \$3.24 per hundred pounds with the increase in the parity price. On April 1, 1966, the Secretary increased the support objective to \$3.50 per hundred pounds (78 percent of parity), on June 29 he further increased it to \$4.00 per hundred pounds (89.5 percent of parity) and on April 1, 1968, he raised it to \$4.28 (89.4 percent of parity, or almost the maximum permissible under the law).

1/ Unlike some Federal price-support programs which control output of the commodities concerned, the price-support program on dairy products does not limit the quantity of milk or dairy products that may be produced or marketed.

2/ Sec. 709, Public Law 89-321. See the following section on Government purchases.

On March 30, 1967, the Secretary of Agriculture announced that stocks of dairy products owned by the CCC would not be resold to the domestic market at less than 110 percent of the purchase price. The Department's resale price of dairy products for unrestricted use had previously been about 105 percent of the purchase price.

The price-support program has generally played a central role in determining the market price of milk and dairy products in the United States in recent years. The market price of butter, Cheddar cheese, and nonfat dry milk--the products directly supported--has usually approximated the Government's purchase price (table 2).

Government purchases

Dairy products have been removed from the commercial market by the U.S. Government through both the Department of Agriculture's purchase program and the payment-in-kind export program (PIK) (see following section). ^{1/} The great bulk of the dairy products so removed have been acquired through the Department of Agriculture's purchase program, which is conducted by the CCC. The share of the U.S. production of milk, which this program initially removed from the commercial market in the form of butter, Cheddar cheese, and nonfat dry milk, is shown (in millions of pounds, milk equivalent basis) since 1953 as follows:

^{1/} Under the Agricultural Act of 1949, as amended, the Department of Agriculture conducts school milk programs under which Federal grants are given to subsidize local purchase of milk for school children. The Congress directed, however, that the grants thereunder were not to be regarded as amounts expended for the purpose of carrying out the price-support program. Data on the annual cost of the school milk programs are given in table 4.

Period	U.S. milk production	Milk equivalent of gross removals (CCC purchases and PIK exports)	Percent of U.S. milk production	Milk equivalent of subsequent unrestricted domestic sales
Annual: <u>1/</u> :				
1953----	120,521	10,328	8.6	128
1954----	122,294	9,216	7.5	628
1955----	123,045	4,780	3.9	95
1956----	124,860	5,224	4.2	18
1957----	124,628	5,899	4.7	29
1958----	123,220	4,713	3.8	55
1959----	121,989	3,214	2.6	-
1960----	123,109	3,112	2.5	11
1961----	125,707	8,024	6.4	5
1962----	126,251	10,748	8.5	24
1963----	125,202	7,777	6.2	32
1964----	126,967	8,464	6.7	788
1965----	124,173	6,426	5.2	761
1966----	119,892	645	.5	-
1967----	119,294	7,433	6.6	1
Jan.-				
Sept.:				
1967--	92,014	6,877	7.5	-
1968--	90,639	4,821	5.3	-

1/ Calendar year.

In most years the unrestricted domestic sale of CCC-owned products through commercial channels (as opposed to donations) has been small.

The most recent sales of significant volume were in 1964 and 1965.

Annual purchases of butter, Cheddar cheese and nonfat dry milk under the price-support program have varied (table 5). In 1966, when the market price was materially higher than the Government's purchase price, the Government purchases of butter and nonfat dry milk were substantially lower than in

any other year during the 1953-67 period; purchases of Cheddar cheese in 1966 were lower than in any other year except 1960. About a third of the butter purchased by the Department of Agriculture in 1966 was purchased at the market price rather than at the support price under the authority of section 709 of Public Law 89-321. ^{1/} All of the cheese but none of the nonfat dry milk was so purchased. All purchases by the Department since 1966 have been made at support prices.

The Department's total purchases of dairy products in January-September 1968 were 30 percent less than in the corresponding period of 1967; the purchase of cheese was reduced by one-half and that of butter, by one-fourth. The value of such purchases in the 1968 period was \$269.4 million.

Disposition of Government stocks

The dairy products acquired by the Government under the price-support programs are nearly all disposed of through domestic welfare outlets, and sales or donations abroad. Domestic disposal has been to welfare recipients, the school lunch program, military and veteran hospitals, and penal and correctional institutions. The quantity of dairy products (on a milk-equivalent basis) consumed under Federal programs and that consumed through commercial channels in the United States is shown in table 6. Disposal abroad has been through sales

^{1/} The Secretary of Agriculture is authorized under section 709 to use CCC funds to purchase dairy products at market prices (rather than at support prices) if stocks of dairy products owned by the CCC are deemed insufficient to meet commitments under various Government programs such as the school lunch program.

for local currency, barter, long-term supply contracts, and donations to famine relief.

Inasmuch as the dairy products acquired by the Government under the price-support program have generally been utilized quite promptly, in recent years, uncommitted yearend supplies have been small (table 5). The purchases of butter and Cheddar cheese in recent years have generally been disposed of through school lunch and welfare programs within the United States, whereas most of the nonfat dry milk has been donated abroad. In 1962-65, however, substantial quantities of nonfat dry milk and small amounts of butter were exported under the U.S. Government PIK program.

Under the PIK program, commercial stocks of butter and nonfat dry milk may be purchased by U.S. exporters at domestic market prices and exported at the prices prevailing in the foreign markets. The U.S. Government affords the exporter an announced subsidy (in the form of CCC-owned commodities--principally grain) equal approximately to the difference between the U.S. and foreign market price. On March 2, 1966, the U.S. Department of Agriculture announced that the PIK export program for dairy products had been temporarily suspended until the domestic dairy supply situation again justified its use; by December 1, 1968, the program had not been reinstated.

Costs of the dairy price-support programs

The U.S. Department of Agriculture reports that the net Government expenditures 1/ on the dairy price-support and related programs reached a peak of \$612.0 million in the year ending June 30, 1962, as the Government purchased increased quantities of butter, Cheddar cheese, and nonfat dry milk (table 5). Since then the expenditures have ranged from \$68.6 million to \$485.5 million a year; in the year ending June 30, 1968, they amounted to \$357.1 million.

The U.S. Department of Agriculture reports its net expenditures (including nonprice-support expenditures) on butter, Cheddar cheese, and nonfat dry milk for the fiscal years 1963-67 as follows (in millions of dollars):

Year ending June 30--	Commodity			Total
	Butter	Cheddar cheese	Nonfat dry milk	
1963-----	221	51	174	446
1964-----	146	52	137	335
1965-----	125	45	136	306
1966-----	-	3	76	1/ 98
1967-----	145	42	112	1/ 318

1/ Includes net expenditures for condensed and evaporated milk exported under Public Law 480 (exports in exchange for foreign currency).

1/ CCC purchases and other costs (processing, repackaging, transportation, storage, and handling), less proceeds from sales.

Section 22 quotas on imports of dairy products

For a number of years the United States has imposed absolute quotas on imports of a variety of dairy products under the provisions of section 22 of the Agricultural Adjustment Act, as amended (hereinafter referred to in this report as section 22). 1/

Current quotas.--The current annual quotas are as follows:

<u>Commodity</u>	<u>Quantity</u>
Fluid or frozen milk and cream-----	1,500,000 gallons
Milk and cream, condensed and evaporated.	5,391,000 lbs. (Aggregate quantity)
Dried buttermilk-----	496,000 lbs.
Dried skimmed milk-----	1,807,500 lbs.
Dried whole milk-----	7,000 lbs.
Dried cream-----	500 lbs.
Butter-----	707,000 lbs.
Butter substitutes containing more than 45 percent of butterfat and butter oil.	1,200,000 lbs.
Blue-mold (except Stilton) cheese, and cheese and substitutes for cheese containing, or processed from, blue-mold cheese.	5,016,999 lbs. (Aggregate quantity)
Cheddar cheese, and cheese and sub- stitutes for cheese containing, or processed from, Cheddar cheese.	10,037,500 lbs. <u>1/</u> (Aggregate quantity)
American-type cheese, including Colby, washed curd, and granular cheese (but not including Cheddar) and cheese and substitutes for cheese containing, or processed from, such American-type cheese.	6,096,600 lbs.

See footnote at end of table.

1/ Quotas on dairy products under section 22 were first imposed in mid-1953. Imports of some dairy products had been subject to quota before then under the provisions of the Second War Powers Act of 1942 and the Defense Production Act of 1950. The historical development of U.S. quotas on imports of dairy products is described in appendix B of the Commission's Report to the President on Dairy Products, Investigation No. 22-26, TC Publication 211, June 1967.

Current quotas.---The current annual quotas---Continued

<u>Commodity</u>	<u>Quantity</u>
Edam and Gouda cheeses-----	9,200,400 lbs. (Aggregate quantity)
Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses.	3,151,000 lbs. (Aggregate quantity)
Italian-type cheeses, made from cows' milk, in original loaves (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz).	11,500,100 lbs. (Aggregate quantity)
Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheese. <u>2/</u>	
Swiss or Emmenthaler cheese with eye formation.	4,271,000 lbs. (Aggregate quantity)
Other than Swiss or Emmenthaler cheese with eye formation.	3,289,000 lbs. (Aggregate quantity)
Cheese and substitutes for cheese provided for in items 117.75 and 117.85, part 4C, schedule 1 (except cheese not containing cows' milk, whey cheese, and except articles within the scope of other import quotas provided for in part 3 of the appendix to the TSUS). <u>2/</u>	17,501,000 lbs. (Aggregate quantity)
Malted milk, and compounds or mixtures of or substitutes for milk or cream.	6,000 lbs. (Aggregate quantity)
Certain articles containing more than 45 percent of butterfat.	Embargoed
Articles containing over 5.5 percent, but not over 45 percent, by weight of butterfat and classifiable under item 182.92.	2,580,000 lbs.

1/ Not more than 8,812,500 lbs. shall be products other than natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months.

2/ All the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price (as provided in Presidential Proclamation No. 3870) under 47 cents per pound.

Note.--For the complete description, see part 3 of the appendix to the Tariff Schedules of the United States and Presidential Proclamation No. 3870.

About half of the import quotas shown above were established in 1953. The quota on butter substitutes containing more than 45 percent of butterfat and butter oil and that on certain articles containing more than 45 percent of butterfat were established in 1957. The quota on imports of butter substitutes and butter oil was 1,800,000 pounds for the 1957 calendar year, but since then has been at the level shown in the tabulation. On July 1, 1960, the annual quota on Edam and Gouda cheeses was increased from 4,600,200 pounds to the amount shown in the tabulation, and that on Italian-type cheeses, from 9,200,100 pounds to the amount shown. On March 29, 1962, the quota on blue-mold cheese was increased from 4,167,000 pounds to the amount shown. The quota on Cheddar cheese was increased to 3,706,800 pounds for a single quota year--that ending June 30, 1966; on June 30, 1967, the quota was increased to the level shown in the tabulation. Quotas on fluid or frozen cream, American-type cheese, and articles containing 5.5 to 45 percent butterfat were established on June 30, 1967 (Presidential Proclamation No. 3790). 1/

The quota shown in the tabulation for milk and cream, condensed or evaporated, was established in June 1968 (Presidential Proclamation No. 3856). The quota for the remainder of 1968 is 2,722,500 pounds plus (1) the quantity entered prior to the establishment of the quota, and (2) the quantity exported to the United States but not entered prior

1/ Pursuant to the proclamation the quota year (beginning July 1) was changed to a calendar-year basis with certain quotas allocated semi-annually rather than thrice-annually; the first full calendar year that the quotas were allocated semiannually was 1968.

to the establishment of the quota.

The quotas shown in the tabulation for cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses; certain Swiss or Emmenthaler, and Gruyere-process cheese; and certain cheese and substitutes for cheese provided for in items 117.75 and 117.85 were established on September 24, 1968 (Presidential Proclamation No. 3870). The quotas for 1968 limit imports to the amounts shown in the following tabulation plus the quantities entered on or before September 24, 1968:

<u>Article</u>	<u>Pounds</u>
Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses.	945,000
Certain Swiss or Emmenthaler cheese with eye formation. <u>1/</u>	1,281,000
Certain Gruyere-process cheese <u>1/</u> -----	987,000
Certain cheese and substitutes for cheese provided for in items 117.75 and 117.85 of the TSUS. <u>1/</u>	5,249,000

1/ All the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price as defined in Presidential Proclamation No. 3870, under 47 cents per pound.

The quotas established in September 1968 are not applicable to quantities of the articles exported to the United States, but not entered, prior to September 24, to the extent that such quantities are in excess of the quotas therefor.

On an annual basis, the maximum permissible quantity of dairy products that can currently be imported under the quotas amounts to about 1 billion pounds (milk equivalent)--an amount equal to eight-tenths of 1 percent of U.S. milk production in 1967. While the quantity of some dairy products permitted entry under quota is very small, the

quantity of others is large compared with U.S. production. The quantity specified in the existing quotas on butter, cream, Cheddar and American-type cheeses, certain Swiss cheese, and certain "other" cheese, and dried milk products, for example, is very small compared with the domestic output of those products, and the butterfat equivalent of the annual quota on butter substitutes containing over 45 percent of butterfat and butter oil is small compared with the domestic production of butterfat. The quotas on blue-mold cheese and on Italian-type cheeses, however, were equivalent to about 26 percent and 14 percent, respectively, of the domestic output in 1967, while those on Edam and Gouda cheese (natural and process) and Gruyere-process cheese are larger than the domestic output.

Although U.S. imports of natural Edam and Gouda cheeses and Italian-type cheeses in original loaves have been materially smaller in recent years than the amounts authorized under the quotas, the quotas on most other dairy products (except dried cream) have been substantially filled. In the quota years (ending June 30) 1962-67, the annual quota on butter was 89 to 96 percent filled; that on Cheddar cheese, 84 to 96 percent; that on Edam and Gouda cheeses, 57 to 86 percent; and that on Italian-type cheeses in original loaves, 64 to 87 percent. Except for the quota on dried cream, the quotas on the other dairy products have generally been filled. The quota on dried cream (500 pounds) apparently is not large enough to attract commercial shipments.

Administration of section 22 quotas.--Import quotas on butter substitutes, butter oil, aged Cheddar cheese, certain articles containing 5.5 to 45 percent butterfat, and condensed and evaporated milk and cream are administered by the Bureau of Customs on a first-come, first-served basis; imports of all other dairy products under quota are subject to licensing procedures of the Department of Agriculture. 1/ The dairy products subject to such licensing procedures may be imported into the United States only by, or for the account of, a person or firm licensed by the Department of Agriculture, and only in accordance with the terms of the license. The license authorizes a particular firm to enter designated quantities of a specific dairy product from a designated country through a specified port of entry; the license for entries of some cheeses (but not the other dairy products involved) further require that not more than one-half of the designated quantity can be imported in the first 6 months of the quota year. 2/

When issuing licenses the Department of Agriculture must, to the fullest extent practicable, assure (1) the equitable distribution of the respective quotas among importers or users, and (2) the allocation of shares of the respective quotas among supplying countries, based upon the proportion supplied by each country during a previous representative period, taking due account of any special factors that may

1/ In accordance with the emergency Presidential Proclamation issued with respect to certain cheeses on September 24, 1968 (No. 3870), import licenses shall not be required for the articles listed therein for the 12-month period ending December 31, 1968, notwithstanding headnote 3(a)(i) of part 3 of the appendix of the TSUS.

2/ The administrative regulations established by the Department of Agriculture are published in 7CFR6.

have affected or may be affecting the trade in the articles concerned. In accordance with these directives, the Department generally regards an importer who entered a dairy product during a base period as eligible for a license; he usually would be granted a share of the annual quota proportionate to his share of total imports of the product in the base period. Importers seeking to enter the trade may be licensed to enter nominal quantities of a single product. 1/ Licenses may not be transferred or assigned to others, except as authorized by the Department of Agriculture.

1/ At present the so-called new business quota for Italian-type cheeses is 5,000 pounds; Edam and Gouda cheeses, 10,000 pounds; blue-mold cheese, 2,500 pounds; Cheddar cheese, 20,000 pounds; and American-type (other than Cheddar), 20,000 pounds.

U.S. Foreign Trade in Dairy Products

Although the United States has generally been a net exporter of dairy products since World War II, imports exceeded exports in 1966 and 1967, and in the first 9 months of 1968 (table 1). Exports have been small compared with domestic production. Most of the U.S. exports of dairy products have been under various Government programs. U.S. unsubsidized exports of dairy products have been negligible. During the period 1953-65 the whole-milk equivalent of the U.S. annual exports of dairy products ranged from 655 million to 6,872 million pounds, or from 0.5 percent to 5.4 percent of domestic production. Exports were larger in 1963 and 1964 relative to domestic production (equivalent to 4.0 percent and 5.4 percent, respectively) than in preceding years. U.S. exports of dairy products declined to 788 million pounds in 1966 (0.6 percent of production) and to 364 million pounds in 1967 (0.3 percent of production), because smaller Government supplies were available for export. In terms of milk equivalent, the bulk of the U.S. exports of dairy products in 1966 and 1967 were to South Vietnam, Japan, Korea, Canada, and Mexico. The U.S. exports of dairy products in 1966 and 1967 consisted of donations or transactions involving various forms of Governmental assistance.

For many years, U.S. imports of dairy products (in terms of milk equivalent) have been small compared with domestic production

(table 1). During 1953-65 annual imports of all dairy products increased irregularly from 525 million pounds to 923 million pounds. A large part of the increase occurred after 1958, when certain products not subject to import restrictions under section 22 of the Agricultural Adjustment Act, as amended, (such as Colby cheese, certain butterfat-sugar mixtures, and frozen cream) began to be imported in substantial volume. ^{1/} In 1966, imports of dairy products increased sharply, amounting to 2,791 million pounds. In 1967 imports increased further to 2,908 million pounds.

Effective July 1, 1967, quotas were imposed on several dairy products, principally Colby cheese, certain butterfat-sugar mixtures, and frozen cream. In the 12-month period following the imposition of these quotas aggregate imports of quota and nonquota dairy products declined to about half the level of 1966 (fig. 2). The U.S. imports (on a product-weight basis) of certain dairy products, except cheeses, for the years 1964-67 and January-September 1967 and 1968 are shown in table 7; imports of cheeses for the comparable periods are shown in table 8.

U.S. imports of all dairy products were equivalent to 0.4 percent of the U.S. production of milk in 1953, 0.7 percent in 1965, 2.3 percent in 1966, and 2.4 percent in 1967. For the first 9 months of 1968 imports were equivalent to 1.4 percent of production compared to 2.8 percent in the same period of 1967. In most recent years the U.S. price of butterfat has been exceedingly high relative to world prices.

^{1/} Sec. 22 quotas are discussed earlier in this report.

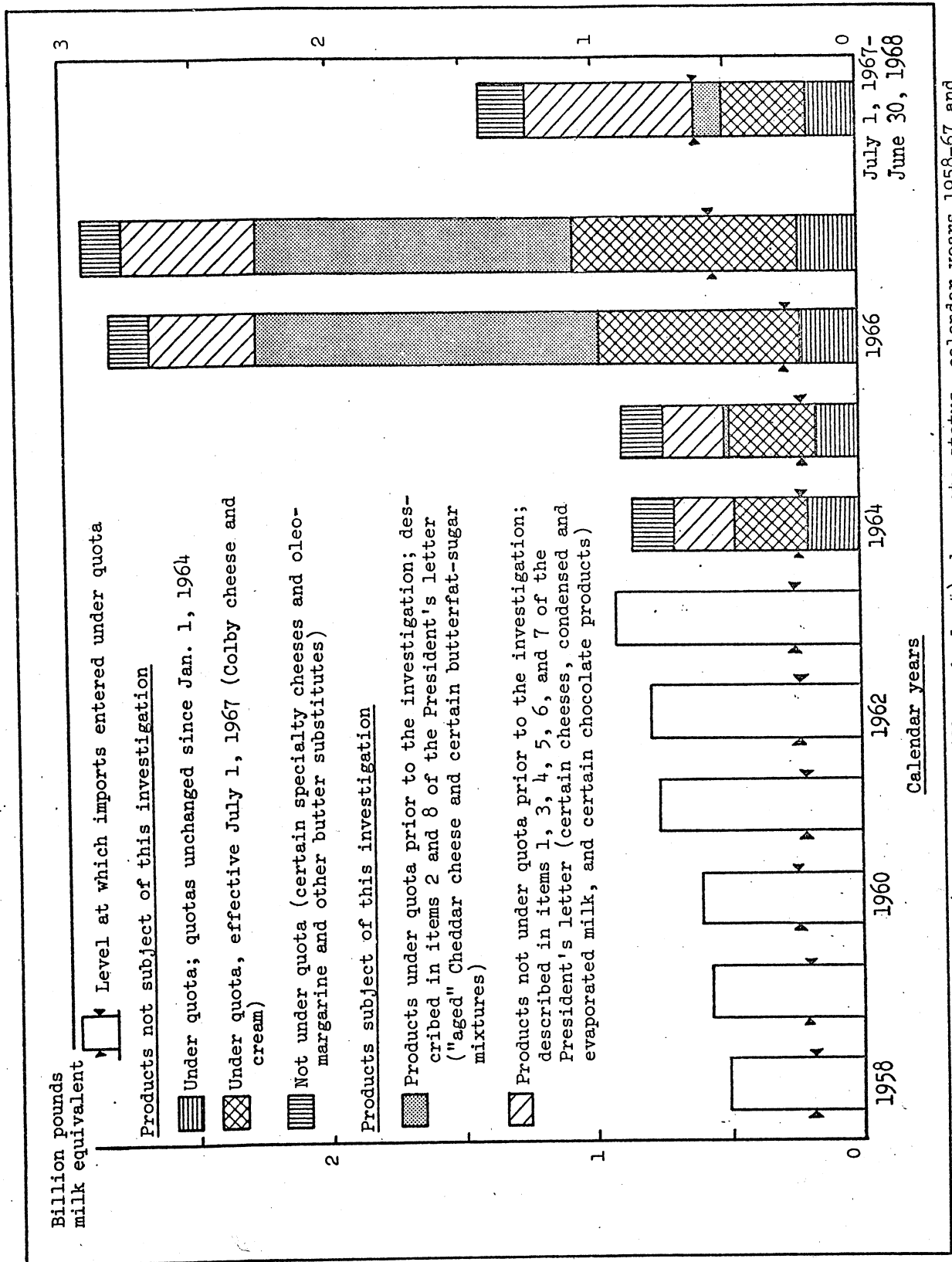


Figure 2.--U.S. imports (in terms of milk equivalent), by quota status, calendar years 1958-67 and July 1967-June 1968. Imports under quota in fiscal 1968-69 will be affected by additional emergency quotas imposed June 10 and September 24, 1968 on certain products subject of this investigation

For example, the wholesale price of butter (about 80 percent butterfat) in September 1968 at London (a principal market) was 32.1 cents per pound; in Chicago, it was 68.5 cents per pound.

The products which are the subject of this investigation are shown in table 9. They include virtually all the dairy products (except cheeses made from sheep's milk) in which there has been substantial trade in recent years and which were not subject to import quota on June 10, 1968, when this investigation was instituted, and in addition, "aged" Cheddar cheese, and edible preparations classifiable in item 182.92, which were already subject to import quota. Imports of products covered by the investigation (in terms of milk equivalent) were reduced from 1,337 million pounds in January-June 1967 to 361 million pounds in the 6-month period July-December 1967, following the imposition of a quota on certain edible preparations (butterfat-sugar mixtures) not packaged for retail sale. In the first 9 months of 1968 imports amounted to 904 million pounds (table 10); Swiss and Emmenthaler cheese, Gruyere-process cheese, and certain "other" cheese accounted for about three-fourths of the imports in this period. Imports of Swiss and Emmenthaler cheese and Gruyere-process cheese were 203 percent larger in January-September 1968 than in the same period of 1967 and those of the "other" cheese were 73 percent larger.

Agricultural Support Programs and Export
Subsidies of Foreign Countries

In many foreign countries, as in the United States, governments operate price-support programs for dairy products designed to maintain and improve farmers' incomes. Encouragement of production by support prices favorable to producers--in the absence of effective production or marketing controls--generally have given rise to additional measures to deal with resulting surpluses. Chief among these has been the use of export subsidies to increase sales in foreign markets. Subsidization and other forms of governmental export assistance are widespread. Moreover, high prices in the home markets engendered by price-support policies generally have necessitated measures to protect the home markets against lower-priced imports. Curtailment of imports from normal supplying countries in turn has caused a buildup of surplus supplies in the latter countries and diversion of their exports to whatever other markets may be accessible.

The Common Agricultural Policy (CAP) of the European Economic Community (EEC) as it applies to milk and other dairy products provides an illustration of a program that has led to the foregoing developments. Principal mechanisms of the price-support system for milk and other dairy products under the CAP are the following: a target price for milk; intervention prices for butter, skim milk powder and certain cheeses; threshold prices for pilot (base) products in each of 12 dairy product groups; variable import levies; and export subsidies or refunds. The target price for milk is essentially a price "goal" which

the Community seeks to attain for this product; it is designed to assure an "adequate" standard of living and employment to domestic producers, develop intra-Community trade, and ensure the sale of domestic output of the product during the marketing year. The intervention prices for butter, skim milk powder, and certain cheeses are support prices at which member states stand ready to purchase all quantities of the domestic product offered on the market; the intervention prices assure that actual market prices do not fall materially below designated levels. The intervention prices are set at levels slightly below the corresponding target prices for the respective products. The threshold prices, determined administratively for the 12 base products, are minimum import prices, and are generally fixed on the basis of internal market prices prevailing in each member state. The variable import levies are designed to insulate the market for domestic products from foreign competition, and are calculated as the difference between the threshold price and the lowest c.i.f. price on the world market. Variable import levies equalize the cost of imports with domestic prices of the respective products. To enable exports to be made at world prices, refunds or subsidies to individual exporters in the Community are authorized. Their amounts are fixed at levels not to exceed the difference between exporters' f.o.b. prices and world prices. The Community's price-support system thus forms a closely integrated system, and pressure on any one of its interdependent mechanisms could conceivably disturb the balance of the entire system.

Regulations supporting a common agricultural policy for milk and other dairy products became fully operative in all member states on November 1, 1964. On July 24, 1966, the EEC Council established a common target price for milk (a single ex-factory price), thus setting the general lines of the Community's policy for the milk industry. On June 27, 1968, the Council adopted new basic regulations (Regulation No. 804/68, effective July 29, 1968), aimed at unifying the Community's dairy markets.

In the period between July 1966 and June 1968, conditions changed substantially in the EEC markets for milk and other dairy products. The new common regulations were approved by the Council at a time when there was serious imbalance; production substantially exceeded domestic consumption and export requirements. This disparity led to the accumulation of large and increasing surplus stocks of butter and other dairy products. The accumulation of surplus stocks resulted from a target price that had been set at a time when no overproduction was anticipated, and at a level that enabled many marginal, inefficient producers to continue in operation. High support prices (intervention prices) also contributed to overproduction.

The broad framework of EEC's common price-support system for milk and other dairy products was not appreciably altered by adoption of the new regulations in June 1968. Underlying the decisions of the EEC Council was the assumption that general conditions affecting the Community's milk market had not materially changed after July 1966. According to a recent publication of the EEC, "The Council has not . . .

reached agreement as yet on the underlying economic and structural problems affecting milk policy, and in particular on the guidance to be given this policy, to produce a healthier situation in the dairying industry in the future." 1/ Unless the Council revises its policy concerning production and marketing of milk, in the light of existing demand and supply conditions, it is most likely that surplus stocks will continue to accumulate.

A new definition of target price, adopted by the Council in June 1968, makes its attainment contingent upon sales opportunities available in the Common Market and on sales abroad. The attainment of the target price for milk is of utmost importance to the Community. This is reflected in the high support (intervention prices) given to butter and skim milk powder because they sustain utilization of milk. Since greater sales opportunities in the domestic markets are limited, any further growth in the production of dairy products is likely to result in increased efforts by the Community to expand its exports to third countries. Moreover, since the prevailing prices for these products in world markets are considerably lower than in the EEC markets, larger exports from the Community can be achieved only through continued use of subsidies, which had been employed by some countries before the establishment of the CAP for milk and dairy products.

Production of cows' milk in the EEC rose from 146 billion pounds in 1965 to 162 billion pounds in 1967; output in 1968 is estimated by

1/ Newsletter on the Common Agricultural Policy: European Communities, Joint Information Service, No. 10, July 1968, p. 3.

the U.S. Department of Agriculture at about 167 billion pounds. In March 1968 the European Parliament (consisting of members from the six national parliaments of the EEC) rejected a plan that might have reduced milk output in the EEC. Under the plan, the common milk price to farmers would have been reduced 2.5 percent, and cash subsidies would have been paid to farmers who reduced their dairy cow numbers and expanded their beef herds.

Production of milk in the EEC in recent years has increased more rapidly than has consumption; as a result, stocks in the form of butter have increased sharply. Stocks of butter, totaling 395 million pounds in 5 EEC countries on September 1, 1965, increased to 757 million pounds on the same date in 1968. This was an average annual increase of 24 percent. The increase in butter stocks undoubtedly intensified the search for other outlets for the increased supply of milk. One such outlet would have been the U.S. market, where prices for dairy products were higher than world prices.

The EEC authorized subsidy rates on shipments to the United States, effective during August and September 1968, for the dairy products covered by the present investigation are shown in the following tabulation. Also shown are unit export values on shipments to the

United States from specified EEC countries in a recent month and the ratios of the subsidies to the export values.

Product	EEC country	EEC authorized subsidy	Unit value of exports to the United States	Ratio of subsidy to export value
		Cents per pound	Cents per pound	Percent
Evaporated milk---	Netherlands	13.61	12.3	111
	Belgium	13.61	12.2	112
Condensed milk---	West Germany	4.99	12.8	39
	Netherlands	4.99	13.6	37
Condensed or evaporated milk in bulk---	1/	24.72	1/	1/
"Aged" Cheddar cheese-----	France	13.60	30.6	44
Process Edam and Gouda cheese----	Belgium and Luxembourg	18.14	18.1	100
	West Germany	18.14	22.2	82
	Netherlands	18.14	28.8	63
	Italy	18.14	48.1	38
Italian-type cheese not in original loaves-----	Italy	22.68	33.5	68
"Other" cheese----	Belgium and Luxembourg	15.22-20.87	37.7	40-55
	France	15.22-20.87	35.6	43-59
	West Germany	15.22-20.87	24.8	61-84
	Netherlands	15.22-20.87	24.9	61-84
	Italy	15.22-20.87	65.1	23-32
Swiss cheese-----	West Germany	17.24	23.5	73
	Netherlands	17.24	20.8	83
	France	17.24	69.3	25
Gruyere-process cheese-----	Belgium and Luxembourg	17.24	62.1	28
	France	17.24	49.4	35
	West Germany	17.24	25.2	68
	Netherlands	17.24	63.3	27
Chocolate crumb--	Belgium	9.85	16.0	62
	Netherlands	9.85	16.0	62
Butterfat-sugar mixtures-----	Belgium	32.37	20.5	158

1/ Not available.

Data on subsidies paid on dairy products currently shipped to the United States by countries other than EEC members are not readily available to the Commission. Available information does indicate that Argentina has not subsidized exports of dairy products. 1/ Testimony presented at the hearing indicates that Finland and Austria have subsidized exports of dairy products to the United States, but that the United Kingdom, Canada, Denmark, and New Zealand have not.

1/ Statement submitted on behalf of the Argentine Dairy Industry Association, p. 3.

Condensed or Evaporated Milk or Cream

Condensed milk consists of milk from which a portion of the water has been removed by evaporation under a partial vacuum. It usually has a caramel flavor since the milk sugar is slightly cooked in the condensing process. If no sugar is added, it is known as plain condensed milk; it is perishable in this form, and is usually sold in bulk. If sugar is added, it is known as sweetened condensed milk, and is usually canned; the sugar content is sufficient to prevent spoilage. Evaporated milk is similar to plain condensed milk, but it is further processed to homogenize and sterilize it, and canned, generally in retail-size containers. The characteristic caramel flavor is less pronounced in evaporated milk than in condensed milk. In the United States, condensed and evaporated milk are used primarily in home cooking and in the preparation of baby formulas, candy, and ice cream. Condensed or evaporated cream is not an important article of commerce.

Both condensed and evaporated milk are made from whole milk and skimmed milk. Virtually all of the evaporated whole milk, but only about 10 percent of the condensed whole milk, is packaged in retail-size containers. Condensed skimmed milk is virtually all sold

in bulk (i.e., not in retail-size containers); only small quantities of evaporated skimmed milk are produced.

U.S. customs treatment

The column 1 (trade-agreement) rates of duty applicable to imports of condensed or evaporated milk and cream are as follows:

<u>TSUS item</u>	<u>Commodity</u>	<u>Rate of duty</u>
	Milk and cream, condensed or evaporated:	
	In airtight containers:	
115.30	Not sweetened-----	1¢ per lb.
115.35	Sweetened-----	1.75¢ per lb.
115.40	Other-----	1.5¢ per lb.

The rates of duty reflect concessions granted by the United States in the General Agreement on Tariffs and Trade (GATT) and have been in effect since January 1, 1948. No concessions were granted by the United States in the sixth (Kennedy) round of trade negotiations under the GATT. The ad valorem equivalent of the specific rates of duty, based on imports entering during 1967, is as follows:

<u>TSUS item</u>	<u>Percent</u>
115.30-----	8.0
115.35-----	8.2
115.40-----	1.8

Under the Federal Import Milk Act of 1927, the importation into the United States of milk and cream is prohibited, except under permit by the Department of Health, Education, and Welfare (HEW). The holder of a permit must establish at regular intervals that the milk is obtained from herds that are free from disease, and handled in dairy farms and processing plants that meet specified standards.

During the period September 1966-March 1968, imports of both condensed and evaporated milk were subject to the requirement for a permit. On March 13, 1968, based on a ruling from the Department of Justice, HEW exempted "imported canned heat-processed milk products" from the requirement. Evaporated milk in 6-ounce and 14-ounce cans is the only kind considered processed in that manner. Sweetened condensed milk is not considered to be so and is subject to permit. As of August 30, 1968, only one firm (Canadian) held a permit to export sweetened condensed milk to the United States.

Notwithstanding any obstacles as the result of HEW regulations, the imports of condensed and evaporated milk increased annually from 600,000 pounds in 1963 to 5.4 million pounds in 1967 (table 11). Another 5 to 7 million pounds entered before June 10, 1968, when the President (by Proclamation No. 3856) established an emergency quota on the imports. Details of the quota are as follows:

Year of entry and country of origin	Evaporated		Condensed	
	In airtight containers	Other	In airtight containers	Other
	Pounds	Pounds	Pounds	Pounds
1968: 1/				
Netherlands-----	604,500	None	196,000	None
Canada-----	35,000	None	1,096,000	2,500
Denmark-----	5,500	None	667,000	None
West Germany-----	11,000	None	None	None
Australia-----	None	None	101,000	None
Other-----	None	None	4,000	None
1969 and each subsequent year:				
Netherlands-----	1,209,000	None	338,000	None
Canada-----	70,000	None	2,192,000	5,000
Denmark-----	11,000	None	1,334,000	None
West Germany-----	22,000	None	None	None
Australia-----	None	None	202,000	None
Other-----	None	None	8,000	None
Total-----	1,312,000	None	4,074,000	5,000

1/ Imports for 1968 are limited to the amounts shown here plus the quantities entered on or before June 10, 1968 and the quantities exported to the United States, but not entered prior to June 10, 1968.

These quotas will remain in force until the President acts upon the Tariff Commission's finding and recommendation on condensed and evaporated milk and cream.

U.S. consumption, production, and stocks

The United States is the world's largest consumer and producer of condensed and evaporated milk. During 1963-67 evaporated milk and condensed milk accounted for about 55 percent and 45 percent, respectively, of the aggregate U.S. consumption of the two products.

Since World War II, annual U.S. consumption of condensed and evaporated milk has declined materially. It amounted to 4.3 billion pounds (milk equivalent) in 1963-67 compared with 5.9 billion pounds in

1945-49. The decline has been caused by a number of factors, including the decline in home baking, the increasing use of other products in baby formulas, and the increased use of modern refrigeration.

Domestic production has supplied virtually all of domestic consumption (table 11). Annual U.S. production of condensed and evaporated milk made from whole milk and skimmed milk during 1963-67 is shown in the following tabulation (in millions of pounds):

Item	1963	1964	1965	1966	1967
Condensed:					
Unskimmed, retail-size-----	79.0	94.6	95.9	128.6	64.4
Unskimmed, bulk----	392.7	412.1	388.9	358.6	328.2
Skimmed, bulk-----	834.9	889.3	956.7	1,027.4	932.2
Total-----	1,306.6	1,396.0	1,441.5	1,514.6	1,324.8
Evaporated (retail-size):					
Unskimmed-----	1,897.3	1,880.1	1,693.0	1,709.3	1,493.2
Skimmed-----	11.4	10.4	10.4	10.5	50.0
Total-----	1,908.7	1,890.5	1,703.4	1,719.8	1,543.2
Grand total-----	3,215.3	3,286.5	3,144.9	3,234.4	2,868.0

In 1967 about 4.1 billion pounds of whole milk, equivalent to 3.6 percent of the U.S. production of milk, was used to make evaporated and condensed milk. The value of shipments of condensed and evaporated milk from condenseries was \$435 million in 1958 and \$362 million in 1963, the latest years for which data are available.

In 1963-67 yearend stocks of evaporated and condensed milk at condenseries ranged from 139 million pounds (1963) to 206 million pounds (1966). The stocks on hand at the end of 1967 were equivalent to 6.9 percent of the domestic production in that year; average yearend

stocks in 1963-66 were equivalent to 5.3 percent of average domestic production in those years. The stocks consisted almost wholly of evaporated milk in retail-size containers; stocks of bulk condensed and evaporated milk generally were negligible.

U.S. producers

In 1967 some 200 plants (condenseries) produced condensed and evaporated milk. Fifty of these plants marketed at least part of their output in retail-size hermetically sealed containers; the remaining plants marketed their products only in bulk. Most of the condenseries are owned by large concerns, which manufacture various dairy products and other foods. In 1967 the leading producing States were Ohio, California, Wisconsin, Pennsylvania, and Kentucky. Condenseries usually pay the farmer a premium over the price of milk used for producing other dairy products. Many of the producers of condensed and evaporated milk can readily convert their facilities to produce butter, Cheddar cheese, or nonfat dry milk, which the U.S. Government purchases under the price-support program.

U.S. exports

In the period 1963-67 U.S. exports of condensed and evaporated milk, nearly all to South Vietnam and Mexico, averaged 101.7 million pounds a year (equivalent to about 3 percent of domestic production). Exports consisted almost wholly of condensed and evaporated milk in retail-size containers. Nearly all of the exports to South Viet Nam consisted of condensed milk that was paid for in local currencies

under the provisions of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480, 83d Cong.).

U.S. imports

Annual U.S. imports of condensed and evaporated milk increased from 0.6 million pounds in 1963 to 5.4 million pounds in 1967; in the first 9 months of 1968, they amounted to 9.0 million pounds. In 1967 imports were equivalent to two-tenths of 1 percent of U.S. production.

Imports have consisted principally of condensed and evaporated milk in airtight containers. Imports of canned condensed milk increased from 595,000 pounds in 1963 to 4.1 million pounds in 1967, and amounted to 4.7 million pounds in the period January-September 1968 (table 12). Imports of canned evaporated milk increased sharply from 2,000 pounds in 1963 to 1.3 million pounds in 1967 and to 4.3 million pounds in January-September 1968 (table 13). The Netherlands, Denmark, and Canada were the principal sources of both kinds of canned milk. Imports of condensed or evaporated milk in bulk increased from 17,000 pounds in 1963 to 576,000 pounds in 1966, but declined to 5,000 pounds in 1967; imports in January-September 1968 amounted to 9,000 pounds (table 14).

According to the Department of Agriculture, imported evaporated and condensed milk has been offered for sale at prices below those for comparable domestic products. ^{1/} In early 1968 imported evaporated

^{1/} Transcript of hearing, p. 18.

milk was offered at duty-paid prices in New York City of from \$5.60 to \$6.38 per case of 48-14 $\frac{1}{2}$ ounce cans in lots with a minimum of from 1,000 to 5,000 cases. The weekly average price for domestic evaporated milk, in carlots, in New York, ranged from \$6.90 to \$7.85 per case in the period from April 12 to August 23, 1968. Similarly, imported sweetened condensed milk has been offered for sale in New York for \$6.85 per case, while domestic sweetened condensed milk was selling for \$14.00 per case. 1/

As indicated earlier, all imports of condensed and evaporated milk, except evaporated milk in 6-ounce or 14-ounce hermetically sealed cans so processed by heat as to prevent spoilage, are subject to the provisions of the Federal Import Milk Act of 1927.

1/ Transcript of hearing, pp. 18, 191, 192, 199, and 204.

Cheddar Cheese (Aged)

This investigation is concerned with Cheddar cheese insofar as it is "natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced."

Cheddar made from unpasteurized milk tends to develop a sharper flavor than cheese made from heat-treated or pasteurized milk. Heat-treating and/or pasteurizing tends to inhibit some of the flavor-developing enzymes in the raw milk. The flavor of natural Cheddar is enhanced, i.e., it becomes "sharper" as the cheese is "aged." The period for which natural Cheddar is aged varies. The bulk of the so-called "very sharp" Cheddar generally reaches its peak of flavor development in 9 to 16 months. Most of the aged Cheddar is consumed as natural cheese for table use, although some is used as an ingredient in foods such as soups and crackers. ^{1/}

U.S. customs treatment

The column 1 (trade-agreement) rate of duty applicable to imports of natural Cheddar cheese is as follows:

<u>TSUS item</u>	<u>Commodity</u>	<u>Rate of duty</u>
117.15 (pt.)	Cheddar cheese: Not processed otherwise than by division into pieces.	15% ad val.

^{1/} For a comprehensive discussion of Cheddar cheese, including grading by the U.S. Department of Agriculture and the aging of Cheddar, see Cheddar Cheese, TC Publication 175, June 1966.

This rate of duty, which reflects a concession granted by the United States in the General Agreement on Tariffs and Trade (GATT), became effective in June 1951. No concession was granted by the United States on this item in the sixth (Kennedy) round of trade negotiations under the GATT.

Pursuant to Presidential Proclamation No. 3790 of June 30, 1967, a section 22 annual quota of 10,037,500 pounds was established for Cheddar cheese (see item 950.08A of the appendix to the TSUS); of this amount, not more than 8,812,500 pounds could be products other than natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced. Unlike the other cheese quotas, that for "aged" Cheddar (1,225,000 pounds, half of which is permitted entry during the first 6 months of a year) is administered on a global "first-come-first-served" basis by the Bureau of Customs, without the requirement for licenses from the Secretary of Agriculture.

U.S. consumption, producers, and production

The domestic annual consumption of Cheddar cheese amounts to about 1 billion pounds, but only a small share consists of aged Cheddar. Reports received from the major U.S. sellers of aged Cheddar indicate that about 100 million pounds of Cheddar aged 9 months or more were sold in 1965. Trade sources believe that the annual volume of such Cheddar sold has not changed significantly since 1965. About half of the amount is believed to have been aged 12

months or more. Virtually all of the U.S. consumption of aged Cheddar is supplied by domestic producers.

In 1967, 744 U.S. plants produced Cheddar cheese. Most Cheddar cheese plants send their output to concerns, known as assemblers, which age and market the product. Approximately 25 assemblers handle about 70 percent of the Cheddar cheese produced in the United States; about half of them age Cheddar 9 months or more. The aging of most Cheddar cheese is carried on under contract often negotiated about a year in advance by assemblers and chainstores.

U.S. exports and imports

In recent years, U.S. exports of natural Cheddar cheese aged 9 months or more have been negligible or nil. Total exports of Cheddar, consisting mostly of process cheese, ranged from 3.3 million to 5.6 million pounds annually during 1964-67.

Data on U.S. imports of Cheddar cheese aged 9 months or more are shown, in pounds, for 6-month periods beginning July 1, 1967 (when the quota on Cheddar cheese was modified), as follows: ^{1/}

Period	: Canada	: France	: Total
1967:	:	:	:
July 1-December 31-----	: 211,797	: -	: 211,797
1968:	:	:	:
January 1-June 30-----	: 125,282	: 487,218	: 612,500
July 1-December 31-----	: 223,140	: 389,360	: 612,500

^{1/} For a discussion of imports of "aged" Cheddar cheese prior to July 1, 1967, see Cheddar Cheese, TC Publication 175, June 1966.

As indicated earlier, annual imports of the aged Cheddar subject to this investigation can be entered under the quota without an import license from the Secretary of Agriculture. The quota for the imports in 1968 has been filled.

A representative of the Department of Agriculture testified at the hearing that the quota arrangement for aged Cheddar cheese was established with the intent that "high-quality table cheese commanding a premium price would be the cheese imported." 1/ Before 1968 virtually all of the imported aged Cheddar was entered from Canada. In 1968 France became the principal supplier and Canada the secondary supplier. Information from the trade indicates that whereas the Canadian product is of a quality for table use, that from France is for use with other cheese in making process American-type cheese. 2/

1/ Transcript of hearing, p. 20.

2/ Ibid., p. 21.

Edam and Gouda Cheeses (Process)

Edam and Gouda cheese is made from cow's milk. The Standards of Identity established by the Food and Drug Administration require, among other things, that the solids of Edam cheese shall contain not less than 40 percent of milk fat and those of Gouda not less than 46 percent. Both imported and domestic cheese must conform to these standards to be labeled and sold in the United States as Edam or Gouda. 1/

Although included with cheese processed from Edam and Gouda in paragraph 3 of the President's request, to avoid circumvention of any restrictions, there are no known imports of substitutes for cheese containing or processed from that cheese. Process Edam and Gouda is the natural cheese which has been heated, emulsified, and stirred into a plastic mass (21 C.F.R. 19.750). It differs markedly from the natural cheese from which it is made. 2/ The texture is smoother and more homogeneous, and many deem the flavor of the process cheese more bland than that of the natural cheese. 3/ Process Edam and Gouda is sometimes flavored with ingredients such as onions, spices, shrimp, and pineapple, 4/ which are added during the processing; natural Edam and Gouda rarely, if ever, contain added ingredients.

1/ Certain cheese not meeting the Standards of Identity for Edam or Gouda, but labeled imitation Edam or Gouda in compliance with the requirements of the FDA is nonetheless classified by the Bureau of Customs as being within the tariff provision for Edam and Gouda cheese and within the scope of the quotas established under section 22.

2/ Transcript of hearing, p. 416.

3/ For a comprehensive discussion of Edam and Gouda cheeses, including natural cheese, see Dairy Products, TC Publication 233, March 1968.

4/ Transcript of hearing, p. 340.

Imports account for nearly all of the domestic consumption of process Edam and Gouda cheese. Until recently they entered mostly in the form of small wedges that were foil-wrapped and weighed no more than a few ounces each; these were sold at retail, in boxes, or gift packages that frequently contained a variety of cheeses, meats, and other specialty foods. In the last half of 1967 and early 1968 process Edam and Gouda cheese was imported not only in retail size packages but also in the form of 5-pound loaves and, in the case of Gouda, in 40-pound blocks which the trade refers to as preprocessed or partially processed Gouda. In 1967 the loaves and blocks of cheese were mostly cut and sliced for making sandwiches. In 1968, however, nearly half of the imported cheese was reprocessed into cheese foods and cheese spreads. 1/

U.S. customs treatment

The rate of duty currently applicable to imports of natural and process Edam and Gouda cheese from countries other than those designated as being under Communist control is as follows:

<u>TSUS</u> <u>item</u>	<u>Commodity</u>	<u>Rate of duty</u>
117.25	Edam and Gouda cheeses-----	15% ad val.

1/ Natural Edam and Gouda cheeses are seldom, if ever, made into process cheeses in the United States. Rather, they are sold in the form in which they are made, i.e., in wax-covered loaves weighing from less than 1 pound to about 25 pounds each.

This rate of duty, which has been in effect since January 1948, reflects a concession granted by the United States in the General Agreement on Tariffs and Trade.

Imports of cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheese were made subject to section 22 quota on September 24, 1968 (Presidential Proclamation No. 3870). ^{1/} That proclamation, issued pursuant to section 22(b)--the emergency provision of section 22--established the following quantitative limitations on imports:

Country of origin	Quota quantity	
	1968 ^{1/}	1969 and each subsequent year
	Pounds	Pounds
Denmark-----	514,000	1,714,000
Ireland-----	99,000	331,000
Netherlands-----	51,000	169,000
Norway-----	110,000	368,000
West Germany-----	154,000	513,000
Other-----	17,000	56,000
Total-----	945,000	3,151,000

^{1/} Imports for 1968 are limited to the amounts shown above plus the quantities entered on or before September 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to September 24, 1968, to the extent that such quantities are in excess of the quotas.

^{1/} The current annual quota on natural Edam and Gouda, effective since 1953, is 9,200,400 pounds (TSUS item 950.09); for the year ending December 31, 1968, 92 percent of the quota has been allocated to the Netherlands, 3.5 percent to Denmark, 2.5 percent to Argentina, and 2 percent to Sweden, Portugal, Finland, and Norway combined.

The emergency quota will remain effective pending the finding and recommendations of the Tariff Commission and action thereon by the President.

U.S. consumption, producers, and production

The consumption of process Edam and Gouda cheese increased from 1.6 million pounds in 1963 to 3.2 million pounds in 1967; it further increased to about 11.5 million pounds in the first 9 months of 1968. It was substantially lower in earlier years. Imports are believed to supply virtually all of the domestic consumption. In 1963-67 the consumption of process Edam and Gouda cheese was equivalent to somewhat less than a fifth of the consumption of natural Edam and Gouda cheese.

Little, if any, process Edam or Gouda cheese is produced from natural domestic Edam or Gouda cheese in the United States. 1/

U.S. exports and imports

U.S. exports of Edam and Gouda cheese, whether process or natural, have been negligible or nil. The price in foreign markets is generally lower than in the United States.

During the period 1963-67 U.S. imports of process Edam and Gouda cheese increased annually. In 1963 they are estimated to have amounted to 1.6 million pounds (equal to 21 percent of aggregate imports of process and natural Edam and Gouda); they amounted to 3.2 million pounds (27 percent of the total) in 1967 (table 15). In January-September

1/ In 1963-67 not more than six domestic producers made natural Edam or Gouda cheese; their combined annual output ranged from 5.6 million to 7.6 million pounds.

1968 imports of process Edam and Gouda amounted to about 11.5 million pounds (about 66 percent of the total).

Unlike the natural Edam and Gouda which is obtained (under quota) almost exclusively from the Netherlands, the process Edam and Gouda is obtained from Denmark and several other European countries. Imports of the natural and of the process cheese, by source, are shown for 1967 (in thousands of pounds) as follows:

Country	Natural Edam and Gouda			Process Edam and Gouda
	Aggregate im-ports permitted under the quota	Actual imports	Quota not used	
Denmark-----	319	208	111	1,746
West Germany-----	-	-	-	504
Ireland-----	-	-	-	376
Norway-----	12	8	4	361
Netherlands-----	8,458	7,928	530	122
All other-----	403	319	84	42
Total-----	9,192	8,463	729	3,151

As shown above, the four largest suppliers of process Edam and Gouda--Denmark, West Germany, Ireland, and Norway--were each allocated only a small share, or none, of the quota for natural Edam and Gouda cheese. Imports of process Edam and Gouda from the Netherlands, the fifth largest supplier, were smaller in volume than the unused portion of the quota for the natural cheese from that country. The order of importance of the principal foreign suppliers of process Edam and Gouda to the United States in 1966 was virtually the same as that in 1967. ^{1/}

^{1/} See Dairy Products, Report to the President on Investigation No. 22-26 Under Section 22 of the Agricultural Adjustment Act, as Amended, TC Publication 211, June 1967, p. A-52.

As indicated earlier, virtually all U.S. imports of process Edam and Gouda cheese traditionally were packaged for sale at retail. In 1967, however, about 20 percent of the imports are believed to have consisted of Gouda that was used for making process cheese (i.e., reprocessed), cheese foods, and cheese spreads. Most of the imports in January-September 1968 consisted of Gouda used for processing. The U.S. Department of Agriculture reported that some imports of process Edam and Gouda are cheap enough to be reprocessed in this country. 1/ The imports that are reprocessed are probably more competitive with domestic Cheddar (the cheese purchased directly under the price-support program) than with natural Edam and Gouda. In recent years, Cheddar has accounted for about 60 percent of the U.S. output of cheese. Processing has constituted the principal outlet for that kind of cheese.

1/ Transcript of hearing, p. 23.

Italian-type Cheeses
(Not in Original Loaves)

The "Italian-type cheese" included consists of Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz. ^{1/} This investigation is concerned with such cheeses not in original loaves. Although included with the Italian-type cheese in paragraph ⁴ of the President's request, to avoid circumvention of any restrictions, cheese or substitutes for cheese containing or processed from that type of cheese are not known to be imported. ^{2/} Italian-type cheese not in original loaves is identical with that in original loaves, except that it has been cut into slices or pieces, or been grated. ^{3/}

Romano, Reggiano, Parmesano, and Sbrinz ^{4/} cheese is used predominantly for grating. The grating is done either by producers of the cheese, by assemblers, or by housewives. In the United States, most of the grated Italian-type cheese, whether domestic or imported, is marketed at retail in cylindrical cardboard or glass containers that hold several ounces of cheese. The grated cheese sold at retail is used by the housewife in a variety of foods such as salads, soups, alimentary pastes, and pizzas. Grated cheese sold in bulk containers goes largely to food manufacturers, restaurants, and other institutional users. Some Romano, Reggiano, and Parmesano is retailed in small plastic-wrapped blocks or wedges.

^{1/} For a comprehensive discussion of Italian-type cheeses, see Dairy Products, TC Publication 233, March 1968.

^{2/} Cheese and substitutes for cheese containing Italian-type cheese are included in the section of this report on certain "other" cheeses.

^{3/} Transcript of hearing, pp. 232 and 270.

^{4/} Sbrinz is not produced in the United States; imports generally have been nil.

Provoloni and Provolette, which is softer than the other Italian-type cheese, lends itself to table use inasmuch as it does not crumble when cut. The cheese in original loaves is often cut or sliced and sold at retail in packages, each holding less than 1 pound. Provolette, which in the original loaf is the smaller of the two kinds, is sometimes sold in the original loaf.

U.S. customs treatment

The rates of duty currently applicable to imports of Italian-type cheese, whether or not in original loaves, from countries other than those designated as being under Communist control are as follows:

<u>TSUS item</u>	<u>Commodity</u>	<u>Rate of duty</u>
	Cheese:	
117.40 (pt.)	Sbrinz-----	25% ad val.
117.55	Romano made from cow's milk, Reggiano, Parmesano, Provoloni, and Provolette.	20% ad val.

The rate for Sbrinz, which reflects a concession granted by the United States in a bilateral agreement with Argentina, has been in effect since November 1941. The rate for the other cheese, which reflects a concession granted by the United States in the General Agreement on Tariffs and Trade, has been in effect since August 1951.

Since July 1, 1953, imports of Italian-type cheese in original loaves have been subject to an annual absolute quota under section 22. Initially, the quota amounted to 9,200,100 pounds; it was increased

to 11,500,100 pounds in 1960 (see item 950.10 of the appendix to the TSUS). In the year ending December 31, 1968 about half of the quota was allocated to Argentina and about half to Italy.

U.S. consumption

Consumption of the Italian-type cheese considered herein (whether or not in original loaves) is estimated to have increased from 80 million pounds in 1964 to 93 million pounds in 1967 (table 16). 1/ At the wholesale level, about three-fifths of the Italian-type cheese sold in the United States is either in the grated form or cut into pieces; much of the remainder probably is cut or grated by the retailer before sale to the consumer. The loaves in which Italian-type cheese originally is made are, for the most part, too large for use by the housewife; furthermore, many consumers do not wish to grate this hard cheese themselves.

In 1964, the latest year for which data are available, about 40 percent of the Italian-type cheese consumed was Provoloni, 40 percent was Parmesano, and most of the remainder was Romano.

U.S. producers and production

Some 25 U.S. producers make Romano, Reggiano, Parmesano, Provoloni, and Provolette cheese; 2/ most of them are located in

1/ The consumption of certain soft Italian-type cheeses increased considerably more during 1964-67 than did the consumption of the hard types, largely because of the increased use of the soft types in such foods as pizzas, lasagna, and cheese sandwiches (see the section of this report on certain "other" cheeses).

2/ Transcript of hearing, p. 231.

Wisconsin and nearby States. Some producers not only age and grate their output, but also package it for marketing under brand names; others sell the unaged cheese in original loaves to assemblers who perform these functions. Plants manufacturing Italian-type cheese rarely produce other types of cheese because of the problems associated with bacterial contamination. Generally, the producers of Italian-type cheese pay the farmer a higher price for his milk than do the producers of Cheddar cheese. 1/ As indicated earlier, the producers of Cheddar can sell their output to the CCC.

The domestic output of Italian-type cheeses increased from about 71 million pounds in 1964 to 83 million pounds in 1967 (table 16).

U.S. exports and imports

U.S. exports of Romano, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz, whether or not in original loaves, have been negligible in recent years.

U.S. imports of Italian-type cheese not in original loaves amounted to 322,000 pounds in 1964, 97,000 pounds in 1965, and 451,000 pounds in 1966 (table 17). 2/ In 1967 imports amounted to about 1.5 million pounds. Virtually all imports have come from Argentina and Italy. In January-September 1968, imports of cheese not in original loaves amounted to 929,000 pounds, compared with 1,356,000 pounds in the corresponding months of 1967. Inclement weather in Argentina, the

1/ Transcript of hearing, p. 237.

2/ Statistics on annual imports of these cheeses not in original loaves in years before 1964 are not available; it is unlikely, however, that the trade was appreciably larger in those years than in 1964-66.

largest supplier, curtailed the output of dairy products; 1/ U.S. imports of Italian-type cheese in original loaves from Argentina also were smaller during January-September 1968 than in the corresponding months of 1967. In 1964-66 imports of the cheese not in original loaves accounted for about 5 percent of total imports of Italian-type cheese, and supplied less than 1 percent of U.S. consumption. In 1967, however, imports of the cheese not in original loaves accounted for about 18 percent of the total imports and were equivalent to about 2 percent of consumption.

The cheese from Argentina has been imported chiefly in the grated form and is considered by the trade to be lower in quality than that produced in the United States; the Argentine producers often market their cheese before it is adequately aged. 2/ The trade reports that the cost in the United States of the grated Italian-type cheese from Argentina, as well as grated cheese from Italy and Australia, has recently been about 20 cents per pound below the cost of such domestic cheese. 3/

In 1964-67 most of the cheese from Italy was in pieces or wedges and used as a table cheese or for grating; it was generally higher in price than either Italian-type cheese imported from other countries or that produced in the United States. In the period January-September 1968, however, a large part of the U.S. imports from Italy were in the grated form and, as indicated earlier, were lower in price than the corresponding domestic cheese.

1/ Transcript of hearing, p. 24.

2/ Transcript of hearing, p. 247.

3/ Transcript of hearing, p. 267.

U.S. annual imports of Italian-type cheese in original loaves, which are subject to quota under section 22, ranged from 7.7 million to 9.9 million pounds in 1964-67. The quota was from 64 to 87 percent filled in the 1964-67 quota years (ending June 30). During the period July 1, 1967-June 30, 1968, the quota was about 50 percent filled. Argentina did not utilize its quota as fully as did Italy during this period. According to the trade imported Italian-type cheese had formerly been in the form of original loaves because the loaves retained their flavor longer and were less subject to spoilage than the cut, sliced, or grated forms. In recent years, however, improvements in packaging have reduced losses in flavor and spoilage of the cheese when not in original loaves.

Certain "Other" Cheeses

The cheeses herein referred to as certain "other" cheese are all cheese not specifically provided for in the TSUS and not made from sheep's milk. Included are natural cheese, process cheese, and cheese containing other kinds of cheese (cheese mixtures). Although TSUS items 117.75 (pt.) and 117.85 provide for substitutes for cheese, this provision has had little application to imported products. 1/ Imports of any "American-type" cheese, other than Colby, classifiable in the above TSUS items have been negligible or nil; such imports have been subject to section 22 quotas since June 30, 1967 2/ and will not be discussed further in this report.

There are many varieties of cheese classified in TSUS items 117.75 (pt.) and 117.85. For many years the imports of the cheese considered here consisted predominantly of specialty-types of which there was little or no domestic production. 3/ They were imported to be sold at retail for table use rather than to be further processed. Such cheese was not consumed widely in the United States.

1/ So far as the Commission can determine, the only product that has been classified as a substitute for cheese is one imported from Denmark that contained about 5 percent butterfat and had the general appearance and odor of cheese. In a letter to the Department of Agriculture, dated Jan. 5, 1968, the Bureau of Customs described the product as one that is not a cheese, cannot be labeled as a cheese, and cannot be bought and sold in the commerce of the United States as a cheese.

2/ Presidential Proclamation No. 3790.

3/ Some of these cheeses are made from milk other than cows' milk, and some are made from whey.

Recently, however, certain varieties of cheese which heretofore had not entered in large quantities, if at all, began to be imported in substantial volume under the TSUS provisions for "other" cheese. A large part of the increase in such imports occurred in 1968, some 6 months after quantitative limitations were imposed on imports of Colby and other American-type cheeses (which are used almost exclusively for processing). 1/ Some outstanding examples of cheese entering in the "other" cheese provisions and used for processing are Iceland milk cheese, so-called "cream cheese," 2/ Mozzarella, 3/ Danish low-fat block cheese, and Danish full skim cheese. 4/

Mozzarella cheese is used mainly in pizza, lasagna, veal and egg plant parmigiana, etc. 5/ The imported Danish low-fat block cheese and Danish full skim cheese are processed in the United States to make a low-fat cheese spread marketed under the brand name of "Chef's Delight." 6/ A large shipment of imported cream cheese that entered in late August or early September 1968 was allowed to be labeled "imitation cream cheese" by the Food and Drug Administration and is reported to be used as an ingredient in making cheese foods and cheese spreads. A large part of the domestic cream cheese is used in cheese dips in the United States, although some is used in other cheese foods.

1/ Transcript of hearing, p. 25.

2/ Ibid., pp. 25 and 27.

3/ Ibid., p. 239.

4/ Statement submitted on behalf of the Fischer Cheese Company, Wapakoneta, Ohio.

5/ Transcript of hearing, p. 250.

6/ Statement submitted on behalf of the Fischer Cheese Company, Wapakoneta, Ohio.

Natural Gruyere, a semihard, extremely sharp-flavored cheese made from cows' milk and characterized by holes or eyes that are much smaller than those in natural Swiss or Emmenthaler cheese, 1/ is used in making Gruyere-process cheese. U.S. production of natural Gruyere has been negligible and imports have been small.

The principal kinds of domestic cheeses, which would be classifiable as "other" cheeses, are cottage and cream cheese (which require refrigeration for long-distance shipment), brick, Munster, Neufchatel, Limburger, and soft Italian-type cheese such as Mozzarella and Ricotta made from cows' milk. Cottage cheese, which accounts for the great bulk of the U.S. production of "other" cheese, is an unaged cheese made from skimmed cows' milk or reconstituted nonfat dry milk. Cottage cheese supplies protein at a lower cost than most other high-protein foods. It is used largely in salads in the United States.

U.S. customs treatment

The rates of duty currently applicable to imports of "other" cheese, except those from countries designated as being under Communist control, are as follows:

<u>TSUS</u> <u>item</u>	<u>Commodity</u>	<u>Rate of duty</u>
	Other cheese and substitutes for cheese (except Colby):	
117.75 (pt.)	Valued not over 25 cents per pound----	5¢ per lb.
	Valued over 25 cents per pound-----	18% ad val.

1/ Statement submitted on behalf of the Embassy of Switzerland,
p. 12.

The ad valorem equivalent of the specific rate of duty on imports under item 117.75 (pt.) in 1967 (based on the rate of duty in effect on December 31, 1967) averaged 24.6 percent.

The United States granted concessions in the sixth (Kennedy) round of trade negotiations under the General Agreement on Tariffs and Trade on the rates of duty on "other" cheese (except Colby), valued over 25 cents per pound (item 117.85). The rate of duty will be reduced in 5 annual stages from 20 percent ad valorem (the rate in effect on December 31, 1967) to 10 percent ad valorem.

Presidential Proclamation No. 3870 of September 24, 1968, imposed quantity restrictions on imports of cheese and substitutes for cheese provided for in items 117.75 and 117.85 of the TSUS (except cheese not containing cows' milk, whey cheese, and except articles within the scope of other import quotas provided for in part 3 of the TSUS), if shipped otherwise than in pursuance to a purchase, or if having a purchase price (as provided in the proclamation) of less than 47 cents per pound. The following tabulation shows the total quotas and their allocations for the remainder of 1968 and annually thereafter:

Country of origin	Quota quantity	
	1968 ^{1/}	1969 and each subsequent year
	Pounds	Pounds
Belgium-----	62,000	207,000
Denmark-----	2,690,000	8,966,000
Finland-----	337,000	1,124,000
France-----	279,000	931,000
Iceland-----	168,000	560,000
Ireland-----	45,000	151,000
Netherlands-----	17,000	56,000
Norway-----	67,000	222,000
Poland-----	619,000	2,064,000
Sweden-----	460,000	1,535,000
Switzerland-----	10,000	34,000
United Kingdom-----	82,000	274,000
West Germany-----	297,000	989,000
Other-----	116,000	388,000
Total-----	5,249,000	17,501,000

^{1/} Imports for 1968 are limited to the amounts shown above plus the quantities entered on or before Sept. 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to Sept. 24, 1968, to the extent that such quantities are in excess of the quotas.

These emergency quotas will remain effective pending the report and recommendations of the Tariff Commission and action thereon by the President.

U.S. consumption

In the period 1964-67, apparent U.S. consumption of the cheese herein considered increased from 1,228 million to 1,324 million pounds (table 18). The increase in consumption of this cheese is associated primarily with the increased demand for cottage cheese and soft Italian-type cheeses and reflects a variety of factors, including rising

consumer incomes, the popularity of pizza, improvements in the quality of the products, promotional efforts of both domestic producers and importers, and increasing acceptance of specialty cheese varieties.

U.S. production

U.S. production of the miscellaneous cheese increased from 1,223 million pounds in 1964 to 1,304 million pounds in 1967. U.S. output, by type, is shown in the following tabulation (in thousands of pounds):

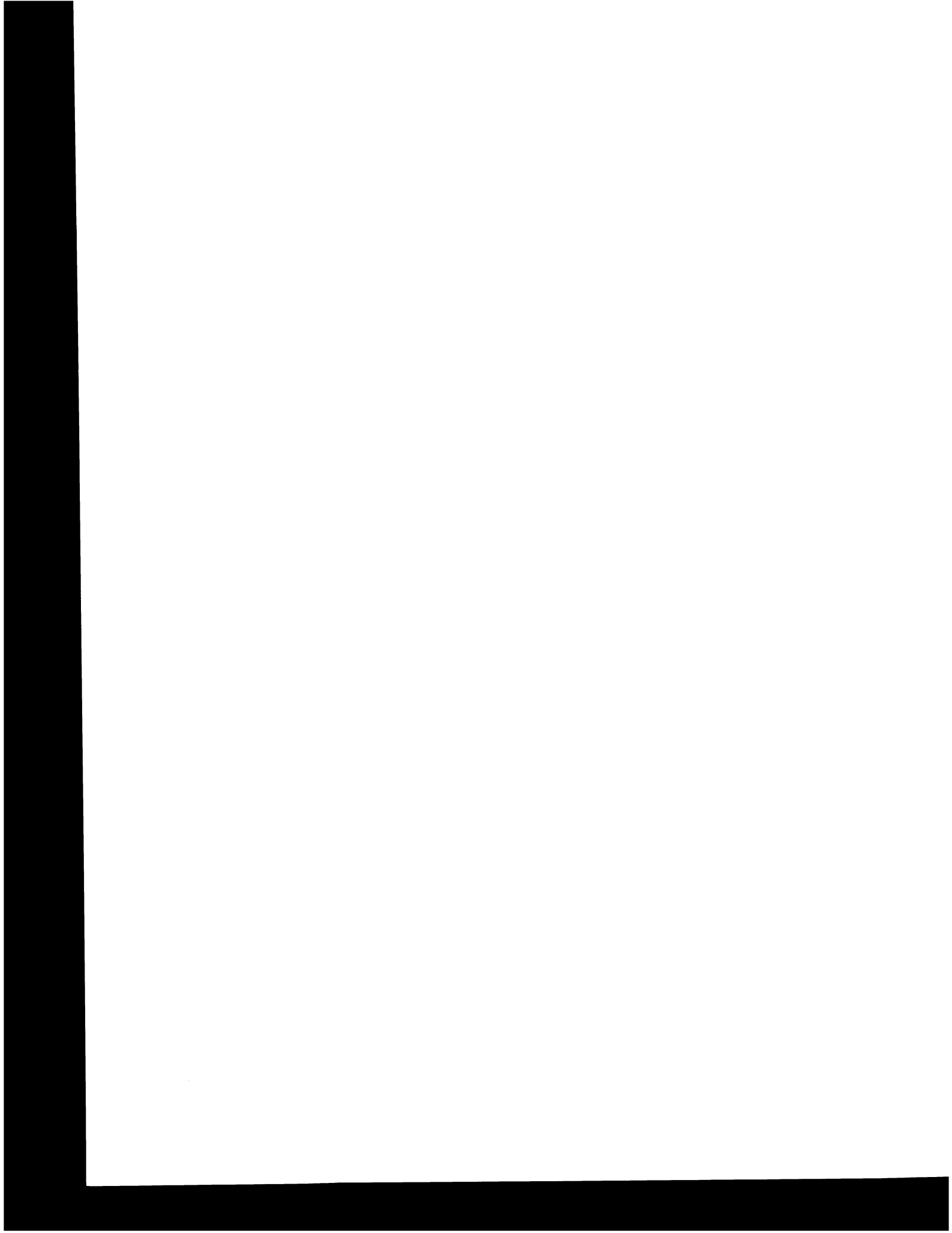
Year	Cottage cheese <u>1/</u>	Soft Italian- type cheese	Cream cheese	Brick and Munster	Other types	Total
1964---	861,869	149,092	114,127	52,396	45,332	1,222,786
1965---	863,943	163,793	116,266	53,030	45,166	1,242,198
1966---	856,743	186,883	111,194	57,721	51,061	1,263,602
1967---	896,634	195,569	117,065	51,007	43,786	1,304,147

1/ Includes creamed and partially creamed cottage cheese.

In recent years, cottage cheese has accounted for nearly 70 percent of the total output of all cheeses shown above. Soft Italian-type cheese accounted for more than half of the increase in annual output between 1964 and 1967. The U.S. processors of Danish block cheese and Danish full skim cheese report that domestic sources are not interested in producing either of these products. 1/

The plants that produce cottage cheese are located throughout the United States, particularly in heavily populated areas; those that produce the other cheese herein considered are located mostly in the North Central States. Many plants that produce various

1/ Statement submitted on behalf of the Fischer Cheese Company, pp. 5 and 6.



As indicated earlier, imports of certain of the "other" cheese were made the subject of temporary quotas under section 22 by Proclamation No. 3870 issued on an emergency basis September 24, 1968. In this proclamation the President declared that the representative period on which the quotas on these cheeses were based was the calendar year 1967, the year in which imports reached their highest level (23 million pounds). The application of the quota to cheeses for which the purchase price is under 47 cents per pound was apparently based upon the view advanced by the spokesman for the Department of Agriculture at the hearing, that processed cheeses and cheeses for processing--i.e., the cheeses which are said to be materially interfering with the price-support programs for milk and butterfat--are so priced for export to the United States and that the natural cheeses for table use--i.e., cheeses which do not so interfere--are priced for export to the United States at 47 cents or higher per pound. On the basis of the best, but clearly inadequate, data available with respect to the value of imported cheeses, it would appear that the aggregate quota quantity of 17.5 million pounds proclaimed is equal to the quantity imported in 1967 for which the purchase price was under 47 cents per pound. No data are available from which to correlate the end use of imported cheeses with their purchase price.

U.S. imports of the other cheese considered here come from a score of countries. Denmark has supplied about 40 percent of the total in recent years. A large part of the imports from that country consists of Danish low-fat block cheese and Danish full skim cheese. Imports of

this cheese first entered on an experimental basis in 1965. 1/ In 1966 they amounted to about 3 million pounds, in 1967 to about 5 million pounds, and in the period January-June 1968 to about 4 million pounds. 2/ In 1967 they accounted for about half of the cheese entered from Denmark under the "other" cheese provisions and in the period January-June 1968 they accounted for about 60 percent. A sample of entry papers for the first 4 months of 1968 indicates that most of the Danish cheese imported, other than the low-fat block cheese and full skim cheese, is Harvarti, Camembert and Brie, and Munster. 3/ The average unit value of Danish cheese was some 40 to 50 cents per pound; that for the entries shown as Danish block cheese was about 18 cents per pound. The Danish block cheese is low in butterfat content. 4/

In recent years France, the second largest supplier of "other" cheese to the United States, has furnished from 12 to 19 percent of the total imports. A sample of entry papers of cheese from France in the first 4 months of 1968 indicates that the bulk of the identified cheese consisted of Camembert and Brie, Gourmandise, Beaumont, and Boursin cheese. The unit value of this cheese was generally 40 to 80 cents per pound; some was more than \$1.00 per pound. In August or September 1968 about 4 million pounds of so-called imitation cream cheese were imported from France. This cheese, which had not

1/ Statement submitted on behalf of the Fischer Cheese Company, p. 2.

2/ Ibid., p. 3.

3/ About one-third of the entries represented cheese that was identified only by the designation "other cheese."

4/ Statement submitted on behalf of the Fischer Cheese Company, p. 1.

previously been imported, is reportedly destined for processing into cheese foods or cheese spreads. The reported unit value averaged about 15 cents per pound.

In recent years an increase in imports of the "other" cheese has been notable from West Germany, Sweden, Poland, and Finland, although these countries have not traditionally been large suppliers. Much of the imports from West Germany has consisted of Mozzarella, a cheese not important in international trade until recently. A witness at the hearing testified that the duty-paid cost of the West German cheese was 32 cents per pound delivered to his warehouse at New York City; 1/ the cost of the comparable domestic cheese is 46 to 47 cents per pound. 2/ The low unit value of the imports from Sweden, Poland, and Finland (tables 20 and 21) indicates that some of this cheese may be imported for processing.

Many trade sources testified at the hearing that imports of the "other" cheese, particularly that imported for sale at retail as natural cheese, have not increased significantly in recent years. The imports of natural Gruyere from Switzerland, for example, increased gradually from 136,000 to 241,000 pounds during the period 1964-67. 3/ Imports of Bel Paese cheese from Italy increased from 249,000 to 259,000 pounds during 1964-67. 4/ The imports from Norway, consisting largely of varieties (goats' milk cheese) not made in the United States, increased from 980,000 pounds in 1964 to 1.5 million in

1/ Transcript of hearing, p. 265. 2/ Ibid., p. 269.

3/ Statement submitted on behalf of the Embassy of Switzerland, p. 30.

4/ Statement submitted by Bel Paese Sales, Inc., New York, New York.

1967. 1/ The witness for the Department of Agriculture testified at the hearing that with respect to "other" cheeses "The Department is not seeking the exclusion or any avoidable restriction on the high quality table cheeses. It is the cheap, processing-use cheeses and processed cheeses that must be brought under control. . . ." 2/

1/ Statement submitted on behalf of the importers of Norwegian cheese and the Norwegian Chamber of Commerce, appendix C.

2/ Transcript of hearing, p. 28.

Swiss or Emmenthaler Cheese with Eye Formation

Swiss cheese with eye formation is a hard, natural cheese made from cows' milk; it is distinguished by the large holes, or eyes, which are developed by the action of certain bacteria. 1/ Swiss cheese was first made in the valley of the Alpine Emme River and hence, is called Emmenthal or Emmenthaler. Substitutes for cheese containing or processed from Swiss or Emmenthaler, although included with that cheese to avoid circumvention of any restrictions, are not known to have been imported. 2/ So-called "grinders" Swiss cheese is natural cheese that has developed imperfections, generally in the eye formation, while being produced. 3/ Grinders Swiss is lower priced than either the domestic or imported cheese sold at retail as natural Swiss cheese. It is not marketed as natural cheese for table use, but rather is processed 4/ and sold at the retail level as pasteurized process Swiss cheese or used as an ingredient in cheese foods or cheese spreads.

In recent years a large part of the domestic Swiss cheese has been made by a patented process in the form of 80-100 pound rectangular blocks which are sealed in plastic and often called "rindless

1/ Imported Swiss cheese without eye formation, i.e., process Swiss cheese, is dutiable in the tariff provisions for "other" cheese. When Swiss cheese and natural Gruyere are processed together, however, the resulting product, if containing sufficient quantities of natural Gruyere (about 25 percent) is classified in the tariff provision for Gruyere-process cheese.

2/ If imported they would be included with "other" cheese, covered in a previous section of this report.

3/ Statement submitted on behalf of the Embassy of Switzerland, p. 3, and statement submitted on behalf of the United States Austrian Chamber of Commerce, p. 3.

4/ Transcript of hearing, p. 31.

Swiss." Swiss cheese in the form of blocks is better suited to conventional chainstore marketing than that in wheels, the traditional form; the wheels are difficult to slice because of their heavy rind and hard to cut into uniform sizes because of their shape. Rindless Swiss is produced only in the United States.

U.S. customs treatment

The rate of duty currently applicable to imports of Swiss or Emmenthaler cheese from countries other than those designated as being under Communist control, is as follows:

<u>TSUS item</u>	<u>Commodity</u>	<u>Rate of duty</u>
117.60 (pt.)	Swiss or Emmenthaler cheese with eye formation.	14% ad val.

This rate of duty, which became effective January 1, 1968, is the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the General Agreement on Tariffs and Trade. The rate of duty will be further reduced in 4 annual stages to 8 percent ad valorem.

Presidential Proclamation No. 3870, dated September 24, 1968, imposed an emergency quota on imports of Swiss or Emmenthaler cheese with eye formation if shipped otherwise than in pursuance to a purchase, or if having a purchase price (as provided in the proclamation) of less than 47 cents per pound. The following tabulation

shows the quota and the allocation for the remainder of 1968 and annually thereafter:

Country of origin	Quota quantity	
	1968 <u>1/</u>	1969 and each subsequent year
	Pounds	Pounds
Austria-----	291,000	972,000
Denmark-----	183,000	609,000
Finland-----	553,000	1,843,000
Norway-----	110,000	367,000
Switzerland-----	60,000	200,000
West Germany-----	37,000	124,000
Other-----	47,000	156,000
Total-----	1,281,000	4,271,000

1/ Imports for 1968 are limited to the amounts shown above plus the quantities entered on or before Sept. 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered, prior to Sept. 24, 1968, to the extent that such quantities are in excess of the quotas.

The emergency quota will remain effective pending the findings and recommendations of the Tariff Commission and action thereon by the President.

U.S. consumption

U.S. consumption of Swiss cheese increased annually from 129 million pounds in 1963 to 148 million in 1967 (table 22). The increase is attributable largely to the popularity of cheese sandwiches and to promotional efforts of producers and distributors both of the domestic and imported cheese.

U.S. producers, production, and stocks

In 1967, 115 domestic plants produced Swiss cheese, compared with 133 plants in 1963. The principal producing States were Illinois, Wisconsin, Ohio, and Pennsylvania.

In volume of output, Swiss cheese ranks fourth among all kinds of cheese (excluding cottage cheese) produced in the United States. In recent years it has accounted for about 7 percent of aggregate U.S. output of cheese. In 1963-66 the annual U.S. output of Swiss cheese increased from 120 million to 137 million pounds; in 1967, it declined to 132 million pounds (table 22). The decline in production reflects in part a decline of about 5 cents per pound in the average price paid in 1967 for Grade C 1/ blocks of Swiss cheese at Wisconsin assembly points. In 1968, however, the price increased; during January-August 1968 it was about 5 cents per pound above the average in the corresponding period of 1967.

Yearend stocks of Swiss cheese have generally been small compared with domestic production. In the period 1963-67 they ranged from 7 million to 12 million pounds annually. A large part of the stocks consists of cheese that is being aged.

U.S. exports and imports

Any U.S. exports of Swiss cheese are small; data are not separately reported.

1/ The grades established by the U.S. Department of Agriculture for Swiss cheese are U.S. Grades A, B, C, and D (7 C.F.R. 58); they are determined on the basis of flavor, body, eyes, and texture, finish and appearance, salt and color.

In the period 1963-67 annual imports of Swiss cheese ranged from 10.4 million pounds in 1965 to 14.8 million pounds in 1966 (table 23) and averaged 12.5 million pounds. In January-September 1968 imports rose sharply to 34.9 million pounds; in the corresponding period in 1967 they amounted to 10.4 million pounds. In 1963-67 about half of the imported Swiss cheese came from Switzerland and the bulk of the remainder came from Finland, Austria, and Denmark. In January-September 1968 West Germany became an important supplier, accounting for nearly a third of the total imports; in January-September 1967 that country had supplied only 2 percent of the total.

As indicated earlier, imports of certain Swiss or Emmenthaler cheese were made subject to an emergency quota under section 22 by Proclamation No. 3870 dated September 24, 1968. The representative period on which the quota is based is the calendar year 1967. The application of the quota to cheese for which the purchase price is under 47 cents per pound is apparently based upon the view advanced by the spokesman for the Department of Agriculture at the hearing, that processed cheese and cheese for processing--i.e., the cheese which is said to be materially interfering with the price-support programs for milk and butterfat--is so priced for export to the United States and that the natural cheese for table use--i.e., cheese which does not so interfere--is priced for export to the United States at 47 cents or higher per pound. On the basis of the best, but clearly inadequate, data available with respect to the value of imported cheese, it would appear that the aggregate quantity of 4.3

million pounds proclaimed is equal to about three-fifths of the Swiss and Emmenthaler cheese imported in 1967 for which the purchase price was under 47 cents per pound. No data are available from which to correlate the end use with the purchase price.

In recent years, the composition and average annual unit value of U.S. imports of Swiss cheese from the major suppliers have changed significantly. Before 1966 most of the imported Swiss cheese from Switzerland consisted of high-priced cheese that was sold at retail as natural Swiss, and only small amounts consisted of low-priced grinders Swiss. The bulk of the high-priced cheese was imported in the form of 180- to 200-pound wheels, which were cut into pieces for sale at the retail level. In 1966 Switzerland began to export to the United States grinders Swiss cheese; in that year such cheese comprised about 12 percent of the Swiss cheese imported from Switzerland and in 1967, about 14 percent. In January-May 1968 shipments of grinders Swiss cheese rose sharply, accounting for about 50 percent of the total exports of Swiss cheese from Switzerland to the United States. During January-May 1968 the unit value of Swiss exports of grinders Swiss cheese averaged about 25.5 cents per pound. During those months the average unit value of the aggregate exports of Swiss cheese from Switzerland to the United States was 49.5 cents per pound, compared with 71.7 cents per pound during January-May 1967. The Swiss reported that "first quality" Swiss cheese continued to enter the United States in January-May 1968 at the same values as in 1967. 1/

1/ Statement submitted on behalf of the Embassy of Switzerland, pp. 15 and 29.

As indicated earlier, West Germany became an important supplier of Swiss cheese to the United States in 1968. The unit value of the German product, which consisted largely of grinders cheese, was about 25 cents a pound and was below that of imports of Swiss cheese from almost any other source (table 23). It reflects a reduction in the West German export price as a result of the Common Market subsidies in late 1967 and early 1968. 1/

The average unit value of imported Swiss cheese from Finland, Denmark, and Austria, the other principal suppliers, was lower during January-September 1968 than in the corresponding period of 1967. In recent years the bulk of the cheese imported from Finland has been used for processing; 2/ probably most of that from Denmark has also been processed.

The Austrian representative reported that until 1968 Austria had exported only a "high grade" of Swiss cheese to the United States. 3/ The average unit value of imports of Swiss cheese from Austria declined from 43.3 cents per pound during the period January-September 1967 to 26.7 cents per pound in the comparable period of 1968 (table 23). It appears that some of the exports of Swiss cheese from Austria to the United States in 1968 probably consisted of grinders cheese. The witness for Austria also reported at the hearing that "Austria does pay a subsidy on its cheese exported to the United States." 4/

1/ Transcript of hearing, p. 119.

2/ Ibid., p. 30

3/ Statement of the United States Austrian Chamber of Commerce, p. 4.

4/ Transcript of hearing, p. 378.

The landed duty-paid unit value of imported grinders Swiss has been substantially lower than the price of domestic grinders Swiss cheese at Wisconsin assembly points. The landed duty-paid unit value of grinders Swiss cheese from West Germany in May 1968 was about 24 cents a pound; 1/ and that from Switzerland, 25.3 cents a pound, 2/ compared with an average price of 43 cents a pound for the domestic product at Wisconsin assembly points. 3/

1/ Transcript of hearing, p. 31.

2/ Statement of the Embassy of Switzerland, p. 15.

3/ Transcript of hearing, p. 31.

Gruyere-Process Cheese 1/

Gruyere-process cheese is generally made from natural Gruyere or from a blend of natural Gruyere and natural Swiss or Emmenthaler cheese. 2/ Natural Gruyere has a distinctive sharp flavor. When it is combined with Swiss or Emmenthaler, the Federal Standards of Identity require that the blend must contain not less than 25 percent by weight of natural Gruyere (21 CFR 19.750).

In recent years the bulk of the Gruyere-process cheese marketed in the United States has been imported and has consisted of individual wedge-shaped pieces weighing about 1 ounce each that are foil-wrapped and packed in circular boxes. Gruyere-process cheese in this form is intended exclusively for consumption as hors d'oeuvres, snacks, or as a dessert cheese. The cheese in this form is not subjected to further processing nor is it sliced for sandwiches. 3/ In 1966 substantial

1/ Processed Swiss cheese, often referred to in the trade as Gruyere-process cheese; natural Gruyere cheese, the imports of which are small; and cheese and substitutes for cheese containing Gruyere-process cheese, which is included with that cheese to avoid circumvention of any restrictions, are all classifiable as "other" cheese (items 117.75 and 117.85) covered in a previous section of this report.

2/ Statement submitted on behalf of the Embassy of Switzerland, p. 32.

3/ Ibid., p. 33.

quantities of Gruyere-process cheese in 5-pound loaves were imported. In this form, the cheese is used in cheese sandwiches, principally by the institutional trade (restaurants, hotels, and hospitals); some loaves, particularly the small quantity imported from Switzerland is marketed at the retail level for use in sandwiches.

U.S. customs treatment

The rate of duty currently applicable to imports of Gruyere-process cheese from countries other than those designated as being under Communist control is as follows:

<u>TSUS</u> <u>item</u>	<u>Commodity</u>	<u>Rate of duty</u>
117.60 (pt.)	Gruyere-process cheese-----	14% ad val.

This rate of duty, which became effective January 1, 1968, is the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the General Agreement on Tariffs and Trade. The rate of duty will be further reduced in 4 annual stages, to 8 percent ad valorem.

Presidential Proclamation No. 3870, dated September 24, 1968, imposed an emergency quota on imports of Gruyere-process cheese and cheese and substitutes for cheese containing or processed from Gruyere-process cheese or Swiss or Emmenthaler cheese with eye formation, if shipped otherwise than in pursuance to a purchase, or if having a purchase price (as provided in the proclamation) of less than 47 cents

per pound. The following tabulation shows the quota and the allocation for the remainder of 1968 and annually thereafter:

Country of origin	Quota quantity	
	1968 <u>1/</u>	1969 and each subsequent year
	<u>Pounds</u>	<u>Pounds</u>
Austria-----	145,000	483,000
Denmark-----	36,000	119,000
Finland-----	455,000	1,516,000
Switzerland-----	3,000	10,000
West Germany-----	323,000	1,078,000
Other-----	25,000	83,000
Total-----	987,000	3,289,000

1/ Imports for 1968 are limited to the amounts shown above plus the quantities entered on or before September 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to September 24, 1968, to the extent that such quantities are in excess of the quotas.

The emergency quota will remain effective pending the findings and recommendations of the Tariff Commission and action thereon by the President.

U.S. consumption, producers, and production

In the period 1963-65 annual U.S. consumption of Gruyere-process cheese averaged about 5 million pounds. In 1966 and 1967 consumption doubled, amounting to about 10 million pounds annually. The sharp rise is attributable largely to the promotion of Gruyere-process cheese in loaf form--mostly for slicing for use in sandwiches--by importers and foreign exporters.

U.S. output of Gruyere-process cheese is small. Only one U.S. firm produces Gruyere-process cheese. That firm's annual output of the cheese once exceeded 1 million pounds but gradually declined to 420,000 pounds in 1967. 1/ The firm is a large importer of Gruyere-process cheese and a large producer and distributor of various other cheeses. Gruyere-process cheese accounts for only a small part of its sales.

U.S. imports

Annual U.S. imports of Gruyere-process cheese increased gradually from 4.8 million pounds in 1963 to 5.3 million pounds in 1965; in 1966 they rose sharply to 9.1 million pounds and in 1967 they amounted to 9.8 million pounds. In the period January-September 1968 imports of Gruyere-process cheese amounted to 16.8 million pounds compared with 6.6 million pounds in the comparable period of 1967 (table 24). A large part of the increase in imports in 1966-68 is accounted for by entries in 5-pound loaves.

As indicated earlier, imports of certain Gruyere-process cheese were made subject to an emergency quota under section 22 by Proclamation No. 3870, dated September 24, 1968. The representative period on which the quota is based is the calendar year 1967, when imports reached their highest level (9.8 million pounds). The application of the quota to cheese for which the purchase price is under 47 cents per pound is apparently based upon the view advanced by the spokesman for

1/ Statement submitted on behalf of Borden, Inc., pp. 1 and 2.

the Department of Agriculture at the hearing, that processed cheese and cheese for processing--i.e., the cheese which is said to be materially interfering with the price-support programs for milk and butterfat--is so priced for export to the United States and that the natural cheese for table use--i.e., cheese which does not so interfere--is priced for export to the United States at 47 cents or higher per pound. On the basis of the best, but clearly inadequate, data available with respect to the value of imported cheese, it would appear that the aggregate quota quantity of 3.3 million pounds proclaimed is equal to about 53 percent of the Gruyere-process cheese imported in 1967 for which the purchase price was under 47 cents per pound. No data are available from which to correlate the end use of imported cheese with its purchase price.

For many years Switzerland has been the principal supplier of imported Gruyere-process cheese; in recent years other important suppliers have been Finland, West Germany, and Austria. In the period 1963-67 the share of the total supplied by Switzerland declined from 70 to 33 percent; in January-September 1968 it became 18 percent. The share of the imports supplied by West Germany increased from less than 1 percent in 1963 to 22 percent in 1967 and that of Finland increased from 15 to 31 percent. In January-September 1968 the West German share was 46 percent and that of Finland, 18 percent. The share supplied by Austria ranged from 7 to 12 percent during the period under review.

Switzerland has supplied the bulk of the imported wedge-shaped Gruyere-process cheese, whereas the other countries have supplied most of the loaf-shaped cheese in recent years. The Gruyere-process cheese from Switzerland contains natural Gruyere and natural Emmentaler cheese. 1/ In the period 1963-67 and in January-September 1968 the annual unit value of the Gruyere-process cheese from Switzerland averaged about 60 cents per pound, which was substantially higher than that for such cheese from the other principal suppliers.

The annual unit value of the cheese from Finland also did not change materially during the period under review, averaging about 32 cents per pound. The average annual unit value of the West German imports of Gruyere-process cheese declined from 49 cents per pound in 1963 to 24 cents in 1967; in the period January-September 1968, it averaged 22.9 cents per pound. The low value of the Gruyere-process cheese from West Germany reflects a reduction in West German export prices of certain dairy products to all countries as a result of the Common Market subsidies in late 1967 and early 1968. 2/ The average annual unit value of the cheese from Austria declined from 42.9 cents per pound in 1963 to 29.5 cents in January-September 1968.

Information submitted by Borden, Inc. 3/ states that pasteurized process Gruyere cheese produced and packaged in 1-ounce wedges by that firm in the United States sells (presumably at retail) for about 88 cents per pound, whereas its own brand of Gruyere-process cheese imported from Switzerland is priced at 97 cents to \$1.00 per pound. According to Borden, cheese imported from Finland is priced at 53 to 60 cents per pound.

1/ Statement submitted on behalf of the Embassy of Switzerland, p. 32.

2/ Transcript of hearing, p. 119.

3/ See the brief submitted by Borden, Inc., dated July 30, 1968, p. 2.

Chocolate, Cocoa, and Related Products, if Containing Over 5.5
Percent by Weight of Butterfat

The President's request for this investigation specifically identifies in numbered paragraph (7) a variety of cocoa and chocolate products containing over 5.5 percent butterfat 1/ and classifiable under the provisions of the following TSUS items:

<u>TSUS item</u>	<u>Description</u>
	Chocolate:
156.20-----	Not sweetened
	Sweetened:
156.25-----	In bars or blocks weighing 10 pounds or more each.
156.30-----	In any other form.
156.40-----	Cocoa, not sweetened, and cocoa cake suitable for reduction to cocoa powder.
156.45-----	Cocoa, sweetened.
156.47-----	Confectioners' coatings and other products (except confectionery) containing by weight not less than 6.8 percent non-fat solids of the cocoa bean nib and not less than 15 percent of vegetable fats other than cocoa butter.

Although many of the products imported under some of the above classes contain butterfat, there are relatively few in which the butterfat content has exceeded 5.5 percent by weight--these having been entered largely under TSUS items 156.25 and 156.30. The principal article containing over 5.5 percent butterfat imported in recent years is "chocolate crumb" entered under item

1/ "Butterfat" as used herein refers to fat contained in or derived from milk and is not to be confused with cocoa butter which is found in substantial proportion in most cocoa and chocolate products. Milk used in the manufacture of cocoa and chocolate products usually accounts for their butterfat content.

156.30. The Department of Agriculture recommended an annual quota on chocolate crumb equal to the average annual imports in 1965-67. All the other products listed above were included in the President's request for consideration as possible tariff categories that might be utilized for avoidance of any quotas that have been or may be imposed on products containing butterfat. For the most part the products so far imported under items 156.20, 156.40, 156.45, and 156.47 either have not contained any butterfat or have contained less than 5.5 percent butterfat by weight.

Products in TSUS item 156.30, including chocolate crumb, are discussed below; products in the five remaining items are discussed in their TSUS sequence in subsequent sections.

Sweetened chocolate other than in bars or blocks weighing 10 pounds or more each (TSUS item 156.30)

The column 1 (trade-agreement) rate of duty applicable to imports under this classification is 9 percent ad valorem. This rate, which became effective January 1, 1968, reflects the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the GATT. Under the concession granted the rate will be further reduced to 5 percent ad valorem in 4 annual stages.

Imports under the classification here considered consist of (1) a powdered form of chocolate sold in bulk, known as chocolate crumb, and (2) a variety of finished products, such as solid chocolate candy bars and novelty chocolate articles (for example, Easter eggs, rabbits, and coins) packaged for retail sale. Sweetened chocolate articles

packaged for retail sale, whether made of dark or milk chocolate, usually contain butterfat. The butterfat content of dark chocolate articles is seldom as high as 5 percent; that of milk chocolate articles may be as high as 8.6 percent.

Chocolate crumb.--Chocolate crumb is an intermediate product used in the manufacture of milk chocolate by the addition of cocoa butter. 1/ The added cocoa butter provides the necessary fat to make solid chocolate from the powdery chocolate crumb. The crumb is produced by concentrating, under vacuum, fresh whole milk with sugar and chocolate liquor. There is substantial production in the United States, but all of the domestic output is used captively by the producers in the manufacture of milk chocolate. Those manufacturers of milk chocolate that purchase chocolate crumb rely on imports for their requirements.

The composition of imported chocolate crumb varies somewhat, depending upon consumers' specification. The chocolate liquor content is generally around 15 percent, the content of whole milk solids about 30 percent, and the sugar content about 55 percent. The butterfat content is generally equal to about 9 or 10 percent by weight. Products of this description are being classified by the Bureau of Customs as sweetened chocolate under TSUS item 156.30 (T.D. 56382-30; CIE 970/66; ORR 546/68). The Bureau's practice is based in part on the fact that

1/ Whereas domestic chocolate crumb and that imported under TSUS item 156.30 from the United Kingdom, Ireland, and the Netherlands has been used solely in making milk chocolate, it appears that the crumb so classified and imported in 1968 from Belgium has been used primarily in making chocolate ice cream.

the imported products meet the standard of identity of the Food and Drug Administration (FDA) for milk chocolate. The FDA standard prescribes, among other things, that the chocolate liquor content be no less than 10 percent by weight, and that the milk solid content be no less than 12 percent by weight. 1/

U.S. imports of chocolate crumb increased from a level of approximately 2 million pounds a year valued at \$400,000 in 1964 and 1965 to 22 million pounds, valued at \$3.7 million in 1967; they amounted to 32 million pounds, valued at \$5.4 million in the first 9 months of 1968 (table 25). Nearly all of the imports before 1968 came from the United Kingdom and Ireland; in January-September 1968, Belgium and the Netherlands were also important suppliers.

Milk is incorporated into milk chocolate by using chocolate crumb, milk crumb, and/or dry whole milk. 2/ As previously indicated, to produce milk chocolate from chocolate crumb, manufacturers have only to add cocoa butter. Milk crumb is prepared by concentrating fresh fluid milk and sugar under vacuum. 3/ The chocolate manufacturer blends the

1/ Presumably, if a product composed of sugar, milk, and less than 10 percent chocolate liquor were entered, it would be classified--depending upon whether milk or some other material was the component of chief value--either as an article of milk under item 118.30, or as an edible preparation under item 182.92 or 182.95. Imports under items 118.30 and 118.92 are subject to section 22 quotas; imports under item 182.95 are included in the present investigation if containing over 5.5 percent butterfat and are considered in a subsequent section of this report.

2/ Milk crumb, which is classifiable under TSUS item 118.30, and dry whole milk, classifiable under item 115.55, are subject to section 22 quotas (see TSUS items 950.11 and 950.03).

3/ Milk crumb may contain a small amount of chocolate liquor or cocoa power; for the purposes of this report the term "milk crumb" is used in reference to a product that contains less than 10 percent chocolate liquor.

milk crumb with chocolate liquor and cocoa butter. In producing milk chocolate by the dry milk process, dried whole milk is blended with sugar, chocolate liquor, and cocoa butter. Milk chocolate made from chocolate crumb and from milk crumb differs somewhat in taste from that made from dry whole milk. Four of the approximately two dozen firms (including the two largest firms) that produce milk chocolate are equipped to produce chocolate crumb. The four firms accounted for more than half of the domestic output of milk chocolate in 1967. These firms use their chocolate crumb for the larger part of their output of milk chocolate. The other manufacturers generally use dry whole milk and to a lesser extent imported chocolate crumb or domestic milk crumb. About 100 million pounds of whole milk solids were used in producing milk chocolate in the United States in 1967; the quantity of whole milk solids and butterfat supplied by each of the intermediate products is estimated as follows:

<u>Product</u>	<u>Whole milk solids</u> <u>(million pounds)</u>	<u>Butterfat</u> <u>(million pounds)</u>
Chocolate crumb:		
Produced by domestic manu- facturers for their own use-----	48	14
Imported-----	7	2
Milk crumb-----	3	1
Dry milk-----	42	13
Total-----	100	30

The American Dry Milk Institute reports that the quantity of dry whole milk used by candy and chocolate manufacturers (known to be primarily chocolate manufacturers) was reduced from 50 million pounds

in 1966 to 42 million pounds in 1967. 1/ The reduction is probably due in substantial part to the substitution of imported chocolate crumb for dry whole milk. The milk solids in imports of chocolate crumb totaled about 2 million pounds in 1966, 7 million pounds in 1967, and will be somewhat larger in 1968. The 7 million pounds of milk solids contained in the 1967 imports of chocolate crumb accounted for 7 percent of the 100 million pounds of milk solids used in domestic milk chocolate manufacture in that year, and were equivalent to about one-twentieth of 1 percent of the total domestic consumption of milk.

Imported chocolate crumb had an f.o.b. value in the country of export of about 17.0 cents in January-June 1968, and a value c.i.f. duty-paid at New York of about 21.5 cents per pound. There are no price data on domestic chocolate crumb, inasmuch as it is not sold as such. In the first half of 1968 the cost of the ingredients in the United States required to make a pound of chocolate crumb, without allowance for processing costs amounting to a few cents per pound, was approximately as follows:

	<u>Cents</u>
15% chocolate liquor at 40¢ per pound-----	6.0
30% milk at 35.7¢ per pound of milk	
solids <u>1/</u> -----	10.7
55% sugar at 10.6¢ per pound <u>2/</u> -----	5.8
Total-----	22.5

1/ Approximate price of milk solids in fresh milk. Fresh milk of 12 percent solids purchased at support price of \$4.28 per 100 pounds divided by 12 equals 35.7 cents per pound solids.

2/ Net wholesale price for refined sugar in New York, June 1968.

1/ The American Dry Milk Institute, Inc., 1967 Census of Dry Milk Distribution and Production Trends.

At existing prices, and in the absence of a quota, a further increase in imports of chocolate crumb is likely. Domestic producers of milk chocolate who have been dependent on either dry milk or milk crumb are shifting to the use of imported chocolate crumb. In addition, two of the domestic producers of chocolate crumb are also importing this product. The eventual effect on the consumption of milk is limited in that the latter producers are not likely to discontinue production of chocolate crumb and in that the proportion of the supply of milk used in milk chocolate altogether is relatively small (about 1 percent).

In 1968 close to 6 million pounds of a so-called crumb from Belgium was admitted under item 156.30 in view of the fact that the Bureau of Customs concluded that it had been made from chocolate liquor rather than from cocoa powder, as claimed. This products was used in the manufacture of chocolate ice cream. Imports of this product were apparently discontinued in August 1968. As of the end of October there had been no further entries of crumb-type products for use other than in the manufacture of milk chocolate.

Chocolate articles packaged for retail sale.--U.S. production of chocolate articles packaged for retail sale increased from 305 million pounds in 1963 to 340 million pounds in 1967. Annual imports of such products entered under TSUS item 156.30 during this period ranged from an estimated 13 million pounds, valued at \$6.1 million, in 1965 to 15.4 million pounds, valued at \$7.2 million, in 1963, and were equal to 4 or 5 percent of the U.S. consumption of chocolate candy bars and

novelty items. During the first 9 months of 1968, imports are estimated at 14.5 million pounds, valued at \$6.9 million, compared with 7.8 million pounds, valued at \$3.7 million in the corresponding period of 1967 (table 26). Switzerland, the Netherlands, and Canada have been the principal suppliers.

According to information submitted by the Chocolate and Confectionery Group of the American Importers Association, dark chocolate products have accounted for about one-fourth, and milk chocolate products for three-fourths, of the imports of chocolate articles in retail packages. Of the imported milk chocolate products, about 40 percent have contained over 5.5 percent of butterfat by weight. The imported articles containing over 5.5 percent butterfat have consisted largely of "continental flavor" specialties that sell at higher prices than the bulk of the domestically produced chocolate bars and novelty products. The milk solids contained in the imported products, amounting to about 1 million pounds in 1967, were equivalent to less than one-hundredth of 1 percent of the milk solids contained in milk produced in the United States.

The Chocolate Manufacturers Association requested that quotas not be imported on their raw material, chocolate crumb, but rather on the imported finished chocolate articles packaged for retail sale. ^{1/} Milk and sugar are present in sweet chocolate articles packaged for retail sale in but slightly lower proportions than in chocolate crumb. The imposition of quota restrictions on chocolate crumb would tend to stimulate the importation of chocolate articles packaged for retail sale.

^{1/} Transcript pp. 514 and 525.

Chocolate, not sweetened (TSUS item 156.20)

Unsweetened chocolate is made by roasting, shelling, and grinding cocoa beans. It is the primary product from which all other cocoa and chocolate products are derived. It is generally referred to in the trade as chocolate liquor because of its liquid condition as produced. At normal temperatures it is a solid.

The trade-agreement rate of duty applicable to imports of unsweetened chocolate is one-half cent per pound. This rate, which became effective January 1, 1968, reflects the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the GATT. The rate will be further reduced in annual stages until the product becomes free of duty, effective January 1, 1972.

Unsweetened chocolate is produced in large volume in the United States (about 520 million pounds in 1967)--all from imported cocoa beans. Most of the domestic output is used captively by the producers in the manufacture of other cocoa and chocolate products.

U.S. annual imports of unsweetened chocolate, which have been small in relation to domestic production, have fluctuated considerably in recent years, ranging from 5.9 million pounds in 1965 to 19.7 million pounds in 1964 (table 26).

Ordinarily the unsweetened chocolate that enters commerce contains no butterfat. There have been no U.S. imports of unsweetened chocolate containing over 5.5 percent butterfat except for one small sample shipment in 1968. The Bureau of Customs recently ruled 1/ that

1/ C.I.E. C-258/68.

a product consisting of chocolate liquor and whole milk powder is classifiable as unsweetened chocolate under item 156.20, provided the content of whole milk solids does not exceed 32 percent by weight, equivalent to about 10 percent butterfat.

Although imports of unsweetened chocolate under item 156.20 heretofore have not contained butterfat, the aforementioned Bureau of Customs ruling demonstrates the possible use of this item for importing chocolate containing over 5.5 percent by weight of butterfat. The incentive to import such products under this item would seem to depend in large measure on whether a quota is imposed on chocolate crumb. Use of imported unsweetened chocolate containing butterfat in the manufacture of milk chocolate would require the addition of sugar to the product after importation, and therefore would involve a cost disadvantage compared with the use of imported chocolate crumb, which contains sugar as well as milk available at lower prices abroad than in the United States.

Sweetened chocolate in bars or blocks weighing 10 pounds or more each
(TSUS item 156.25)

Bars of sweetened chocolate weighing 10 pounds or more are generally used as coatings for confectionery and bakery goods and are usually referred to in the trade as "chocolate coatings." 1/ Such blocks

1/ The chocolate blocks here considered are composed of chocolate liquor, cocoa butter, sugar, and (if milk chocolate blocks) whole milk solids. They differ from the "confectioners coatings" provided for in TSUS item 156.47, in which powdered cocoa and vegetable fat are largely used instead of the unsweetened chocolate, cocoa butter, and milk fat that are used in sweetened chocolate blocks.

may consist either of dark or milk chocolate. Sweetened dark chocolate blocks very rarely contain as much as 5.5 percent of butterfat by weight, whereas the butterfat content of milk chocolate blocks ranges from 3.7 percent to about 7.5 percent.

The column 1 (trade-agreement) rate of duty applicable to imports under the classification here considered is 0.7 cent per pound. This rate, which became effective January 1, 1968, reflects the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the GATT. The rate will be further reduced until it becomes 0.4 cent per pound on January 1, 1971.

U.S. consumption of sweetened chocolate blocks is supplied largely by domestic producers. Such blocks are made by most of the 24 chocolate manufacturers. Domestic production is estimated at about 420 million pounds in 1967.

Annual U.S. imports of sweetened chocolate blocks reached a high of 6.5 million pounds, valued at \$2 million in 1965 and declined to about half that amount in 1967 (table 26). Imports during January-September 1968 amounted to 2.2 million pounds, valued at \$814,000, compared with 1.7 million pounds, valued at \$583,000, in January-September 1967. Switzerland and Canada have been the principal suppliers. Nearly all of the imports have been for the account of one concern in the United States. 1/

Official import statistics do not differentiate between sweetened chocolate blocks on the basis of butterfat content. It is estimated

1/ Transcript of hearing, p. 534.

that about a fourth of the imports in recent years have consisted of blocks in which the butterfat content exceeded 5.5 percent.

Most sweetened chocolate blocks (chocolate coatings) are manufactured according to the buyers' strict specifications for their particular uses, such as coating various retail-boxed chocolates and bakery goods. This need for conformance to particular specifications with frequent consultation between seller and buyer has perhaps been a factor in preserving the market for sweetened chocolate blocks largely for domestic producers.

Should quota restrictions be imposed on imports of chocolate crumb entered under TSUS item 156.30, it is conceivable that the product could be pressed into bars or blocks weighing 10 pounds or more each and entered under TSUS item 156.25. Based on information obtained from the trade, the Commission believes that such a procedure, if technically feasible, would add to costs of production, shipping, and processing. If chocolate crumb were pressed into bars or blocks and such pressing generated much heat, the flavor of the finished product probably would be affected. Without a binder, which could not be used under present FDA standards for milk chocolate, it is questionable whether bars or blocks of chocolate crumb would retain their shape during handling and shipping, in which case the product probably would not qualify for entry under TSUS item 156.25.

The importation of new products with a high milk content under TSUS item 156.25 for the manufacture food products, rather than for use as coatings, is a possibility. The Commission, however, has no information to indicate the likelihood of such a development.

Unsweetened cocoa, and cocoa cake suitable for reduction to cocoa powder (TSUS item 156.40) and sweetened cocoa (TSUS item 156.45)

Cocoa cake is the product remaining after cocoa butter has been pressed from chocolate liquor. Unsweetened cocoa, or cocoa powder, is produced by pulverizing cocoa cake. Sweetened cocoa is produced by adding sugar to cocoa powder. Cocoa, whether unsweetened or sweetened, is used in confectioners' coatings, other confectionery and bakery products, dairy products, prepared cocoa beverages, and in foods prepared in the home.

The first stage Kennedy round rates of duty, effective January 1, 1968, and the final stage rates, effective January 1, 1972, applicable to the two TSUS items here considered are shown below:

<u>TSUS item</u>	<u>Rate effective Jan. 1, 1968</u>	<u>Rate effective Jan. 1, 1972</u>
156.40-----	0.65¢ per lb.	0.37¢ per lb.
156.45-----	9% ad val.	9% ad val.

U.S. production of unsweetened cocoa amounted to about 200 million pounds in 1967, about one-fourth of which was used captively by the domestic producers. Output of sweetened cocoa (made from both domestic and imported unsweetened cocoa) also amounted to about 200 million pounds in 1967. When sweetened cocoa containing milk solids is produced from imported cocoa, the sugar is usually added after importation and the milk solids are invariably added after importation. There have been no known imports of unsweetened or sweetened cocoa containing milk solids or butterfat. Under current practices of the Bureau of Customs, a product consisting of cocoa (sweetened or unsweetened) and milk

solids is classifiable under TSUS item 118.30 if in chief value of milk or cream or, if not, as an edible preparation, not specially provided for, under item 182.92 or 182.95. 1/

U.S. imports under the two TSUS items here considered, consisting largely of unsweetened cocoa, increased from about 83 million pounds in 1963 to about 106 million pounds in 1967 (table 26).

Confectioners' coatings and other products (except confectionery) containing by weight not less than 6.8 percent nonfat solids of the cocoa bean nib and not less than 15 percent of vegetable fats other than cocoa butter (TSUS item 156.47)

The products here considered, consisting almost entirely of confectioners' coatings, are composed chiefly of sugar, powdered cocoa, vegetable fat, and nonfat milk. As indicated in the TSUS description, the imported products must contain at least 15 percent vegetable fats other than cocoa butter. They may contain butterfat, but the butterfat content rarely, if ever, exceeds 5.5 percent.

The trade-agreement rate of duty applicable to imports under TSUS item 156.47 is 4 percent ad valorem. This rate, which became effective January 1, 1968, reflects the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the GATT. The rate will be further reduced until it becomes 2.5 percent ad valorem, effective January 1, 1972.

There are two principal types of confectioners' coatings produced in the United States--summer coatings and ice cream bar coatings.

1/ Imports under items 118.30 and 182.92 are subject to section 22 quotas; imports under 182.95 are included in the present investigation if they contain over 5.5 percent of butterfat and are considered in a subsequent section of this report.

Summer coatings, which are used on candy bars and other confectionery, have a higher melting point than chocolate coatings. (See earlier section of this report on sweetened chocolate in bars or blocks weighing 10 pounds or more each.) Ice cream bar coatings have a lower melting point than chocolate coatings. U.S. production in 1967 of summer coatings containing cocoa amounted to an estimated 65 million pounds. Output in that year of ice cream bar coatings containing cocoa is estimated at 70 million pounds. The confectioners' coatings produced in the United States are generally lower priced than chocolate coatings inasmuch as their content of fats is confined largely to low priced vegetable fats rather than higher priced cocoa butter and butterfat.

U.S. imports of confectioners' coatings rose from 32,000 pounds in 1964 to 343,000 pounds in 1967, and amounted to 463,000 pounds in January-September 1968, compared with 280,000 pounds in the corresponding period of 1967 (table 26). Nearly all of the imports have consisted of specialties substantially higher in price than the bulk of the confectioners' coatings produced in the United States. Most of the recent imports have been for the account of one concern in the United States and have been used by this concern as coatings for its European-type chocolates and for making a distinctive brand of "truffles."

Because of the requirement in item 156.47 that the products classifiable thereunder contain at least 15 percent vegetable fat other than cocoa butter, none of the imports in this item could meet

the standards of identity of the FDA for the purpose of making milk chocolate. However, the minimum percentages of required ingredients for products in this item (not less than 6.8 percent by weight of nonfat solids of the cocoa bean nib and not less than 15 percent of vegetable fats other than cocoa butter) leave considerable leeway for the development of new products which could contain substantial percentages of milk.

Edible Preparations, Not Specially Provided for, Containing
Over 5.5 Percent by Weight of Butterfat

Imports of edible preparations, not specially provided for, containing over 5.5 percent butterfat are entered under TSUS items 182.92 and 182.95--basket provisions covering a large variety of products. Item 182.92 provides for miscellaneous edible preparations in bulk packages and containing over 5.5 percent butterfat; item 182.95 provides for miscellaneous edible preparations packaged for retail sale whether or not containing over 5.5 percent butterfat, as well as edible preparations in bulk packages containing 5.5 percent or less of butterfat. 1/

Imports of the edible preparations here under consideration which are not packaged for retail sale (item 182.92) are already limited by quotas under section 22, as explained in the following section on U.S. customs treatment. The principal imports in item 182.92 are mixtures of butterfat, sugar, and occasionally, nonfat dry milk; these products, which were formerly imported in substantial volume, are

1/ The two tariff classes were established on Jan. 1, 1968. From February 1963 to January 1968 the official import statistics distinguished between edible preparations, n.s.p.f., containing over 20 percent butterfat in bulk packages and all other edible preparations.

referred to collectively as butterfat-sugar mixtures. ^{1/} Edible preparations which contain over 5.5 percent of butterfat and are in retail-size packages (not subject to quota and imported under item 182.95) include small packages of butterfat-sugar mixtures, certain bakery product dough and mixes, honey butter, and a number of miscellaneous edible preparations packaged for the retail trade.

Butterfat-sugar mixtures are now used only in the manufacture of ice cream; attempts to promote their use in the confectionery and baking industries have been unsuccessful. The mixtures, which have much the same appearance as butter, are solids at room temperature and become thick oily liquids at high temperature. They are kept under refrigeration and are generally packed in polyethylene-lined cardboard boxes containing 56 pounds each.

^{1/} The character of the imported butterfat-sugar mixtures has changed as quantitative restrictions have been imposed under the authority of section 22 and the Sugar Act of 1948. In 1956 a product known as Exylone, which contained about 77 percent butterfat, 8 percent sugar, and 15 percent water, was imported. The product was designed to avoid the section 22 quota on imports of butter (which had been in effect since 1953). Imports of Exylone and similar butterfat-sugar mixtures containing 45 percent or more butterfat and not packaged for retail sale were prohibited by the President under section 22, effective Aug. 8, 1957. The composition and trade name of imported butterfat-sugar mixtures have since changed repeatedly. Present imports consist largely of mixtures containing approximately 44 percent butterfat and 56 percent sugar.

U.S. customs treatment

The column 1 (trade-agreement) rates of duty currently applicable to the imports here under consideration are as follows:

<u>TSUS</u> <u>item</u>	<u>Commodity</u>	<u>Rate of duty</u>
	Edible preparations, not specially provided for, containing over 5.5 percent by weight of butterfat:	
182.92	Not packaged for retail sale-----	20% ad val.
182.95 (pt.)	Other (packaged for retail sale)----	18% ad val.

The rate on edible preparations not packaged for retail sale (item 182.92) is the same as that provided for in the Tariff Act of 1930. The rate on edible preparations in retail-size packages (item 182.95 (pt.)), which became effective January 1, 1968, is the first stage of a concession granted by the United States in the sixth (Kennedy) round of trade negotiations under the GATT. It will be further reduced to 10 percent ad valorem in four annual stages.

Beginning July 1, 1967 imports of edible preparations containing more than 5.5 percent by weight of butterfat and not packaged for retail sale were made subject to an absolute annual quota of 2,580,000 pounds under the provisions of TSUS item 950.13. ^{1/} Imports of edible preparations containing more than 45 percent by weight of butterfat are embargoed (TSUS item 950.12).

^{1/} The amounts permitted entry are allocated to Australia, Belgium, and Denmark. Between July 1966 and December 1967 imports of butterfat-sugar mixtures containing more than 25 percent of sugar were subject to quantity limitations imposed by the Department of Agriculture under the Sugar Act of 1948. After December 1967 the sugar quota limitation applied only to mixtures in which the butterfat content was less than 5.5 percent by weight.

U.S. consumption and trade

All of the butterfat-sugar mixtures marketed in the United States are imported. Although the ingredients from which butterfat-sugar mixtures are made--butterfat, sugar, and nonfat milk solids--are used widely in the United States in the manufacture of foods, the mixtures of those products are not made in this country for sale as such. Trade in the mixtures has developed because of quota restrictions on other products containing butterfat and because U.S. prices for butterfat and sugar have been high in relation to world prices.

Imports of edible preparations containing over 5.5 percent butterfat and not packaged for retail sale, consisting almost entirely of butterfat-sugar mixtures, rose from 32,000 pounds, valued at \$7,000, in 1964 to a high of 108 million pounds, valued at \$24.6 million in 1966 (table 27). In the first 9 months of 1967, imports amounted to 99 million pounds, valued at \$21 million. Following imposition of the annual quota of approximately 2.6 million pounds on July 1, 1967, the volume was greatly reduced. The quantities permitted under the quota and the actual imports by country in the

last 6 months of 1967 and the first 10 months of 1968, as reported by the Bureau of Customs, are as follows (in thousands of pounds):

Country	Aggregate imports permitted under quota--		Actual imports	
	July-Dec. 1967	1968	July-Dec. 1967	Jan.-Oct. 1968
Australia-----	1,120	2,240	1,120	1,411
Belgium and				
Denmark-----	170	340	168	336
Total-----	1,290	2,580	1,288	1,747

Official statistics do not show separately imports of edible preparations containing over 5.5 percent by weight of butterfat and packaged for retail sale. Available information indicates that before 1968 imports of such products were very small. In about July 1968, however, entries of butterfat-sugar mixtures in retail-size containers, began in significant volume, apparently in circumvention of the quota on such products in bulk. According to the Bureau of Customs, imports of butterfat-sugar mixtures in packages each containing 1 pound or less amounted to about 2.0 million pounds during the period from July 1 to December 15, 1968. The imports were all from Belgium and Denmark.

The Department of Agriculture requested that the quota restrictions on edible preparations containing over 5.5 percent butterfat in bulk be extended to cover such products in retail-size containers.

Appendix A

Presidential Proclamation 3870

**PROCLAMATION AMENDING PART 3 OF THE APPENDIX TO THE TARIFF
SCHEDULES OF THE UNITED STATES WITH RESPECT TO THE IMPOR-
TATION OF AGRICULTURAL COMMODITIES**

By the President of the United States of America

A Proclamation

WHEREAS, pursuant to Section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), limitations have been imposed by Presidential proclamations on the quantities of certain dairy products which may be imported into the United States in any quota year; and

WHEREAS, in accordance with Section 102(3) of the Tariff Classification Act of 1962, the President by Proclamation No. 3548 of August 21, 1963, proclaimed the additional import restrictions set forth in Part 3 of the Appendix to the Tariff Schedules of the United States; and

WHEREAS the import restrictions on certain dairy products set forth in Part 3 of the Appendix to the Tariff Schedules of the United States as proclaimed by Proclamation No. 3548 have been amended by Proclamation No. 3558 of October 5, 1963, Proclamation No. 3562 of November 26, 1963, Proclamation No. 3597 of July 7, 1964, Section 88 of the Tariff Schedules Technical Amendments Act of 1965 (79 Stat. 950), Proclamation No. 3709 of March 31, 1966, Proclamation No. 3790 of June 30, 1967, Proclamation No. 3822 of December 16, 1967, and Proclamation No. 3856 of June 10, 1968; and

WHEREAS, pursuant to said Section 22, the Secretary of Agriculture has advised me there is reason to believe that the articles for which import restrictions are hereinafter proclaimed are being imported, and are practically certain to be imported, under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with the price support program now conducted by the Department of Agriculture for milk and butterfat, and to reduce substantially the amount of products processed in the United States from domestic milk and butterfat; and

WHEREAS, under the authority of Section 22, I have requested the United States Tariff Commission to make an investigation with respect to this matter; and

WHEREAS the Secretary of Agriculture has determined and reported to me that a condition exists which requires emergency treatment with respect to the articles for which import restrictions are hereinafter proclaimed and that the limitations, hereinafter set forth, on the quantities of such articles which may be imported in a quota year should be imposed without awaiting the recommendations of the United States Tariff Commission, with respect to such action; and

WHEREAS I find and declare that the articles for which import restrictions are hereinafter proclaimed are being imported and are practically certain to be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with the price support program now conducted by the Department of Agriculture for milk and butterfat, and to reduce substantially the amount of products processed in the United States from domestic milk and butterfat; and that a condition exists with respect thereto which requires emergency treatment and that the limitations, hereinafter set forth, on the quantities of such articles which may be imported in a quota year should be imposed without awaiting the recommendations of the United States Tariff Commission with respect to such action; and

WHEREAS I find and declare that for the purpose of the first proviso of Section 22(b) of the Agricultural Adjustment Act, as amended, the representative period for imports of such articles is the calendar year 1967, except that the representative period for imports of the articles subject to the import quotas provided for in item 950.09B is the calendar years 1965 through 1967; and

WHEREAS I find and declare that the imposition of the import restrictions hereinafter proclaimed is necessary in order that the entry, or withdrawal from warehouse, for consumption of such articles will not render or tend to render ineffective or materially interfere with the price support program now conducted by the Department of Agriculture for milk and butterfat, or reduce substantially the amount of products processed in the United States from domestic milk and butterfat;

NOW, THEREFORE, I, LYNDON B. JOHNSON, President of the United States of America, acting under and by virtue of the authority vested in me as President, and in conformity with the provisions of Section 22 of the Agricultural Adjustment Act, as amended, and the Tariff Classification Act of 1962, do hereby proclaim that Part 3 of the Appendix to the Tariff Schedules of the United States is amended as follows:

(1) headnote 3(a) is amended by adding a new subdivision as follows:

(iii) For the purposes of items 950.10A, 950.10B, and 950.10C of this part, the purchase price shall be determined by the District Director of Customs on the basis of the aggregate price received by the exporter, including all expenses incident to placing the merchandise in condition, packed ready for shipment to the United States, but excluding transportation, insurance, duty, and other charges incident to bringing the merchandise from the place of shipment from the country of exportation to the place of delivery in the United States.

(2) item 950.09 is redesignated 950.09A and a new item is inserted as follows:

950.09B Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheese:

For the 12-month period ending December 31, 1968-----

the quantity entered on or before the date of this proclamation, plus the following quantities:

Country of Origin	Quota Quantity (In pounds)
Denmark -----	514,000
Ireland -----	99,000
Netherlands -----	51,000
Norway -----	110,000
West Germany -----	154,000
Other -----	17,000

For each subsequent 12-month period, the following quantities:

Country of Origin	Quota Quantity (In pounds)
Denmark	1,714,000
Ireland	331,000
Netherlands	169,000
Norway	368,000
West Germany	513,000
Other	50,000

(3) items 950.10A, 950.10B, and 950.10C are added following item 950.10, which read as follows:

Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheeses; all the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound (see headnote 3(a) (iii) of this part):

950.10A Swiss or Emmenthaler cheese with eye formation:

For the 12-month period ending December 31, 1968

the quantity entered on or before the date of this proclamation, plus the following quantities:

Country of Origin	Quota Quantity (In pounds)
Austria	291,000
Denmark	183,000
Finland	553,000
Norway	110,000
Switzerland	60,000
West Germany	37,000
Other	47,000

For each subsequent 12-month period, the following quantities:

Country of Origin	Quota Quantity (In pounds)
Austria	972,000
Denmark	609,000
Finland	1,843,000
Norway	307,000
Switzerland	200,000
West Germany	124,000
Other	150,000

950.10B Other than Swiss or Emmenthaler with eye formation:

For the 12-month period ending December 31, 1968

the quantity entered on or before the date of this proclamation, plus the following quantities:

Country of Origin	Quota Quantity (In pounds)
Austria	145,000
Denmark	36,000
Finland	455,000
Switzerland	3,000
West Germany	323,000
Other	25,000

For each subsequent 12-month period, the following quantities:

Country of Origin	Quota Quantity (In pounds)
Austria	483,000
Denmark	110,000
Finland	1,516,000
Switzerland	10,000
West Germany	1,078,000
Other	83,000

950.10C Cheeses and substitutes for cheese provided for in items 117.75 and 117.85, part 4C, schedule 1 (except cheese not containing cow's milk, whey cheese, and except articles within the scope of other import quotas provided for in this part); all the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound (see headnote 3(a) (iii) of this part):

For the 12-month period ending
December 31, 1908.....

the quantity entered on or
before the date of this
proclamation, plus the
following quantities:

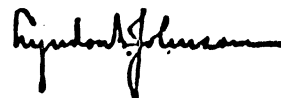
Country of Origin	Quota Quantity (In pounds)
Belgium	62,000
Denmark	2,690,000
Finland	337,000
France	270,000
Iceland	163,000
Ireland	45,000
Netherlands	17,000
Norway	67,000
Poland	610,000
Sweden	460,000
Switzerland	10,000
United Kingdom	82,000
West Germany	207,000
Other	110,000

For each subsequent 12-month period, the following quantities: *

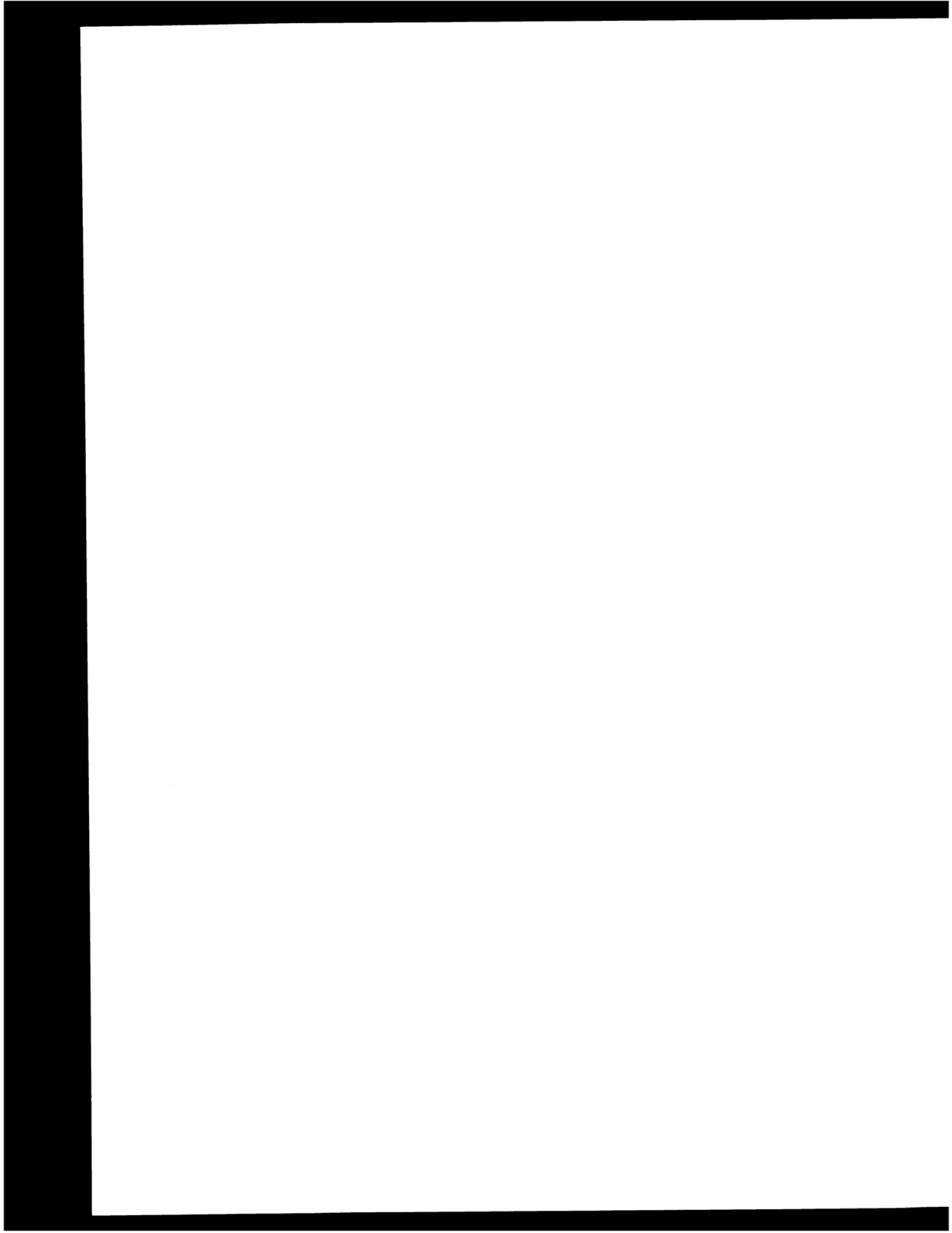
Country of Origin	Quota Quantity (In pounds)
Belgium	207,000
Denmark	8,066,000
Finland	1,124,000
France	331,000
Iceland	560,000
Ireland	151,000
Netherlands	50,000
Norway	222,000
Poland	2,044,000
Sweden	1,535,000
Switzerland	34,000
United Kingdom	274,000
West Germany	680,000
Other	388,000

The quotas established by this proclamation shall be applicable pending the report and recommendations of the Tariff Commission and action thereon by the President. Such quotas shall not be applicable to quantities of articles covered by this proclamation, which were exported to the United States, but not entered, prior to the date of this proclamation, to the extent such quantities are in excess of the quotas therefor. Notwithstanding headnote 3(a)(i), import licenses shall not be required for articles subject to the quotas provided for in this proclamation for the 12-month period ending December 31, 1908.

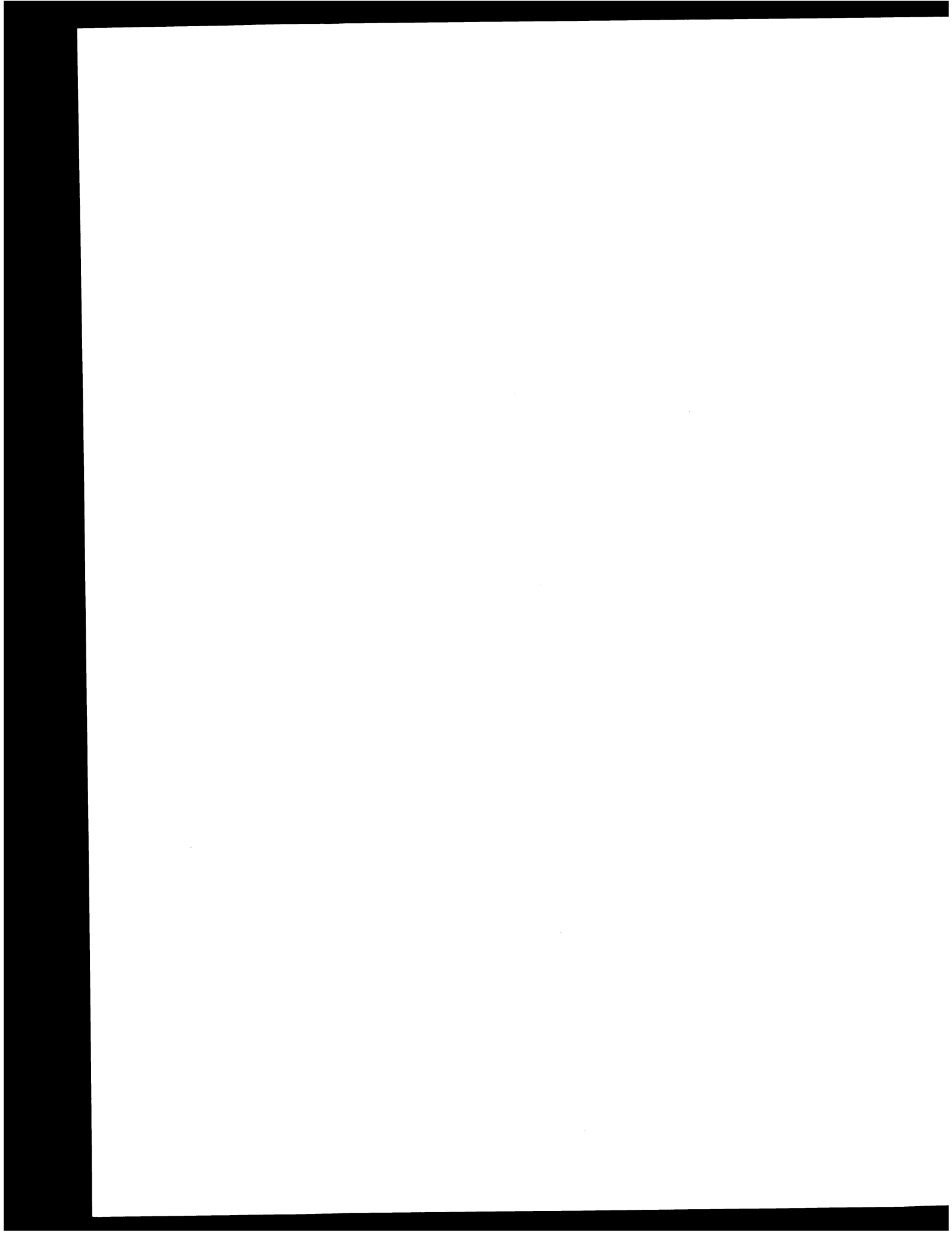
IN WITNESS WHEREOF, I have hereunto set my hand this twenty-fourth day of September, in the year of our Lord nineteen hundred and sixty-eight, and of the Independence of the United States of America the one hundred and ninety-third.



[F.R. Doc. 68-11805; Filed, Sept. 25, 1968; 10:20 a.m.]



Appendix B
Statistical Tables



APPENDIX B

Table 1.--Dairy products: U.S. milk production, and whole-milk equivalent of U.S. exports of domestic merchandise and imports for consumption, 5-year averages 1935-39 and 1945-49, annual 1953-67, January-September 1967, and January-September 1968

Period	Total milk production	Exports				Imports		Export or import (+) balance
		Sales 1/	Donations 2/	Total exports 1/		Quantity	Ratio to total milk production	
				Quantity	Ratio to total milk production			
<u>Million pounds</u>	<u>Million pounds</u>	<u>Million pounds</u>	<u>Million pounds</u>	<u>Percent</u>	<u>Million pounds</u>	<u>Percent</u>	<u>Million pounds</u>	
Average:								
1935-39----	105,924	138	3/	138	0.1	679	0.6	-541
1945-49----	117,623	1,898	1,968	3,866	3.3	218	.2	3,648
Annual:								
1953-----	120,521	675	694	1,369	1.1	525	.4	844
1954-----	122,294	707	1,340	2,047	1.7	441	.4	1,606
1955-----	123,045	919	5,743	6,662	5.4	458	.4	6,204
1956-----	124,860	1,432	4,797	6,229	5.0	514	.4	5,715
1957-----	124,628	1,028	1,675	2,703	2.2	661	.5	2,042
1958-----	123,220	757	2,047	2,804	2.3	507	.4	2,297
1959-----	121,989	651	503	1,154	.9	578	.5	576
1960-----	123,109	755	21	776	.6	604	.5	172
1961-----	125,707	645	10	655	.5	760	.6	-105
1962-----	126,251	434	853	1,287	1.0	795	.6	492
1963-----	125,202	552	4,484	5,036	4.0	915	.7	4,121
1964-----	126,967	368	6,504	6,872	5.4	830	.7	6,042
1965-----	124,173	416	1,420	1,836	1.5	923	.7	913
1966-----	119,892	778	-	778	.6	2,791	2.3	-2,013
1967-----	119,294	354	10	364	.3	2,908	2.4	-2,544
January- Sept.:								
1967-----	92,014	3/	3/	282	.3	2,600	2.8	-2,318
1968-----	90,639	3/	3/	740	.8	1,300	1.4	-560

1/ Includes some commercial sales subsidized by the Commodity Credit Corporation.

2/ Although these donations were chiefly to relief agencies for shipment to overseas destinations, there was a very small financial recovery to the Commodity Credit Corporation.

3/ Not available.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Table 2.--Butter, Cheddar cheese, nonfat dry milk, and all milk for manufacturing: U.S. market prices, Commodity Credit Corporation purchase prices, and CCC support objectives, marketing years 1953-67 and April 1, September 30, 1968

(In cents per pound)										
Marketing year beginning April 1	Butter (Grade A)		Cheddar cheese		Nonfat dry milk (spray process)		Milk for manufacturing			
	Market price at Chicago	CCC purchase price	Market price (Wisconsin assembly points)	CCC purchase price	Market price (U.S. average)	CCC purchase price	Market price (U.S. average)	CCC support objective		
								Actual	Percent of parity	
1953-----	65.5	65.8	36.8	37.0	15.5	16.0	3.46	3.74		89
1954-----	57.8	57.5	33.1	1/ 33.2	15.3	1/ 16.0	3.15	3.15		75
1955-----	57.4	57.5	33.2	33.2	15.6	16.0	3.19	3.15		80
1956-----	59.7	59.5	34.7	2/ 35.0	15.5	16.0	3.31	2/ 3.25	2/	84
1957-----	59.6	59.5	34.8	35.0	15.5	16.0	3.28	3.25		82
1958-----	58.2	57.8	33.3	32.8	13.8	14.2	3.16	3.06		75
1959-----	59.7	58.0	34.0	32.8	13.7	14.2	3.22	3.06		77
1960:										
Apr. 1 - Sept. 16-----	58.1	58.0	34.4	32.8	14.4	13.4	3.21	3.06		76
Sept. 17 - Mar. 9, (1961)-----	60.6	2/ 60.5	39.1	2/ 34.2	14.7	2/ 13.9	3.29	3/ 3.22		80
Mar. 10-31 (1961)-----	60.5	60.5	37.2	36.1	15.9	15.9	3.37	3.40		85
1961:										
Apr. 1 - July 17-----	60.5	60.5	36.7	36.1	15.9	15.9	3.36	4/ 3.40		83
July 18 - Mar. 31, (1962)-----	60.5	60.5	37.2	36.5	16.0	16.4	3.39	4/ 3.40		83
1962-----	58.6	58.0	36.0	34.6	14.4	14.4	3.19	3.11		75
1963-----	58.2	58.0	36.1	35.6	14.5	14.4	3.24	3.14		75
1964-----	59.1	58.0	36.8	35.6	14.6	14.4	3.30	3.15		75
1965-----	61.1	59.0	39.8	36.1	14.9	14.6	3.45	3.24		75
1966:										
Apr. 1 - June 29-----	64.1	61.0	43.5	39.3	17.2	16.6	3.70	3.50		78
June 30 - Mar. 31, (1967)-----	69.1	66.5	49.2	43.8	20.1	19.6	4.24	4.00		89.5
1967-----	66.7	66.5	45.2	43.8	19.9	19.6	4.07	4.00		87
1968:										
Apr. 1 - Sept. 30-----	66.8	66.4	47.4	47.0	23.1	23.1	4.19	4.28		89.4

1/ Cheddar supported at 32.25 cents and nonfat dry milk at 15 cents per pound from Apr. 1 to July 11, 1954.

2/ Applies to the period Apr. 19, 1956-Mar. 31, 1957; for Cheddar cheese for the period Apr. 1-18, 1956, the support price was 34.0 cents per pound.

3/ Increase required by Public Law 86-799.

4/ The U.S. Department of Agriculture later found that the purchase prices of March 1961 reflected a per hundredweight support objective of only \$3.36-\$3.37; the new purchase prices of July 1961 more accurately reflected the \$3.40 price-support objective.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Table 3.—Milk: U.S. utilization of domestic output, 1953-67 1/
(In billions of pounds of milk or milk equivalent)

(In billions of pounds of milk or milk equivalent)										
Year	Fluid use 2/	Manufactured dairy products								Grand total
		Butter 3/	Cheese		Evapo-rated milk	Con-densed milk	Frozen prod-ucts	Other factory prod-ucts 4/	Total	
			Ameri-can	Other						
1953	55.0	32.4	10.2	3.1	13.3	5.4	0.8	7.8	2.5	62.2
1954	56.2	32.9	10.5	3.3	13.8	5.4	.7	7.7	2.3	62.8
1955	57.5	31.2	10.1	3.5	13.6	5.5	.8	8.2	3.0	62.3
1956	58.7	31.5	9.9	3.8	13.7	5.4	1.0	8.5	2.9	63.0
1957	59.2	31.4	10.0	3.5	13.5	5.2	1.0	8.4	3.0	62.5
1958	58.7	31.7	9.5	3.2	12.7	4.6	1.0	8.8	3.0	61.8
1959	58.5	30.3	9.2	3.4	12.6	4.6	1.1	9.4	2.8	60.8
1960	58.3	30.7	9.7	3.7	13.4	4.3	1.1	9.5	3.3	62.3
1961	57.4	32.9	11.2	3.7	14.9	4.2	1.2	9.6	3.1	65.9
1962	57.7	34.0	10.7	3.7	14.4	3.9	1.1	9.7	3.1	66.2
1963	58.4	31.5	10.9	3.9	14.8	3.9	1.1	9.8	3.5	64.6
1964	58.7	31.9	11.5	4.2	15.7	3.8	1.2	10.2	3.3	66.1
1965	58.8	29.0	11.5	4.3	15.8	3.5	1.1	10.4	3.5	63.3
1966	58.6	24.0	12.7	4.5	16.7	3.5	1.1	9.1	4.9	59.3
1967 5/	57.2	26.7	12.7	4.5	17.2	3.1	1.0	9.4	2.8	60.2

1/ Does not include milk fed to calves.

2/ Beginning in 1960, includes sales plus farm use.

3/ Includes farm and nonfarm butter.

4/ Includes dry whole milk, malted milk, dry ice-cream mix, creamed cottage cheese, and other miscellaneous products.

5/ Includes some milk used on farms for other purposes or not utilized.

Source: Compiled from official statistics of the U.S. Department of Agriculture, Economic Research Service, Dairy Section.

Table 4.--Net U.S. expenditures on dairy price-support and related programs, years ending June 30, 1953-68

Year ending June 30--	(In millions of dollars)									
	CCC net expenditures (excluding foreign do- nations) 1/	Foreign donations		Military milk program 4/	Payment-in- kind pro- grams 5/	Section 32 expendi- tures 6/	Section 709 purchases and donations 7/	Total (excluding special milk)	Special milk program	
		Section 416 (Title III P.L. 480) 2/	Title II P.L. 480 3/							
1953	273.0	1.9	-	-	-	25.1	-	300.0	-	
1954	350.8	49.6	-	-	-	74.0	-	474.4	-	
1955	18.2	199.2	11.3	4.3	-	24.4	-	257.4	22.2	
1956	8/ 33.7	251.7	19.9	7.3	-	39.0	-	284.2	48.5	
1957	68.7	137.3	33.1	16.4	-	75.6	-	331.1	61.0	
1958	31.4	163.8	10.7	30.4	-	123.7	-	360.0	66.7	
1959	8/ 5.2	103.9	3.4	23.0	-	106.2	-	231.3	74.7	
1960	105.6	42.0	11.9	23.6	-	35.1	-	218.2	81.2	
1961	96.7	73.4	3.8	25.3	-	82.1	-	281.3	87.0	
1962	433.1	96.3	9.6	25.9	-	47.1	-	612.0	91.7	
1963	303.2	136.5	14.3	24.8	6.7	-	-	485.5	93.7	
1964	59.8	232.2	19.7	26.5	36.5	4.4	-	379.1	97.1	
1965	72.6	79.9	4.7	26.2	44.7	105.6	-	333.7	86.5	
1966	8/ 46.1	57.7	14.5	-	3.8	38.7	-	68.6	97.0	
1967	217.9	5.9	60.1	-	-	.9	14.2	299.0	96.1	
1968	271.5	-	85.6	-	-	-	-	357.1	103.1	

procurement, transportation, storage, and handling), less proceeds from

1/ CCC price-support purchase and other costs (processing, repackaging, transportation, storage, and handling), less proceeds from sales (including sales to section 32). Excludes costs of foreign donations.

2/ After Jan. 1, 1967 these donations are included in Title II, P.L. 480 pursuant to new legislation (the Food for Peace Act of 1966).

3/ These donations are shown separately and are included in the total column for comparability purposes due to the changes in legislation.

4/ CCC reimbursements to military agencies, Veterans Administration, and other participants.

5/ Amount of payment-in-kind certificates issued by CCC on exports of nonfat dry milk, butter, and high-milkfat products.

6/ Section 32 expenditures for purchases from CCC and direct purchases in the market.

7/ Purchases of butter and cheese for domestic school lunch use under section 709 of the Food and Agriculture Act of 1965.

8/ Receipt.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Note.--Excludes Government costs of activities under Titles I and IV of P.L. 480.

Table 5.--Butter, Cheddar cheese, and nonfat dry milk: Commodity Credit Corporation (CCC) and section 32 purchases, utilization (disposals), and CCC uncommitted stocks, average 1953-57, annual 1958-67, and January-September 1964-68

(In millions of pounds)			
Period	Purchases <u>1/</u>	Utilization	Uncommitted supplies at end of period <u>2/</u>
Butter			
Average, 1953-57-----	236	233	122
Annual:			
1958-----	184	208	7
1959-----	124	130	-
1960-----	145	129	16
1961-----	330	196	150
1962-----	403	259	294
1963-----	308	482	120
1964-----	266	368	18
1965-----	216	225	9
1966-----	29	32	6
1967-----	259	128	137
January-September:			
1964-----	257	325	72
1965-----	213	146	69
1966-----	5	15	-
1967-----	247	118	134
1968-----	192	203	126
Cheddar cheese			
Average, 1953-57-----	233	204	228
Annual:			
1958-----	80	215	<u>3/</u> 3
1959-----	57	53	7
1960-----	<u>4/</u>	7	-
1961-----	124	70	54
1962-----	203	194	63
1963-----	120	164	19
1964-----	119	121	17
1965-----	39	56	<u>4/</u>
1966-----	20	12	8
1967-----	182	133	57
January-September:			
1964-----	106	110	26
1965-----	39	59	2
1966-----	-	<u>4/</u>	-
1967-----	154	101	60
1968-----	75	70	63

See footnotes at end of table.

Table 5.--Butter, Cheddar cheese, and nonfat dry milk: Commodity Credit Corporation (CCC) and section 32 purchases, utilization (disposals), and CCC uncommitted stocks, average 1953-57, annual 1958-67, and January-September 1964-68--Continued

(In millions of pounds)			
Period	Purchases <u>1/</u>	Utilization	Uncommitted supplies at end of period <u>2/</u>
Nonfat dry milk			
Average, 1953-57-----	666	681	118
Annual:			
1958-----	783	765	45
1959-----	838	783	-
1960-----	873	696	177
1961-----	1,193	1,185	186
1962-----	1,300	972	514
1963-----	998	1,146	366
1964-----	677	977	66
1965-----	888	823	131
1966-----	367	433	64
1967-----	615	478	201
January-September:			
1964-----	471	729	70
1965-----	724	615	172
1966-----	188	297	24
1967-----	482	394	159
1968-----	455	441	213

1/ On the basis of contracts made; in some instances, deliveries were made in the subsequent reporting period.

2/ The supplies at the end of a year do not always equal the supplies at the beginning plus purchases less utilization, owing to rounding of figures and purchase contract tolerances.

3/ Adjusted for a decrease of 5 million pounds owing to claims actions, underdeliveries against purchase contracts, and overdeliveries on disposition contracts.

4/ Less than 0.5 million pounds.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Table 6 --U.S. apparent consumption of milk and other dairy products (milk equivalent), by selected categories, average 1947-49, 1950-54, 1955-59, 1960-64, annual 1955-67

Period	(In millions of pounds)						Apparent consumption		
	Consumed on farms 1/	Federal programs			Commercial channels 3/	All categories			Excluding Federal programs
		CCC donations to welfare programs 2/	School lunch and special milk programs						
Average:									
1947-49 4/	15,458	134	482		93,085	109,159		108,543	
1950-54	13,027	1,071	753		96,800	111,651		109,827	
1955-59	9,411	3,636	1,890		103,881	118,818		113,292	
1960-64	5,409	4,545	2,749		107,632	120,335		113,041	
Annual:									
1955	11,359	3,804	1,394		101,324	117,881		112,683	
1956	10,508	3,828	1,743		103,189	119,268		113,697	
1957	9,431	2,666	1,917		104,410	118,424		113,841	
1958	8,380	4,536	2,113		104,466	119,495		112,846	
1959	7,378	3,350	2,284		106,013	119,025		113,391	
1960	6,610	2,344	2,455		107,487	118,896		114,097	
1961	5,950	3,746	2,602		106,302	118,600		112,252	
1962	5,334	5,473	2,755		107,183	120,745		112,517	
1963	4,813	5,478	2,902		107,654	120,847		112,467	
1964	4,337	5,688	3,031		109,533	122,589		113,870	
1965	3,915	4,029	3,215		110,351	121,506		114,266	
1966 5/	3,522	1,129	3,373		111,070	119,094		114,592	
1967 5/	3,100	3,014	3,441		106,629	116,484		109,729	

1/ Milk and butter consumed in households on milk-producing farms, 1947-54; 1955-67 includes a small amount of farm-churned butter.

2/ Includes donations to the Military; such donations averaged about 490 million pounds annually during the period 1955-65. In 1966 and 1967 they were nil.

3/ Includes milk purchased by the Military; such purchases have been stable for a number of years.

4/ Data for 1945 and 1946 are not readily available. 5/ Preliminary.

Source: Compiled from official statistics of the U.S. Department of Agriculture.

Table 7.--Certain dairy products: U.S. imports for consumption, by kinds, annual 1964-67, January-September 1967, and January-September 1968

Item	1964			1965			1966			1967 1/			Jan.-Sept. 1968 1/		
	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds
Fluid milk and cream:															
Buttermilk															
Other:															
Containing not over 1 percent of butterfat															
Containing over 1 percent but not over 5.5 percent of butterfat (within tariff quota)															
Over tariff quota															
Containing over 5.5 percent but not over 45 percent of butterfat (within tariff quota)															
Over tariff quota															
Milk and cream, condensed or evaporated:															
In airtight containers:															
Not sweetened	2,835	208,741	4,491	31,271	4,491	610,864	65,560	1,310,881	164,470	867,174	113,763	4,306,426	497,190		
Sweetened	875,901	102,863	208,741	1,236,569	102,863	2,102,221	362,542	4,074,177	867,174	3,604,193	824,656	4,702,105	1,005,705		
Other	112,096	17,043	441,346	1,411,346	102,863	576,113	41,066	5,100	4,159	9,569	4,766	8,322	931		
Dried milk and cream:															
Buttermilk containing not over 6 percent butterfat	203,532	19,294	114,494	114,494	13,115	400,556	56,592	158,055	21,188	134,679	17,764	270,616	43,244		
Other:															
Containing not over 3 percent of butterfat	1,561,476	129,520	1,344,576	1,344,576	169,272	2,835,330	370,168	924,324	141,071	438,493	65,469	1,235,234	136,293		
Containing over 3 percent but not over 35 percent butterfat	5,800	1,396				6,950	1,677	3,450	877			87,000	13,617		
Containing over 35 percent butterfat															
Butter and cream containing over 45 percent butterfat	665,384	361,800	784,265	784,265	384,567	666,594	365,150	676,506	377,305	532,383	290,633	575,157	305,280		
Quemargering and other butter substitutes 3/															
Cheese, total 4/	77,877,892	39,491,984	79,310,688	79,310,688	43,023,073	135,475,349	2,877	151,857,161	64,605,569	120,011,133	18,306,598	1,131,050,633	50,339,813		
Other milk products:															
Whey:															
Fluid															
Dried															
Yoghurt and other fermented milk															
Chocolate milk drink															
Ice cream															
Malted milk articles, not specially prepared for use in milk or cream	12,099	4,020	9,320	9,320	4,983	720	489	1,183	637	1,183	637	9,436	3,365		
Edible animal oils (butter oil)	1,283,168	479,535	1,016,865	1,016,865	561,032	1,177,014	459,177	1,278,146	459,824	1,278,146	459,824	905,146	225,202		
Edible preparations, not specially provided for, containing over 5.5 percent butterfat (unex. etc.)	36,211	6,883	683,700	683,700	167,706	107,440,793	24,607,797	100,547,509	21,417,070	99,407,330	21,129,217	759,581	216,623		
not packaged for retail sale 2/															

1/ Preliminary.
 2/ Converted to pounds, assuming 1 gallon equals 8.4 pounds.
 3/ Certain articles containing over 45 percent of butterfat are not permitted entry into the United States (see TSUS item 950.12); 865,000 pounds entered packaged for retail sale under TSUS item 182.95.
 4/ Imports of cheese, by kind, are presented in table

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 8.--Cheese: U.S. imports for consumption, by kind, annual 1964-67, January-September, 1967 and January-September 1968

Item	1964			1965			1966			1967			Jan.-Sept. 1967			Jan.-Sept. 1968		
	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds	Quantity	Value	Pounds
Blue-mold cheese-----	4,248,311	\$2,135,449	4,400,046	\$2,208,701	\$2,172,908	5,172,908	\$2,620,439	\$2,544,794	4,788,548	\$2,544,794	\$2,544,794	3,598,963	\$1,907,670	\$1,907,670	3,671,253	\$1,993,046		
Bryndza cheese-----	62,832	12,833	88,715	23,999	84,879	19,371	19,371	18,378	81,571	18,378	18,378	55,115	12,467	12,467	84,404	20,281		
Cheddar cheese-----	2,479,227	805,232	1,837,469	640,959	4,181,238	1,530,423	4,966,588	1,877,383	4,966,588	1,877,383	1,877,383	1,716,443	717,433	717,433	5,539,706	1,986,824		
Colby cheese-----	11,427,857	2,724,636	14,149,377	3,498,693	45,993,909	12,570,038	45,311,691	16,263,558	45,311,691	16,263,558	16,263,558	92,120,876	15,287,791	15,287,791	2,507,500	745,893		
Edam & Gouda cheese-----	6,770,415	3,117,134	7,556,424	3,236,921	10,897,165	4,950,450	11,613,985	5,599,181	11,613,985	5,599,181	5,599,181	7,682,598	3,638,709	3,638,709	17,536,026	5,649,903		
Gjetost cheese-----	58,727	37,388	45,964	31,010	44,224	30,824	30,824	33,103	50,379	33,103	33,103	30,512	20,203	20,203	20,933	14,902		
Other Gjetost cheese-----	119,867	56,762	206,942	99,301	212,987	105,265	203,401	102,863	203,401	102,863	102,863	139,026	71,066	71,066	180,162	84,987		
Goya and Sbrinz cheese-----	859	265	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Roquefort cheese-----	2,003,974	1,959,129	2,191,315	2,397,794	1,860,917	2,102,159	1,808,444	2,078,455	1,808,444	2,078,455	2,078,455	1,301,640	1,494,190	1,494,190	1,436,387	1,634,006		
Romano made from cow's milk, in original leaves-----	2,480,379	756,454	2,305,400	931,575	3,129,264	1,187,241	2,972,661	814,432	2,972,661	814,432	814,432	2,840,798	767,142	767,142	1,355,233	568,795		
Parmesano and Reggiano in original leaves-----	2,284,541	1,313,356	1,901,593	1,341,888	1,827,456	1,330,641	2,355,352	1,383,934	2,355,352	1,383,934	1,383,934	1,930,106	1,034,541	1,034,541	1,086,970	761,333		
Provoloni and Provolotte in original leaves-----	3,807,655	2,742,201	3,484,133	2,769,000	2,820,647	2,453,531	3,034,466	2,469,705	3,034,466	2,469,705	2,469,705	2,082,228	1,660,525	1,660,525	2,290,593	1,796,783		
Romano made from cow's milk, Parmesano and Reggiano, Provoloni and Provolotte, not in original leaves-----	322,335	180,262	96,863	63,430	450,576	223,150	1,493,872	968,860	1,493,872	968,860	968,860	1,356,224	500,531	500,531	928,758	440,197		
Swiss or Emmentaler cheese with eye formation-----	11,506,365	6,426,727	10,419,330	6,001,486	14,751,105	7,988,107	14,354,779	7,923,715	14,354,779	7,923,715	7,923,715	10,430,863	5,763,765	5,763,765	34,867,063	12,007,255		
Gruyere-process cheese-----	5,173,261	2,779,309	5,313,127	2,885,910	9,122,703	4,108,394	9,835,705	4,145,728	9,835,705	4,145,728	4,145,728	6,428,157	2,702,686	2,702,686	16,860,274	5,678,766		
Camembert and Neuchâtel cheese-----	137,065	55,935	178,403	72,502	1,098,919	349,190	194,721	82,567	194,721	82,567	82,567	146,998	62,235	62,235	140,304	62,111		
Cheeses made from sheep's milk: In original leaves and suitable for grating-----	12,253,390	8,553,590	10,993,446	9,901,113	10,922,731	9,260,466	10,687,416	8,052,571	10,687,416	8,052,571	8,052,571	6,511,362	4,890,421	4,890,421	7,366,643	5,477,566		
Pecorino, in original leaves not suitable for grating-----	4,385,340	1,766,128	4,851,848	2,210,674	4,722,155	2,210,493	4,916,471	1,999,512	4,916,471	1,999,512	1,999,512	3,575,320	1,501,116	1,501,116	4,409,799	1,791,411		
Other sheep's milk cheeses-----	67,164	43,625	90,552	48,638	113,711	85,139	145,766	107,853	145,766	107,853	107,853	101,264	75,580	75,580	119,252	97,977		
"Other" cheese, and substitutes for cheese-----	8,287,830	3,924,519	9,204,751	4,359,679	18,067,815	6,945,718	22,993,345	8,533,917	22,993,345	8,533,917	8,533,917	17,762,795	6,198,527	6,198,527	30,678,368	9,727,482		
Total-----	477,877,892	39,491,984	479,310,668	43,023,073	135,475,349	60,111,229	151,897,161	64,605,569	151,897,161	64,605,569	64,605,569	120,011,138	48,306,598	48,306,598	131,050,688	50,539,513		

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 9.--Articles subject to investigation: U.S. rates of duty and section 22 import restrictions, December 1968

Number in President's request	TSUS item	Articles	Column 1 rate of duty	Import restrictions under section 22, AAA, as amended
1	115.30 115.35 115.40	Milk and cream condensed or evaporated: In airtight containers: Not sweetened----- Sweetened----- Other-----	1¢ per lb. 1.75¢ per lb. 1.5¢ per lb.	Annual emergency quotas established on June 10, 1968 (TSUS item 949.90): 1/ In airtight containers: Evaporated----- 1,312,000 lbs. Condensed----- 4,074,000 lbs. Other----- 5,000 lbs.
2	117.15 (pt.)	Natural cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced-----	15% ad val.	Of the annual quota quantity for Cheddar cheese (10,037,500 pounds), up to 1,225,000 pounds of such cheese described as indicated may be imported without a license from the Secretary of Agriculture.
3	117.25 (pt.)	Processed Edam and Gouda cheeses-----	15% ad val.	Annual emergency quota established on September 24, 1968 (TSUS item 950.09B): 2/ Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheese----- 3,151,000 lbs.
4		Italian-type cheeses, made from cows' milk (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz); all the foregoing except natural cheeses in original loaves:		
	117.40 (pt.)	Sbrinz-----	25% ad val.	None
	117.55 (pt.)	Other-----	20% ad val.	None
3, 4, 5, 6		Other cheeses and substitutes for cheeses (other than Colby):		
	117.75 (pt.)	Valued not over 25 cents per pound-----	5¢ per lb.	
	117.85	Valued over 25 cents per pound-----	18% ad val. 3/	Annual emergency quota established on September 24, 1968 (TSUS item 950.10C): 4/ Cheeses and substitutes for cheese provided for in items 117.75 and 117.85 (except cheeses not containing cows' milk, whey cheese, and except articles falling within the scope of other import quotas); • if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound--17,501,000 lbs.
6	117.60 (pt.)	Swiss or Emmenthaler cheese with eye formation, Gruyere-process cheese, and cheese processed from such cheeses---	14% ad val. 3/	Annual emergency quotas established on September 24, 1968 (TSUS items 950.10A and 950.10B): Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheeses; all the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound: Swiss or Emmenthaler cheese with eye formation 5/----- 4,271,000 lbs. Other than Swiss or Emmenthaler with eye formation 6/----- 3,289,000 lbs.

See footnotes at end of table.

Table 9.--Articles subject to investigation: U.S. rates of duty and section 22 import restrictions, December 1968--Continued

Number in President's request	TSUS item	Articles	Column 1 rate of duty	Import restrictions under section 22, AAA, as amended
7		Chocolate, cocoa, and confectioners' coatings and other products, if containing over 5.5 percent by weight of butterfat;		
	156.20 (pt.)	Chocolate:		
		Not sweetened-----	0.5¢ per lb. 3/	None
		Sweetened:		
	156.25 (pt.)	In bars or blocks weighing 10 pounds or more each-----	0.7¢ per lb. 3/	None
	156.30 (pt.)	In any other form-----	9% ad val. 3/	None
	156.40 (pt.)	Cocoa, not sweetened-----	0.65¢ per lb. 3/	None
	156.45 (pt.)	Cocoa, sweetened-----	9% ad val. 3/	None
	156.47 (pt.)	Confectioners' coatings and other products-----	4% ad val. 3/	None
8		Edible preparations not specially pro- vided for containing over 5.5 per- cent by weight of butterfat, the butterfat of which is commercially extractable, or which are capable of being used for any edible purpose for which products containing butter- fat are used:		Imports of articles containing over 5.5 percent but not over 45 percent by weight of butterfat are subject to an annual quota of 2,580,000 pounds (TSUS item 950.13); imports of arti- cles containing over 45 percent by weight of butterfat are not permitted entry (TSUS item 950.12).
	182.92 (pt.)	Not packaged for retail sale-----	20% ad val.	
	182.95 (pt.)	Other (packaged for retail sale)-----	18% ad val. 3/	None

1/ For 1968 the quotas were equal to half of the amounts shown, plus (1) the quantities entered on or before June 10, 1968, and (2) the quantities exported to the United States, but not entered, prior to June 10, 1968.

2/ Imports for 1968 are limited to 945,000 pounds plus the quantities entered on or before Sept. 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to Sept. 24, 1968, to the extent that such quantities are in excess of the quotas.

3/ Rates are subject to reductions as a result of concessions granted in the 1964-67 trade conference (Kennedy Round)

4/ Imports for 1968 are limited to 5,249,000 pounds plus the quantities entered on or before Sept. 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to Sept. 24, 1968, to the extent that such quantities are in excess of the quotas.

5/ Imports for 1968 are limited to 1,281,000 pounds plus the quantities entered on or before Sept. 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to Sept. 24, 1968, to the extent that such quantities are in excess of the quotas.

6/ Imports for 1968 are limited to 987,000 pounds plus the quantities entered on or before Sept. 24, 1968; however, the quotas are not applicable to quantities exported to the United States, but not entered prior to Sept. 24, 1968, to the extent that such quantities are in excess of the quotas.

Table 10.--U.S. imports for consumption of selected commodities, January-September 1967 and January-September 1968

TSUS item	Article	Imports, product weight		Imports in terms of milk equivalent	
		Jan.-Sept. 1967	Jan.-Sept. 1968	Jan.-Sept. 1967	Jan.-Sept. 1968
		<u>1,000 pounds</u>	<u>1,000 pounds</u>	<u>1,000 pounds</u>	<u>1,000 pounds</u>
	Milk and cream condensed or evaporated:				
	In airtight containers:				
115.30	Not sweetened-----	867	4,306	1,777	8,827
115.35	Sweetened-----	3,804	4,702	8,977	11,097
115.40	Other-----	10	9	26	23
117.15 (pt.)	Natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months, which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced-----	1/ 478	1,225	4,684	12,005
117.25 (pt.)	Processed Edam and Gouda cheeses 2/ Italian-type cheeses, made from cows' milk (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolotte, and Sbrinz); all the foregoing except natural cheeses in original loaves:	2,362	11,507	17,904	87,223
117.40 (pt.)	Sbrinz-----	-	-	-	-
117.55 (pt.)	Other-----	1,356	929	10,821	7,413
	Other cheeses and substitutes for cheeses (other than Colby):				
117.75 (pt.)	Valued not over 25 cents per pound-----	8,304	14,281	65,020	111,820
117.85	Valued over 25 cents per pound-----	9,459	16,397	74,064	128,389
117.60 (pt.)	Swiss or Emmenthaler cheese with eye formation, Gruyere-process cheese, and cheese processed from such cheeses-----	17,059	51,667	147,560	446,920
	Chocolate, cocoa, and confectioners' coatings and other products, if containing over 5.5 percent by weight of butterfat:				
	Chocolate:				
156.20 (pt.)	Not sweetened-----	-	-	-	-
	Sweetened:				
156.25 (pt.)	In bars or blocks weighing 10 pounds or more each 3/-----	419	554	478	632
156.30 (pt.)	In any other form:				
	Chocolate crumb-----	12,329	31,789	28,110	72,479
	Other 4/-----	2,340	4,337	3,206	5,942
156.40 (pt.)	Cocoa, not sweetened-----	-	-	-	-
156.45 (pt.)	Cocoa, sweetened-----	-	-	-	-
156.47 (pt.)	Confectioners' coatings and other products-----	-	-	-	-
	Edible preparations not specially provided for containing over 5.5 percent by weight of butterfat, the butterfat of which is commercially extractable, or which are capable of being used for any edible purpose for which products containing butterfat are used:				
182.92 (pt.)	Not packaged for retail sale-----	99,408	760	1,188,573	9,087
182.95 (pt.)	Other (packaged for retail sale)-----	-	858	-	1,026
	Total-----	5/	5/	1,551,200	902,883

1/ Estimated.

2/ Derived by subtracting total imports of natural Edam and Gouda from total TSUS item 117.25 imports.

3/ Product weight derived as one-fourth of total imports in TSUS item 156.25.

4/ Product weight derived by subtracting imports of chocolate crumb from total imports in TSUS item 156.30 and taking 30 percent of the remainder.

5/ Not meaningful.

Source: Imports, in terms of product weight, compiled from official statistics of the U.S. Department of Commerce; imports, in terms of milk equivalent, computed by the U.S. Tariff Commission staff based on factors supplied by the U.S. Department of Agriculture.

Table 11.--Condensed or evaporated milk and cream (items 115.30-.40):
U.S. production, imports for consumption, exports of domestic merchandise, yearend stocks, and apparent consumption, 1963-67

(In millions of pounds)

Year	Production			Im-ports	Ex-ports	Year-end stocks	Apparent consumption
	Un-skimmed	Skimmed	Total				
1963-----	2,369.0	846.3	3,215.3	0.6	122.1	139.0	3,101.8
1964-----	2,386.8	899.7	3,286.5	1.0	100.1	193.0	3,133.4
1965-----	2,177.8	967.1	3,144.9	1.8	90.5	141.0	3,108.2
1966-----	2,196.5	1,037.9	3,234.4	3.3	132.7	205.5	3,040.5
1967 <u>1</u> /--	1,885.8	982.2	2,868.0	5.4	63.0	196.8	2,819.1

1/ Preliminary.

Source: Production and yearend stocks compiled from official statistics of the U.S. Department of Agriculture; imports and exports compiled from official statistics of the U.S. Department of Commerce.

Note.--Condensed or evaporated cream is not an important article of commerce; separate data are not available.

Table 12.--Condensed milk, sweetened, in airtight containers
(item 115.35): U.S. imports for consumption, by principal sources,
annual 1963-67, and January-September 1968

Source	1963	1964	1965	1966	1967	Jan.-Sept. 1968 ^{1/}
Quantity (1,000 pounds)						
Netherlands-----	574	633	901	903	338	520
Canada-----	-	1	-	478	2,193	2,615
Denmark-----	21	181	413	613	1,334	1,375
All other-----	-	61	13	108	209	192
Total-----	595	876	1,327	2,102	4,074	4,702
Value (1,000 dollars)						
Netherlands-----	84	104	144	137	57	77
Canada-----	-	^{2/}	-	120	582	689
Denmark-----	3	29	63	87	200	213
All other-----	-	14	2	19	28	27
Total-----	87	147	209	363	867	1,006

^{1/} Imports subject to section 22 temporary quota as of June 10, 1968
(Presidential Proclamation No. 3856).

^{2/} Less than \$500.

Source: Compiled from official statistics of the U.S. Department of
Commerce.

Table 13.--Evaporated milk, not sweetened, in airtight containers
(item 115.30): U.S. imports for consumption, by principal sources,
annual 1963-67, and January-September 1968

Source	1963	1964	1965	1966	1967	Jan.-Sept. 1968 ^{1/}
Quantity (1,000 pounds)						
Netherlands-----	-	-	17	609	1,209	2,050
Canada-----	2	3	^{2/} 14	2	70	^{3/} 2,256
All other-----	-	-	-	-	32	-
Total-----	2	3	31	611	1,311	4,306
Value (1,000 dollars)						
Netherlands-----	-	-	2	65	141	206
Canada-----	^{4/}	^{4/}	^{4/} 2	^{4/}	19	-
All other-----	-	-	-	-	4	^{3/} 291
Total-----	^{4/}	^{4/}	4	66	164	497

^{1/} Imports subject to section 22 temporary quota as of June 10, 1968
(Presidential Proclamation No. 3856).

^{2/} Less than 500 pounds.

^{3/} Includes 2,235 thousand pounds, valued at 289 thousand dollars
from Belgium.

^{4/} Less than \$500.

Source: Compiled from official statistics of the U.S. Department of
Commerce.

Table 14.--Condensed or evaporated milk, not in airtight containers
(item 115.40): U.S. imports for consumption, by sources, annual
1963-67, and January-September 1968

Source	1963	1964	1965	1966	1967	Jan.-Sept. 1968 ^{1/}
Quantity (1,000 pounds)						
Mexico-----	-	-	-	-	-	5
West Germany-----	-	-	-	361	-	-
Denmark-----	-	-	-	89	-	-
Netherlands-----	-	-	-	126	-	-
Canada-----	17	112	15	-	5	4
New Zealand-----	-	-	426	-	-	-
France-----	-	-	-	-	-	-
Total-----	17	112	441	576	5	9
Value (1,000 dollars)						
Mexico-----	-	-	-	-	-	1
West Germany-----	-	-	-	24	-	-
Denmark-----	-	-	-	9	-	-
Netherlands-----	-	-	-	8	-	-
Canada-----	2	17	3	-	4	^{2/}
New Zealand-----	-	-	100	-	-	-
France-----	-	-	-	-	-	-
Total-----	2	17	103	41	4	1

^{1/} Imports subject to section 22 temporary quota as of June 10, 1968
(Presidential Proclamation No. 3856).

^{2/} Less than \$500.

Source: Compiled from official statistics of the U.S. Department of
Commerce.

Table 15.--Edam and Gouda cheeses: U.S. imports for consumption, by quota status, annual 1963-67 and January-September 1968

Year	Under quota restriction	Not under quota restriction	Total
Quantity (pounds)			
1963-----	5,884,359	1,613,732	7,489,091
1964-----	5,093,348	1,677,067	6,770,415
1965-----	5,478,035	2,088,389	7,566,424
1966-----	7,948,438	2,948,727	10,897,165
1967-----	8,462,668	3,151,317	11,613,985
1968: January-September--	6,028,859	^{1/} 11,507,167	17,536,026
Percent of annual total			
1963-----	78.5	21.5	100
1964-----	75.2	24.8	100
1965-----	72.4	27.6	100
1966-----	72.9	27.1	100
1967-----	72.9	27.1	100
1968: January-September--	34.4	65.6	100

^{1/} Imports subject to section 22 temporary quota as of Sept. 24, 1968 (Presidential Proclamation No. 3870).

Source: Quota imports compiled from unpublished data of the U.S. Department of Agriculture; total imports compiled from official statistics of the U.S. Department of Commerce.

Table 16.--Italian-type cheeses (Romano made from cow's milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), whether or not in original loaves: U.S. production, imports for consumption, and apparent consumption, 1964-67

(Quantity in thousands of pounds; value in thousands of dollars)					
Year	Production	Imports ^{1/}	Apparent consumption	Ratio (percent) of imports to consumption	
Quantity					
1964-----	71,456	8,896	80,352	11	
1965-----	^{2/} 76,000	7,788	83,788	9	
1966-----	^{2/} 81,000	8,228	89,228	9	
1967-----	^{2/} 83,000	9,906	92,906	11	
Value					
1964-----	^{2/} 41,491	4,993	46,484	^{3/}	
1965-----	^{2/} 48,407	5,106	53,513	^{3/}	
1966-----	^{2/} 58,580	5,195	63,775	^{3/}	
1967-----	^{2/} 62,250	4,668	66,918	^{3/}	

^{1/} Imports in original loaves are controlled by quotas established pursuant to sec. 22 of the Agricultural Adjustment Act, as amended. See TSUS item 950.10.

^{2/} Estimated by the staff of the U.S. Tariff Commission.

^{3/} Not meaningful.

Source: Production compiled from official statistics of the U.S. Department of Agriculture, except as noted; imports compiled from official statistics of the U.S. Department of Commerce.

Note.--U.S. exports of Italian-type cheeses are believed to have been negligible during the period under review; separate statistics are not available.

Table 17.--Italian-type cheeses (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), not in original loaves: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967 and January-September 1968

Source	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968
Quantity (pounds)						
Argentina-----	125,878	39,480	391,411	1,410,088	1,307,131	400,122
Italy-----	196,457	49,938	32,716	59,867	39,790	294,227
Portugal-----	-	-	-	14,614	-	47,863
Australia-----	-	1,999	11,398	5,414	5,414	24,024
Canada-----	-	-	6,879	2,627	2,627	-
Finland-----	-	-	-	1,262	1,262	-
Netherlands-----	-	-	-	-	-	1,200
West Germany-----	-	-	-	-	-	3,772
All other-----	-	5,446	8,172	-	-	1/ 157,550
Total-----	322,335	96,863	450,576	1,493,872	1,356,224	928,758
Value						
Argentina-----	\$42,597	\$16,821	\$175,321	\$501,913	\$458,341	\$190,068
Italy-----	137,665	44,153	35,094	56,046	38,645	146,811
Portugal-----	-	-	-	7,356	-	24,612
Australia-----	-	1,393	6,701	2,115	2,115	8,653
Canada-----	-	-	2,408	1,051	1,051	-
Finland-----	-	-	-	379	379	-
Netherlands-----	-	-	-	-	-	702
West Germany-----	-	-	-	-	-	475
All other-----	-	1,063	3,626	-	-	1/ 68,876
Total-----	180,262	63,430	223,150	568,860	500,531	440,197
Unit value (cents per pound)						
Argentina-----	33.8	42.6	44.8	35.6	35.1	47.5
Italy-----	70.1	88.4	107.3	93.6	97.1	49.9
Portugal-----	-	-	-	50.3	-	51.4
Australia-----	-	69.7	58.8	39.1	39.1	36.0
Canada-----	-	-	35.0	40.0	40.0	-
Finland-----	-	-	-	30.0	30.0	-
Netherlands-----	-	-	-	-	-	58.5
West Germany-----	-	-	-	-	-	12.6
All other-----	-	19.5	44.3	-	-	43.7
Average-----	55.9	65.6	49.5	38.1	36.9	47.4

1/ All from Denmark.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 18.--Certain "other" cheeses, and substitutes for cheese (including cottage cheese): U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1964-67

Year	Production <u>1/</u>	Imports	Exports	Apparent consumption
	Quantity (1,000 pounds)			
1964-----	1,222,786	8,288	3,526	1,227,547
1965-----	1,242,198	9,204	2,955	1,248,447
1966-----	1,263,602	18,068	2,679	1,278,991
1967-----	1,304,147	22,991	2,918	1,324,220
	Value (1,000 dollars)			
1964-----	431,643	3,925	1,857	<u>2/</u>
1965-----	474,753	4,359	1,685	<u>2/</u>
1966-----	478,269	6,946	1,821	<u>2/</u>
1967-----	534,700	8,534	1,927	<u>2/</u>

1/ Values estimated by the staff of the U.S. Tariff Commission based on the wholesale prices of similar cheeses in New York City.

2/ Not meaningful.

Source: Production compiled from official statistics of the U.S. Department of Agriculture; imports and exports compiled from official statistics of the U.S. Department of Commerce.

Table 17.--Italian-type cheeses (Romano made from cows' milk, Reggiano, Parmesano, Provoloni, Provolette, and Sbrinz), not in original loaves: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967 and January-September 1968

Source	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968
Quantity (pounds)						
Argentina-----	125,878	39,480	391,411	1,410,088	1,307,131	400,122
Italy-----	196,457	49,938	32,716	59,867	39,790	294,227
Portugal-----	-	-	-	14,614	-	47,863
Australia-----	-	1,999	11,398	5,414	5,414	24,024
Canada-----	-	-	6,879	2,627	2,627	-
Finland-----	-	-	-	1,262	1,262	-
Netherlands-----	-	-	-	-	-	1,200
West Germany-----	-	-	-	-	-	3,772
All other-----	-	5,446	8,172	-	-	1/ 157,550
Total-----	322,335	96,863	450,576	1,493,872	1,356,224	928,758
Value						
Argentina-----	\$42,597	\$16,821	\$175,321	\$501,913	\$458,341	\$190,068
Italy-----	137,665	44,153	35,094	56,046	38,645	146,811
Portugal-----	-	-	-	7,356	-	24,612
Australia-----	-	1,393	6,701	2,115	2,115	8,653
Canada-----	-	-	2,408	1,051	1,051	-
Finland-----	-	-	-	379	379	-
Netherlands-----	-	-	-	-	-	702
West Germany-----	-	-	-	-	-	475
All other-----	-	1,063	3,626	-	-	1/ 68,876
Total-----	180,262	63,430	223,150	568,860	500,531	440,197
Unit value (cents per pound)						
Argentina-----	33.8	42.6	44.8	35.6	35.1	47.5
Italy-----	70.1	88.4	107.3	93.6	97.1	49.9
Portugal-----	-	-	-	50.3	-	51.4
Australia-----	-	69.7	58.8	39.1	39.1	36.0
Canada-----	-	-	35.0	40.0	40.0	-
Finland-----	-	-	-	30.0	30.0	-
Netherlands-----	-	-	-	-	-	58.5
West Germany-----	-	-	-	-	-	12.6
All other-----	-	19.5	44.3	-	-	43.7
Average-----	55.9	65.6	49.5	38.1	36.9	47.4

1/ All from Denmark.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 18.--Certain "other" cheeses, and substitutes for cheese (including cottage cheese): U.S. production, imports for consumption, exports of domestic merchandise, and apparent consumption, 1964-67

Year	Production <u>1/</u>	Imports	Exports	Apparent consumption
Quantity (1,000 pounds)				
1964-----	1,222,786	8,288	3,526	1,227,547
1965-----	1,242,198	9,204	2,955	1,248,447
1966-----	1,263,602	18,068	2,679	1,278,991
1967-----	1,304,147	22,991	2,918	1,324,220
Value (1,000 dollars)				
1964-----	431,643	3,925	1,857	<u>2/</u>
1965-----	474,753	4,359	1,685	<u>2/</u>
1966-----	478,269	6,946	1,821	<u>2/</u>
1967-----	534,700	8,534	1,927	<u>2/</u>

1/ Values estimated by the staff of the U.S. Tariff Commission based on the wholesale prices of similar cheeses in New York City.

2/ Not meaningful.

Source: Production compiled from official statistics of the U.S. Department of Agriculture; imports and exports compiled from official statistics of the U.S. Department of Commerce.

Table 19.--Cheese not elsewhere enumerated: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967 and January-September 1968

Source	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968 <u>1/</u>
Quantity (1,000 pounds)						
Denmark-----	3,730	3,664	7,244	9,696	8,425	11,372
France-----	1,292	1,820	2,246	3,334	2,474	4,962
West Germany--	394	433	816	1,298	1,042	3,306
Switzerland---	442	609	668	767	477	1,165
Poland-----	106	85	1,122	2,064	1,456	2,251
Sweden-----	448	439	1,202	1,535	1,195	2,170
Finland-----	344	480	505	1,441	515	1,377
Italy-----	668	611	555	558	372	468
Iceland-----	5	247	1,956	568	479	1,275
Norway-----	297	176	269	303	218	235
United Kingdom-----	104	112	241	312	256	148
Netherlands---	147	148	153	185	140	635
Canada-----	40	25	55	203	156	407
Belgium-----	4	13	416	209	171	409
Ireland-----	71	82	308	167	124	36
All other-----	196	260	312	251	263	462
Total-----	8,288	9,204	18,068	22,991	17,763	30,678
Value (1,000 dollars)						
Denmark-----	1,670	1,625	2,452	3,005	2,402	3,044
France-----	794	1,078	1,494	2,066	1,468	2,191
West Germany--	201	218	350	517	382	940
Switzerland---	278	368	433	514	318	675
Poland-----	21	18	254	479	339	517
Sweden-----	114	120	338	416	323	591
Finland-----	69	105	120	397	138	382
Italy-----	409	399	378	360	240	308
Iceland-----	1	59	476	129	107	301
Norway-----	118	67	101	110	80	93
United Kingdom-----	46	51	101	105	79	61
Netherlands---	68	71	71	93	70	201
Canada-----	22	16	28	80	62	148
Belgium-----	2	4	119	62	49	119
Ireland-----	32	36	96	55	35	15
All other-----	80	124	135	146	107	141
Total-----	3,925	4,359	6,946	8,534	6,199	9,727

Table 19.--Cheese not elsewhere enumerated: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967 and January-September 1968--Continued

Source	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968 ^{1/}
	Unit value (cents per pound)					
Denmark-----	44.8	44.3	33.8	31.0	28.5	26.8
France-----	61.5	59.2	66.5	62.0	59.3	44.2
West Germany--	51.0	50.3	42.9	39.8	36.6	28.4
Switzerland---	62.9	60.4	64.8	67.0	66.6	57.9
Poland-----	19.8	21.2	22.6	23.2	23.2	23.0
Sweden-----	25.4	27.3	28.1	27.1	27.0	27.2
Finland-----	20.1	21.9	23.8	27.5	26.7	27.8
Italy-----	61.2	65.3	68.1	64.5	64.6	65.7
Iceland-----	20.0	23.9	24.3	22.7	22.3	23.6
Norway-----	39.7	38.1	37.5	36.3	36.5	39.5
United Kingdom-----	44.2	45.5	41.9	33.7	30.9	41.1
Netherlands---	46.3	48.0	46.4	50.3	49.8	31.6
Canada-----	55.0	64.0	50.9	39.4	39.8	36.4
Belgium-----	50.0	30.8	28.6	29.7	28.6	29.1
Ireland-----	45.1	43.9	31.2	32.9	28.4	42.8
All other-----	40.8	47.7	43.3	58.2	41.2	30.4
Average---	47.4	47.4	38.4	37.1	34.9	31.7

^{1/} Imports subject to section 22 temporary quota as of Sept. 24, 1968 (Presidential Proclamation No. 3870).

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 20.--Cheese not elsewhere enumerated, valued over 25 cents per pound: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967, and January-September 1968

Source	1964	1965	1966	1967	Jan.- Sept. 1967	Jan.- Sept. 1968 ^{1/}
Quantity (1,000 pounds)						
France-----	1,292	1,666	2,239	3,334	2,474	3,526
Denmark-----	3,723	3,542	4,104	4,467	3,209	3,925
Switzerland-----	442	594	664	767	477	1,165
West Germany-----	323	366	566	695	478	1,989
Italy-----	668	611	555	558	372	468
Finland-----	3	27	202	1,243	442	1,340
Sweden-----	185	264	1,202	1,183	980	2,009
Norway-----	297	176	269	303	218	235
Netherlands-----	147	148	153	185	140	428
Canada-----	37	25	55	197	153	407
United Kingdom-----	104	112	170	141	85	148
Belgium-----	4	2	389	198	171	404
All other-----	256	331	848	392	260	353
Total-----	7,481	7,864	11,416	13,663	9,459	16,397
Value (1,000 dollars)						
France-----	794	1,056	1,493	2,066	1,468	1,958
Denmark-----	1,669	1,604	1,881	2,041	1,441	1,769
Switzerland-----	278	365	432	514	318	675
West Germany-----	186	206	305	394	267	691
Italy-----	409	399	378	360	240	308
Finland-----	1	7	54	348	120	375
Sweden-----	54	80	338	331	271	556
Norway-----	118	67	101	110	80	93
Netherlands-----	68	71	71	93	70	152
Canada-----	22	16	28	79	61	148
United Kingdom-----	46	51	85	63	38	61
Belgium-----	2	1	113	60	49	118
All other-----	109	155	292	174	116	138
Total-----	3,756	4,078	5,571	6,633	4,539	7,042
Unit value (cents per pound) ^{2/}						
France-----	61.4	63.4	66.7	62.0	59.3	55.5
Denmark-----	44.8	45.3	45.4	45.7	44.9	45.1
Switzerland-----	62.8	61.4	65.1	67.1	66.6	57.9
West Germany-----	57.4	56.1	54.0	56.6	55.9	34.8
Italy-----	61.2	65.3	68.1	64.6	64.6	65.7
Finland-----	24.6	25.0	26.6	28.0	27.1	28.0
Sweden-----	29.3	30.3	28.2	28.0	27.7	27.7
Norway-----	39.8	37.9	37.7	36.2	36.5	39.5
Netherlands-----	46.6	47.8	46.5	50.0	49.8	35.6
Canada-----	58.3	65.5	50.2	39.8	40.1	36.4
United Kingdom-----	44.2	45.2	50.0	45.1	45.0	41.1
Belgium-----	44.8	47.8	29.0	30.3	28.6	29.2
All other-----	43.0	47.6	35.9	44.3	44.8	39.2
Average-----	50.2	51.9	48.8	48.6	48.0	42.9

^{1/} Imports subject to section 22 temporary quota as of Sept. 24, 1968 (Presidential Proclamation No. 3870).

^{2/} Unit values calculated from unrounded figures.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 21.--Cheese not elsewhere enumerated, valued not over 25 cents per pound: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967, and January-September 1968

Source	1964	1965	1966	1967	Jan.- Sept. 1967	Jan.- Sept. 1968 1/
Quantity (1,000 pounds)						
Denmark	6	122	3,139	5,229	5,216	7,447
Poland	106	84	947	2,064	1,456	2,243
Iceland	5	232	1,602	568	479	1,209
West Germany	70	66	251	602	564	1,318
Sweden	263	175	-	352	215	161
Finland	341	452	304	199	73	37
United Kingdom	-	-	70	172	172	-
Ireland	-	-	252	88	88	-
All other	16	209	86	55	41	1,866
Total	807	1,340	6,651	9,329	8,304	14,281
Value (1,000 dollars)						
Denmark	1	22	571	964	961	1,275
Poland	21	18	210	479	339	513
Iceland	1	56	377	129	107	284
West Germany	15	13	44	123	115	249
Sweden	59	40	-	85	52	35
Finland	68	98	66	49	18	8
United Kingdom	-	-	16	41	41	-
Ireland	-	-	70	18	18	-
All other	4	34	21	13	8	322
Total	169	281	1,375	1,901	1,659	2,686
Unit value (cents per pound) 2/						
Denmark	16.9	17.9	18.2	18.4	18.4	17.1
Poland	19.8	21.5	22.1	23.2	23.2	22.9
Iceland	22.9	24.0	23.6	22.7	22.3	23.5
West Germany	21.1	19.6	17.7	20.4	20.4	18.9
Sweden	22.6	22.6	-	24.2	24.0	21.7
Finland	20.0	21.7	21.9	24.6	24.3	20.5
United Kingdom	-	-	23.2	24.0	24.0	-
Ireland	-	-	27.8	20.9	20.9	-
All other	22.6	16.7	22.4	21.5	21.8	17.2
Average	20.9	21.0	20.7	20.4	20.0	18.8

1/ Imports subject to section 22 temporary quota as of Sept. 24, 1968 (Presidential Proclamation No. 3870).

2/ Unit values calculated from unrounded figures.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 22.--Swiss cheese with eye formation: U.S. production, imports for consumption, yearend stocks, and apparent consumption, 1963-67

(Quantity in thousands of pounds; value in thousands of dollars)

Year	Production ^{1/}	Imports	Yearend stocks	Apparent consumption	Ratio (percent) of imports to consumption
Quantity					
1963-----	119,906	11,692	10,270	128,968	9
1964-----	121,884	11,506	8,805	134,855	9
1965-----	122,732	10,419	6,720	135,236	8
1966-----	136,664	14,751	12,405	145,730	10
1967-----	132,204	14,355	10,987	147,977	10
Value					
1963-----	52,483	6,603	4,488	<u>2/</u>	<u>2/</u>
1964-----	52,105	6,427	3,764	<u>2/</u>	<u>2/</u>
1965-----	55,880	6,001	3,060	<u>2/</u>	<u>2/</u>
1966-----	74,112	7,988	6,727	<u>2/</u>	<u>2/</u>
1967-----	69,738	7,929	5,796	<u>2/</u>	<u>2/</u>

^{1/} Values are based on average annual prices paid f.o.b. Wisconsin assembly points for Grade A blocks.

^{2/} Not meaningful.

Source: Production and stocks official statistics of the U.S. Department of Agriculture; imports compiled from official statistics of the U.S. Department of Commerce.

Note.--Exports, which are not separately reported, are believed to have been small.

Table 23.--Swiss or Emmenthaler cheese with eye formation: U.S. imports for consumption, by principal sources, annual 1963-67, January-September 1967, and January-September 1968

Source	1963	1964	1965	1966	1967	Jan.- Sept. 1967	Jan.- Sept. 1968 ^{1/}
Quantity (1,000 pounds)							
Switzerland-----	6,221	6,833	6,227	7,011	6,214	4,584	10,480
Finland-----	1,863	1,982	1,803	3,475	3,686	2,572	3,281
Austria-----	792	1,516	1,345	1,745	1,915	1,328	8,071
Denmark-----	2,481	866	659	1,626	1,217	854	1,502
Norway-----	154	222	330	469	734	606	522
West Germany-----	27	9	30	167	247	237	10,528
Sweden-----	13	-	1	6	57	57	1
All other-----	141	78	24	252	285	193	482
Total-----	11,692	11,506	10,419	14,751	14,355	10,431	34,867
Value (1,000 dollars)							
Switzerland-----	3,905	4,447	4,226	4,740	4,478	3,291	4,951
Finland-----	716	794	708	1,421	1,590	1,111	1,372
Austria-----	369	671	617	797	838	575	2,154
Denmark-----	965	381	286	647	518	366	568
Norway-----	56	86	136	198	316	259	236
West Germany-----	12	5	15	58	66	59	2,591
Sweden-----	4	-	1	3	36	36	1
All other-----	36	43	12	124	87	67	124
Total-----	6,063	6,427	6,001	7,988	7,929	5,764	12,007
Unit value (cents per pound) ^{2/}							
Switzerland-----	62.8	65.1	67.9	67.6	72.1	71.8	47.3
Finland-----	38.4	40.1	39.3	40.9	43.1	43.2	41.8
Austria-----	46.7	44.3	45.8	45.7	43.8	43.3	26.7
Denmark-----	38.9	44.0	43.4	39.8	42.6	42.8	37.8
Norway-----	36.0	38.7	41.3	42.2	43.0	42.8	45.3
West Germany-----	43.8	51.9	51.0	34.9	26.7	24.9	24.6
Sweden-----	28.1	-	45.7	43.6	63.0	62.9	45.9
All other-----	26.1	54.0	54.1	49.4	30.4	34.8	25.8
Average-----	51.8	55.9	57.6	54.2	55.2	55.3	34.4

^{1/} Imports subject to section 22 temporary quota as of Sept. 24, 1968 (Presidential Proclamation No. 3870).

^{2/} Unit values calculated from unrounded figures.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 24.--Gruyere-process cheese and cheese and substitutes for cheese containing, or processed from, Swiss or Emmentaler cheese with eye formation, or Gruyere-process cheese: U.S. imports for consumption, by principal sources, annual 1963-67, January-September 1967, and January-September 1968

Source	1963	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968 ^{1/}
Quantity (1,000 pounds)							
Switzerland-----	3,369	3,484	3,371	4,043	3,275	2,115	2,991
Finland-----	712	968	1,142	2,967	3,031	2,002	3,037
West Germany-----	35	61	76	392	2,159	1,555	7,730
Austria-----	492	446	372	1,124	966	672	1,603
Denmark-----	114	119	151	338	238	176	1,319
Netherlands-----	48	23	109	38	61	46	18
Ireland-----	9	24	72	78	52	31	62
France-----	10	26	15	111	22	13	4
All other-----	41	22	5	32	32	18	36
Total-----	4,830	5,173	5,313	9,123	9,836	6,628	16,800
Value (1,000 dollars)							
Switzerland-----	2,144	2,157	2,146	2,475	2,112	1,323	1,860
Finland-----	235	314	373	905	975	644	904
West Germany-----	17	25	35	124	516	373	1,772
Austria-----	211	184	158	384	350	238	474
Denmark-----	50	54	69	124	103	72	614
Netherlands-----	27	10	65	22	34	24	8
Ireland-----	3	9	28	30	21	12	26
France-----	6	18	10	34	18	8	3
All other-----	18	8	2	10	17	9	18
Total-----	2,711	2,779	2,886	4,108	4,146	2,703	5,679
Unit value (cents per pound) ^{2/}							
Switzerland-----	63.6	61.9	63.7	61.2	64.5	62.5	62.2
Finland-----	33.0	32.4	32.6	30.5	32.2	32.2	29.8
West Germany-----	48.6	41.8	45.8	31.6	23.9	24.0	22.9
Austria-----	42.9	41.1	42.4	34.1	36.3	35.5	29.5
Denmark-----	43.9	45.1	45.8	36.7	43.3	41.2	46.5
Netherlands-----	56.2	43.8	59.5	57.4	56.2	51.9	40.8
Ireland-----	36.7	37.5	39.2	40.0	40.2	39.6	41.5
France-----	60.0	69.2	66.6	30.4	78.4	66.1	64.4
All other-----	43.9	36.4	40.0	31.2	53.1	41.2	54.5
Average-----	56.1	53.7	54.3	45.0	42.1	40.8	33.8

^{1/} Imports subject to section 22 temporary quota as of Sept. 24, 1968 (Presidential Proclamation No. 3870).

^{2/} Unit values are computed from unrounded figures.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 25.--Chocolate crumb: U.S. imports for consumption, by country of origin, annual 1963-67, January-September 1967, and January-September 1968

Source	1963	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968
Quantity (1,000 pounds)							
Ireland-----	1,088	2,068	1,962	4,000	10,709	5,766	12,391
United Kingdom--	-	-	-	2,500	10,673	6,405	11,391
Netherlands----	-	-	-	-	162	158	2,247
Belgium-----	-	-	-	-	-	-	5,617
Canada-----	-	-	-	-	-	-	77
West Germany---	-	-	-	-	-	-	40
Austria-----	-	-	-	-	-	-	24
Denmark-----	-	-	-	-	-	-	2
Total-----	1,088	2,068	1,962	6,500	21,544	12,329	31,789
Value (1,000 dollars)							
Ireland-----	201	443	356	750	1,899	1,036	2,200
United Kingdom--	-	-	-	450	1,784	1,065	1,879
Netherlands----	-	-	-	-	32	32	359
Belgium-----	-	-	-	-	-	-	900
Canada-----	-	-	-	-	-	-	11
West Germany---	-	-	-	-	-	-	7
Austria-----	-	-	-	-	-	-	5
Denmark-----	-	-	-	-	-	-	1/
Total-----	201	443	356	1,200	3,715	2,133	5,361
Unit value (cents per pound) 2/							
Ireland-----	18.5	21.4	18.1	18.7	17.7	18.0	17.8
United Kingdom--	-	-	-	18.0	16.7	16.6	16.5
Netherlands----	-	-	-	-	19.9	20.0	16.0
Belgium-----	-	-	-	-	-	-	16.0
Canada-----	-	-	-	-	-	-	13.8
West Germany---	-	-	-	-	-	-	18.5
Austria-----	-	-	-	-	-	-	18.4
Denmark-----	-	-	-	-	-	-	19.7
Average----	18.5	21.4	18.1	18.5	17.2	17.3	16.9

1/ Less than \$500.

2/ Unit values are computed from the unrounded figures.

Source: Estimates based on invoice analyses by the Tariff Commission and the U.S. Department of Agriculture.

Table 26.--Chocolate, cocoa, and confectioners' coatings: U.S. imports for consumption, annual 1963-67, January-September 1967, and January-September 1968

(Quantity in thousands of pounds; value in thousands of dollars; and unit value in cents per pound)							
Commodity and TSUS item	1963	1964	1965	1966	1967	Jan.-Sept. 1967	Jan.-Sept. 1968
Chocolate, not sweetened (156.20):							
Quantity-----	14,039	19,689	5,863	7,734	8,786	5,231	7,971
Value-----	3,869	5,202	1,287	1,784	2,479	1,435	2,426
Unit value-----	27.6	26.4	22.0	23.1	28.2	27.4	30.4
Chocolate, sweet- ened, in bars or blocks (156.25):							
Quantity-----	2,348	3,280	6,503	3,560	3,218	1,675	2,217
Value-----	808	1,187	2,005	1,192	1,075	583	814
Unit value-----	34.4	36.2	30.8	33.5	33.4	34.8	36.7
Chocolate, sweet- ened (156.30):							
Chocolate crumb:							
Quantity-----	1,088	2,068	1,962	6,500	21,544	12,329	31,789
Value-----	201	443	356	1,200	3,715	2,133	5,361
Unit value-----	18.5	21.4	18.1	18.5	17.2	17.3	16.9
Other:							
Quantity-----	15,407	13,409	13,001	13,930	14,759	7,799	14,456
Value-----	7,227	6,657	6,116	6,451	6,926	3,714	6,934
Unit value-----	46.9	49.6	47.0	46.3	46.9	47.6	48.0
Cocoa, unsweetened: (156.40):							
Quantity-----	82,422	92,148	95,077	99,319	104,961	77,458	88,288
Value-----	7,309	9,482	8,571	7,266	10,422	7,341	9,857
Unit value-----	8.9	10.3	9.0	7.3	9.9	9.5	11.2
Cocoa, sweetened (156.45):							
Quantity-----	270	615	256	613	887	886	911
Value-----	36	78	31	77	110	110	111
Unit value-----	13.3	12.7	12.1	12.6	12.4	12.4	12.2
Confectioners' coatings (156.47):							
Quantity-----	<u>1/</u>	32	325	315	343	280	463
Value-----	<u>1/</u>	15	159	145	154	124	223
Unit value-----	<u>1/</u>	46.9	48.9	46.0	44.9	44.3	48.2

1/ Not available.

Source: Compiled from official statistics of the U.S. Department of Commerce, except the breakdown on item 156.30 which is based on invoice analyses of entry papers by the U.S. Department of Agriculture and the U.S. Tariff Commission.

Note.--Principal suppliers in 1967 were as follows: 156.20--Haiti, the Netherlands, Ghana; 152.25--Switzerland and Canada; 156.30 (except chocolate crumb)--the Netherlands, Belgium, Canada; 156.30 (chocolate crumb)--United Kingdom and Ireland; 156.40--the Netherlands, West Germany, Brazil, and Ivory Coast; 156.45--Dominican Republic and France; 156.47--Switzerland.

Table 27.--Edible preparations, not specially provided for, containing from 20 to 45 percent by weight of butterfat and not packaged for retail sale: U.S. imports for consumption, by principal sources, annual 1964-67, January-September 1967 and January-September 1968

Source	1964	1965	1966	1967 1/	Jan.-Sept. 1967 1/	Jan.-Sept. 1968 1/2/
Quantity (1,000 pounds)						
Belgium-----	-	42	37,160	46,995	46,995	82
Canada-----	-	4	40,659	20,451	20,451	-
New Zealand-----	-	-	555	16,029	16,029	-
France-----	-	-	1,316	10,997	10,997	-
Australia-----	-	-	3,285	2,779	1,735	651
Denmark-----	-	628	6,827	1,550	1,550	-
United Kingdom--	4	-	8,416	1,193	1,099	-
Switzerland-----	1	-	5,357	-	-	-
Austria-----	-	-	2,349	-	-	-
West Germany----	-	-	408	-	-	-
All other-----	27	10	1,286	554	552	27
Total-----	32	684	107,621	100,548	99,408	760
Value (1,000 dollars)						
Belgium-----	-	10	8,743	9,528	9,528	18
Canada-----	-	1	9,050	4,342	4,342	-
New Zealand-----	-	-	128	3,562	3,562	-
France-----	-	-	327	2,435	2,435	-
Australia-----	-	-	751	711	441	192
Denmark-----	-	154	1,787	515	515	-
United Kingdom--	1	-	1,662	213	196	-
Switzerland-----	1	-	1,280	-	-	-
Austria-----	-	-	466	-	-	-
West Germany----	-	-	104	-	-	-
All other-----	5	3	310	111	110	7
Total-----	7	168	24,608	21,417	21,129	217
Unit value (per pound) 3/						
Belgium-----	-	\$0.24	\$0.24	\$0.20	\$0.20	\$0.20
Canada-----	-	.25	.22	.21	.21	-
New Zealand-----	-	-	.23	.22	.22	-
France-----	-	-	.25	.22	.22	-
Australia-----	-	-	.23	.26	.25	.30
Denmark-----	-	.25	.26	.33	.33	-
United Kingdom--	\$0.25	-	.20	.18	.18	-
Switzerland-----	1.00	-	.24	-	-	-
Austria-----	-	-	.20	-	-	-
West Germany----	-	-	.25	-	-	-
All other-----	.19	.30	.24	.20	.20	.28
Average-----	.22	.25	.23	.21	.21	.29

1/ Preliminary.

2/ Data for 1968 are for articles containing over 5.5 and no more than 45 percent of butterfat.

3/ Unit values calculated on unrounded figures.

Source: Compiled from official statistics of the U.S. Department of Commerce.

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APPENDIX C

EEC Common Export Subsidies for Dairy Products Effective

July 29, 1968

Where the country or zone of destination is not specifically mentioned, the export subsidy authorized for "other third countries" or "other countries" will apply.

The following are the subsidy Zones now used by the EEC:

Zones

Zone A

1. Burundi
2. Cameroon
3. Congo (Brazzaville)
4. Congo (Kinshasa)
5. Ivory Coast
6. Dahomey
7. Gabon
8. Guinea
9. Upper Volta
10. Madagascar
11. Mauritania
12. Central African Rep.
13. Rwanda
14. Senegal
15. Chad
16. Togo

Zone B

1. Mexico
2. Central American countries
3. South American countries
4. Large and Small Antilles

Zone C

Asian countries east of Iran, Asiatic part of Russia, and islands in the Indian and Pacific Oceans situated between the 60th and 180th meridian, excluding Australia, New Zealand, and Japan.

Zone D

Russia and other European countries and territories using the State Trading System.

	Export Subsidy ¢/lb.
Butter, 82% or more:	
to U.K.	48.31
Zone A	58.97
Other Third Countries	60.33
Butter, more than 98%:	73.48
Milk and Cream:	
Fat up to 2.6%	.00.816
Fat 2.6 - 3.0%	
to Spain	01.288
to Algeria	01.343
Other Third Countries	.01.270
Fat 3.0 - 3.4%	00.907
Fat 3.4 - 6.0%	01.814
Milk and Cream:	
Fat 21 - 39%	13.61
Fat over 39%	24.72
Milk and Cream, In powder	
Fat up to 1.5% (Nonfat Dry Milk)	10.43
For Zone B, C, and Japan	
Other Countries	9.07
Milk and Cream, in powder <u>denatured</u>	
Fat up to 1.5%	5.33
Milk and Cream, in powder	
Fat 1.5 - 11.0	9.07
Fat 11.0 - 17.0%	12.93
Fat 17.0 - 25.0%	15.65
Fat 25.0 - 27.0%	19.05
Fat 27.0 - 41.0%	19.06
Fat over 41%	26.08

Milk and Cream, Canned

Concentrated in containers of at least 1 pound:

Fat 7-8%	4.99
Fat 8-11%	5.90

Milk and Cream, Canned, Concentrated, in Containers of at least 1 pound:

Fat 7-21%	4.99
Fat 21-39%	13.61
Fat 39-45%	24.72
Fat over 45%	28.35

Milk and Cream, in Powder, with Sugar:

Fat up to 1.5%	09.07
Fat 1.5 - 11%	09.07
Fat 11 - 17%	12.93
Fat 17 - 25%	15.65
Fat 25 - 27%	19.05
Fat 27 - 41%	19.96
Fat over 41%	26.08

Milk and Cream, Canned, Concentrated, with Sugar, in container of at least 1 pound:

Up to 7% Fat	01.93
More than 7% Fat	04.99

Milk and Cream, Canned, Concentrated, with Sugar, in container called "milk in block":

Fat over 11%, dry	6.80
Matter over 45%	4.99
Fat 7 - 21%	13.61
Fat 21-39%	24.72
Fat 39-45%	28.35

Emmental, Gruyere:

to Switzerland, Austria	11.34
to Other Third Countries	17.24

Blue Cheese Other than Roquefort 13.61

Melted Cheese 33% fat, less than 20% dry matter	4.54
More than 33% fat more than 20% dry matter	18.14

Grana, Parmesan, Pecorino, Fiore Sardo, Fat and Dry Matter more than 30%, moisture content by weight equal or less than 47%

For exports to Switzerland	18.14
Other third countries	22.68
Cheddar, Choster, 3 months or more, Fat 50% or more, Moisture 50-57%	30.84
Tilsit, 44% Fat	
For Switzerland	7.56
Other third countries	20.87
Other Cheeses, 30% or more Fat Moisture 47-57%	20.87
Butter Kase, Edam, Fontal, Fontina, Friese Nagel, Kanterkas, Galantine, Gouda, Italico, Liedse, Mimolotte, Saint-Paulin and similar	
For Switzerland	7.56
U.K.	18.53
U.S.A.	15.22
Spain	15.98
Canada & Puerto Rico	19.99
Australia	17.73
Japan	25.40
Other third countries	20.87
Food preparation of less than 10 percent starch content and 50% or more milk content	3.63