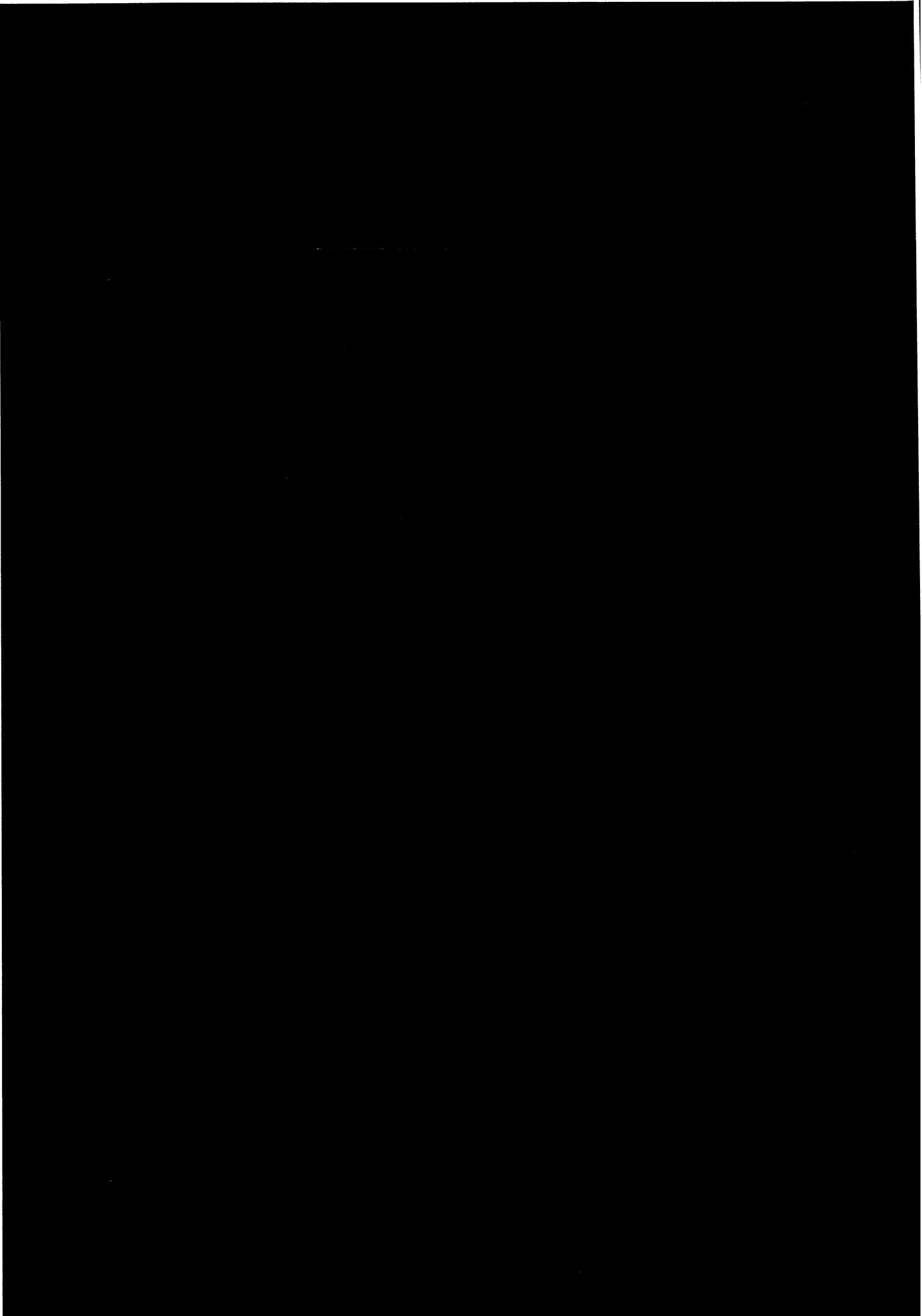


CERTAIN DAIRY PRODUCTS — TC CABINET — INVEST. # 22-28 — SEPT. 1970



## CONTENTS

	<u>Page</u>
Report to the President-----	1
Developments leading to the investigation-----	3
The concept of "milk equivalency" for dairy products---	5
Findings-----	7
Recommendations-----	8
Considerations-----	10
Supplemental statement of Commissioners Clubb and Leonard-----	22
Information obtained in the investigation-----	A-1
The domestic dairy situation-----	A-1
Recent trends in the U.S. production of milk-----	A-1
Utilization of the domestic output of milk-----	A-2
Year end stocks of dairy products-----	A-2
Federal programs for dairy products-----	A-3
Federal milk marketing orders-----	A-3
The price-support program-----	A-4
Government purchases-----	A-6
Disposition of Governmental stocks-----	A-9
Costs of the dairy price-support programs-----	A-10
Section 22 quotas on imports of dairy products-----	A-11
Current quotas-----	A-11
Administration of section 22 quotas-----	A-14
U.S. foreign trade in dairy products-----	A-16
Agricultural support programs and export subsidies of foreign countries-----	A-21
Products covered in the investigation-----	A-28
Ice cream-----	A-29
U.S. customs treatment-----	A-30
U.S. consumption, producers, and production-----	A-31
U.S. exports and imports-----	A-32
Foreign production and trade-----	A-33
Chocolate and certain articles containing choco- late, containing 5.5 percent or less of butter- fat-----	A-34
U.S. customs treatment-----	A-36
U.S. consumption, producers, and production-----	A-37
U.S. exports and imports-----	A-38
Impact of imports on U.S. production of prod- ucts processed from domestic milk-----	A-39
Animal feeds containing milk or milk derivatives----	A-43
U.S. customs treatment-----	A-44
U.S. consumption, producers, and production-----	A-45
U.S. exports and imports-----	A-47
Certain cheese and substitutes for cheese con- taining 0.5 percent or less by weight of butterfat-----	A-49
U.S. customs treatment-----	A-50
U.S. consumption, producers, and production-----	A-51
U.S. exports and imports-----	A-52
Appendix A. Statistical tables-----	A-54

## TABLES

	<u>Page</u>
1. Dairy products: U.S. milk production and milk equivalent (fat-solids basis) of U.S. exports of domestic merchandise and imports for consumption, 5-year averages 1953-62, annual 1963-69, January-June 1970, and January-June 1970 -----	A-55
2. Milk: U.S. utilization of domestic output, 5-year averages 1953-62, and annual 1963-69-----	A-56
3. Dairy products: Commercial and U.S. Government yearend stocks, 1953-69-----	A-57
4. 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, 5-year average 1953-57, and annual 1958-70-----	A-58
5. Net U.S. expenditures on dairy price-support and related programs, years ending June 30, 5-year averages 1953-62, annual 1963-69-----	A-59
6. Butter, Cheddar cheese, and nonfat dry milk: Commodity Credit Corporation (CCC) and section 32 purchases, utilization (disposals), and CCC uncommitted stocks, 5-year averages 1953-62, annual 1963-69, January-July 1969, and January-July 1970-----	A-60
7. U.S. apparent consumption of milk and other dairy products (milk equivalent), by selected categories, 5-year averages 1953-62, and annual 1963-69-----	A-62
8. Certain dairy products: U.S. imports for consumption, by kinds, annual 1966-69, January-July 1969, and January-July 1970-----	A-63
9. Ice cream: U.S. imports for consumption, by sources, 1969, January-July 1969, and January-July 1970-----	A-65
10. Milk replacer and milk replacer bases: U.S. imports for consumption, by sources, 1967-69 and January-July 1969 and 1970-----	A-66

REPORT TO THE PRESIDENT

U.S. Tariff Commission,  
September 21, 1970

To the President:

Pursuant to your request of May 13, 1970, the U.S. Tariff Commission has completed an investigation under subsection (a) of section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), to determine whether certain articles described in your letter 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.

Specifically, your request related to the following articles:

1. Ice cream, as provided for in item 118.25, part 4, subpart D, of Schedule 1 of the Tariff Schedules of the United States (TSUS);
2. Chocolate provided for in item 156.30 of part 10 and articles containing chocolate provided for in item 182.95, part 15, Schedule 1 of the TSUS, containing 5.5 percent or less by weight of butterfat (except articles for consumption at retail as candy or confection); 1/
3. Animal feeds containing milk or milk derivatives, classified under item 184.75, subpart C, part 15 of Schedule 1 of the TSUS; and

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1/ Hereafter in this report generally referred to as low-fat chocolate crumb.

4. Cheese, and substitutes for cheese, containing 0.5 percent or less by weight of butterfat, as provided for in items 117.75 and 117.85 of subpart C, part 4 of Schedule 1 of the TSUS, except articles within the scope of other import quotas provided for in Part 3 of the Appendix to the TSUS; if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound. 1/

On June 26, 1970, in response to a request by the Committee on Ways and Means of the House of Representatives, the Tariff Commission instituted a related investigation on certain dairy products under section 332 of the Tariff Act of 1930. That investigation (No. 332-64) includes one of the four articles specified in your request of May 13, namely article 2. The Commission's report on investigation No. 332-64 will be submitted to the Committee on Ways and Means at the earliest possible date.

The information contained in this report on investigation No. 22-28 was obtained from evidence submitted at the public hearing, from briefs, from fieldwork, from other Government agencies and from the Commission's files. 2/

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1/ Hereafter in this report generally referred to as low-fat (skim milk) cheese for manufacturing.

2/ Public notice of the institution of the Commission's section 22 investigation (No. 22-28) was issued on May 21, 1970. 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 of May 26, 1970 (35 F.R. 8250) and in the June 10, 1970 issue of the Customs Bulletin. A public hearing, originally scheduled to begin on July 7, 1970, was held July 28-31 and August 3, 1970; all interested parties were afforded opportunity to produce evidence and to be heard. Public notice of the postponement of the hearing and the institution of the related investigation (No. 332-64) was issued on June 26, 1970, and was published in the Federal Register of July 1, 1970 (35 F.R. 10704) and in the July 15, 1970, issue of the Customs Bulletin.

## Developments Leading to the Investigation

As compared with the domestic production of whole milk, the whole milk equivalent of U.S. imports of dairy products has been small for many years. Between 1953 1/ and 1965, annual imports of dairy products had been equivalent to 0.4 to 0.7 percent of the U.S. output of milk. Imports rose sharply during 1966, and continued to increase during 1967. In each of those years they were about 3 times as large as in 1965. The ratio of imports to total domestic milk production was 2.4 percent in 1967 (table 1).

The increase in imports during 1966 and 1967 consisted of dairy products not subject to quantitative limitations. On June 30, 1967, the President imposed section 22 quotas on the imports of dairy products that had accounted for about 95 percent of the increase in imports during 1966 and the first half of 1967. 2/ After these new quotas were imposed, the import trade in dairy products shifted largely to the articles that remained free of quotas. Although monthly imports of dairy products declined in the 18-month period following the imposition of the quotas in mid-1967, they were nonetheless about double--on an annual basis--the imports during 1961-65 and roughly triple those during 1953-60.

The President imposed emergency section 22 quotas on June 10 and September 24 of 1968. 3/ After receipt of a report from the Tariff

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1/ Quotas on dairy products under section 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.

3/ Presidential Proclamations No. 3856 and No. 3870, respectively.

Commission, the President, on January 6, 1969, imposed section 22 quotas on imports of the dairy products that had accounted for the bulk of the nonquota imports in the 18-month period beginning July 1, 1967. 1/ Imports of dairy products again declined. In 1969, they were equivalent to 1.4 percent of U.S. milk production, compared with 1.5 percent in 1968; however, as was the case following previous section 22 actions, imports of products not subject to the quotas began to increase.

The quotas proclaimed on January 6, 1969, did not include certain cheese containing 0.5 percent or less by weight of butterfat and certain chocolate articles containing 5.5 percent or less by weight of butterfat. Imports of those products, and of ice cream and certain animal feeds containing milk or milk derivatives--virtually all destined for further processing prior to sale at retail--began for the first time, or increased sharply, in 1969 and early 1970. On March 5, 1970, the Secretary of Agriculture reported to the President that he had reason to believe that the dairy products named in this paragraph were being imported, and were practically certain to continue 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 for milk and butterfat undertaken by the Department of Agriculture, or to reduce substantially the amount of products processed in the United States from domestic milk and butterfat. The President, on May 13, 1970, notified the Tariff Commission that he agreed with the Secretary of Agriculture and therefore directed the Commission to make an immediate investigation

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1/ Presidential Proclamation No. 3884.



under section 22 of the Agricultural Adjustment Act, as amended, to determine whether it also agrees, and to report its findings and recommendations at the earliest practicable date.

The concept of "milk equivalency" for dairy products

Dairy products are derivative from whole milk. In studying the programs of the Department of Agriculture and, in particular, the effects of imports on these programs, a method for comparing these products with varying milk content, i.e., the concept of "milk equivalency" was formulated. This concept, which is based upon the solids content of whole milk, assumes that the fat and nonfat solid portions in whole milk are in the ratio of 1:2.3 at the present time. Thus, for a given poundage of whole milk, it is assumed that 3.7 percent thereof is butterfat and 8.6 percent thereof is nonfat solids. <sup>1/</sup>

Even though imports of dairy products do not contain butterfat and nonfat milk solids in the same proportion as in whole milk, the milk equivalent thereof has usually been computed only on the basis of their butterfat content. The Department of Agriculture, however, supports the price of both butterfat and nonfat milk solids through the purchase of 3 products--butter (the milk solids content of which is virtually all butterfat), Cheddar cheese (which contains virtually all the butterfat and about half of the nonfat milk solids in whole milk), and nonfat dry milk (the milk solids content of which is virtually all non-fat milk solids). In examining the effects of imports on the price-support programs, it is therefore necessary to give due consideration not only

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<sup>1/</sup> U.S. Department of Agriculture Statistical Bulletin No. 362, June 1965.

to the butterfat, but also to the nonfat milk solids contained therein.

Imports of many of the basic forms of nonfat milk solids (i.e. nonfat dry milk, dry buttermilk, and dry whey) have been subject to section 22 quotas since the initial section 22 quotas were established in 1953. Since that time most of the emphasis on imports of dairy products has been on products containing butterfat and no nonfat milk solids or on products containing large proportions of butterfat in relation to their nonfat milk solids content. As the importation of these products has increased they have generally been placed under section 22 limitations to prevent them from interfering with the price support programs.

As the imports of dairy products with significant butterfat content have been for the most part brought under section 22 controls, importers have now also turned their attention toward products which contain little or no butterfat, but which contain significant amounts of nonfat milk solids (e.g., the animal feeds and low-fat cheese considered in this investigation). When measuring imports of such products, milk equivalency on a butterfat basis is obviously of limited usefulness. In this report, as in previous Tariff Commission reports on dairy products, the milk equivalency concept on a butterfat basis is used in discussions regarding total imports, production, exports, and stocks of dairy products. However, in the portion of this report that deals with individual dairy products, such products are discussed in terms of their relevant fat and nonfat solids content.

## Findings

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) Ice cream, as provided for in item 118.25, part 4, subpart D, of Schedule 1 of the Tariff Schedules of the United States (TSUS);
- (b) Chocolate provided for in item 156.30 of part 10 and articles containing chocolate provided for in item 182.95, part 15, Schedule 1 of the TSUS, containing 5.5 percent or less by weight of butterfat (except articles for consumption at retail as candy or confection);
- (c) Animal feeds containing milk or milk derivatives, classified under item 184.75, subpart C, part 15 of Schedule 1 of the TSUS; and

(d) Cheese, and substitutes for cheese, containing 0.5 percent or less by weight of butterfat, as provided for in items 117.75 and 117.85 of subpart C, part 4 of Schedule 1 of the TSUS, except articles within the scope of other import quotas provided for in Part 3 of the Appendix to the TSUS; if shipped otherwise than in pursuance to a purchase, or if having a purchase price under 47 cents per pound.

2. That for the purposes of the 50-percent clause in the first proviso to section 22(b), of the Agricultural Adjustment Act, as amended, the representative period for imports described in the foregoing findings is the calendar years 1963 through 1965, inclusive.

#### Recommendations

The Commission recommends that the President issue a proclamation pursuant to section 22(b) of the Agricultural Adjustment Act, as amended, establishing for the remainder of 1970 and for each calendar year after 1970 quantitative limitations on the products covered by its findings, as follows:

<u>Findings</u>	<u>1970</u>	<u>Calendar years after 1970</u>
1(a):	None	None
1(b):	None	None
1(c):	None	None
1(d):	30,000 pounds	100,000 pounds

It is recommended that the quota proposed above for the cheese covered by finding 1(d) be administered by means of a licensing system to

assure an equitable distribution of the quota 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 most other quantitative restrictions on U.S. imports of dairy products. To be equitable, the allocation of the quota 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

The Commission believes that its findings and recommendations are consistent with the requirements of section 22. In support thereof, 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, are submitted.

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

The Agricultural Adjustment 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 in unlimited quantities at designated support price.

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; 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); and those resulting from Investigation No. 22-27 (1968) with respect to certain cheeses and certain articles containing butterfat, including so-called chocolate crumb.

#### The Current Import Problem Affecting the Price-Support Programs

Virtually all 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. Such imports, except the cheese known in the trade as "hand cheese," 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 (fat-solids basis) which prevailed before 1966, 1/ and despite further action taken by the President in January 1969 on the basis of investigation No. 22-27 (Proclamation 3884) to limit imports to about 1.3 billion pounds of milk equivalent, 2/ imports of the uncontrolled dairy products--including the articles subject to this investigation--entered for the first time, or increased sharply in 1969 and 1970. Imports of dairy products amounted to 1.6 billion pounds of milk equivalent in 1969 and nearly 1.0 billion pounds in January-July 1970, about 29 percent larger than in the comparable period of 1969. Projected on an annual rate basis, total imports in 1970 would amount to about 1.7 billion pounds of milk equivalent in the absence of controls. It is estimated that about half of the imports in January-July 1970 was of uncontrolled products, and that nearly one-half of such imports (or about one-fourth of the total imports) was supplied by the four products, the subject of this investigation.

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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.\*\*\*"

2/ When Proclamation No. 3884 was issued on January 6, 1969, the U.S. Department of Agriculture announced, "It is estimated that 1969 U.S. imports of all dairy products--both within and outside the import control system--will amount to approximately 1.3 billion pounds of milk equivalent." (U.S. Department of Agriculture press release U.S.D.A. 31-69, January 6, 1969).

For many years, the U.S. Department of Agriculture has emphasized primarily the fat, rather than the nonfat, portion of milk when calculating "milk equivalent". Nonetheless, as indicated elsewhere in this report (pages 5 and 6) the nonfat solids of milk, as well as the butterfat, must be given due consideration when determining the impact of imports on the price-support program. Although since 1953 section 22 quotas have applied to imports of the nonfat solids of milk in the original form, i.e., nonfat dry milk, dried whey, and dried buttermilk, imports of many mixtures of the nonfat solids of milk or of fractions thereof, such as lactose, casein, etc., have not been subject to controls. For many years, moreover, the price-pull for dairy products imported into the United States has been greater for the fat content of milk than for the nonfat content.

Thus, the primary consideration of importers and foreign exporters generally has been to design products containing just enough milk fat to avoid the quotas. The remaining components of the products have been combinations of the nonfat solids of milk and other ingredients. Through the years, however, the quotas have become sufficiently restrictive on the fat content of milk so that at least by 1969 importers and foreign exporters were induced to more fully exploit the importation of the nonfat solids of milk either in the form of fractions thereof, mixtures, such as the animal feeds containing milk or milk derivatives, and even in the form of cheese containing little or no fat--both of the latter articles being subject of this investigation. In the Commission's opinion, therefore, imports of these articles designed to avoid existing quotas should, when they are interfering with the price support program, be controlled inasmuch as the program supports both the fat solids and nonfat solids of milk produced in the United States.

U.S. prices for the fat and the nonfat solids of milk, the lower limits 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 almost any form of 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. Not only have such subsidized dairy product exports depressed world market prices for dairy products containing both fat and nonfat milk solids, but they have also stimulated exports of certain uncontrolled dairy products to the United States where market prices, which are supported by the Department of Agriculture, are generally higher than world prices. Thus, in recent years, the effect of such subsidies has been not only to exert pressure on the United States import quota system, but also to prevent increases that may otherwise have occurred in the U.S. market prices for dairy products. As imports have prevented the market prices from increasing, additional quantities of dairy products have been 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, 1970, when the support price for manufacturing milk was increased from \$4.28 to \$4.66 per hundred pounds, the highest in the last two decades. Nonetheless, the higher support levels announced in 1970 have failed to make any significant difference in the output of milk. In the period January-July 1970, output was only 0.3 percent above that of the comparable period of 1969. Although there has been virtually no

difference in the output of milk from 1969 to 1970, total supplies have increased more than 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 1970. In terms of milk equivalent, the Department of Agriculture purchased about 5.2 billion pounds of butter and Cheddar cheese, and 328 million pounds of nonfat dry milk in the period January-August 1970. Such purchases amounted to about 6.4 percent of the U.S. production of milk and 28 percent of the U.S. production of nonfat dry milk in that period--a high level of Government purchasing. The 1.0 billion pounds of milk equivalent that was imported during January-July 1970, about one-half of which was in the form of non-quota products, undoubtedly displaced part of the 5.2 billion pounds of milk equivalent that ultimately was purchased by the Government during that period. Also, the 13 million pounds of nonfat solids of milk that was imported in the form of milk replacer base and low-fat cheese, undoubtedly displaced part of the nonfat dry milk that 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 the 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 Recommended Remedy--Import Quotas

For reasons which follow, the Commission has 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 the Commission's opinion, it is likely, as contended by certain interested parties 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 a complaint lodged with them in 1968 seeking redress under section 303 does not appear imminent, it is the Commission's 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 the Commission has, as indicated above, found that the representative period for import 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 1963-69 and the first 7 months of 1970 (in thousands of pounds):

Article	1963	1964	1965	1966	1967	1968	1969	Jan.-July 1970
Ice cream <u>1/</u> (finding 1(a))	: 0	: 0	: 0	: 0	: 0	: 0	: 2,588	: 4,012
Certain chocolate and articles containing chocolate (finding 1(b))	: 0	: 0	: 0	: 0	: 0	: 0	: 477	: 7,156
Animal feeds containing milk or milk deriva- tives (finding 1(c))	: 0	: 0	: 0	: 0	: 24	: 2,399	: 9,693	: 13,650
Certain cheese and sub- stitutes for cheese (finding 1(d)) <u>2/</u>	: 60	: 60	: 60	: 60	: 60	: 60	: 3,000	: 7,713

1/ Thousands of gallons.

2/ Estimated.

It will be observed from this table that for the products in question the imports for which a quota other than zero is recommended in the period 1963-1965 were stable; that uniformly for all classes significant

increases in imports were recorded in 1969 and continued at an accelerated rate in 1970. As previously stated, analysis shows imports of these products--other than the low-fat cheese for which an annual quota of 100,000 pounds is recommended--to be primarily products designed to avoid the existing quota provisions. In the Commission's 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.

The Commission believes, 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 which are even equal to or in excess of the average annual imports during such period. The Commission has, therefore, recommended for the low-fat cheese an import quota exceeding by two-thirds the estimated quantity imported for any calendar year in the representative period. The imports of such cheese during the recommended representative period consisted wholly of so-called "hand cheese", a specialty cheese of West German origin that has traditionally been imported for consumption by persons largely of German ancestry. The Commission has, therefore, recommended a larger quota for imports than the amount of such cheese that was



entered in any calendar year during the representative period so that imports of that specialty cheese may continue to share in the growth of the U.S. market for cheese.

### 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. A larger quota than recommended for any of the individual products in this investigation would tend to unstabilize the domestic market and add to the costs and burdens of the program.

## Supplemental Statement of Commissioners Clubb and Leonard

In addition to the matters discussed in the Commission's statement of considerations, we would like to note that for the first time the Small Business Administration (SBA) has appeared in connection with the section 22 proceedings regarding imports of dairy products. The general thrust of the testimony presented by the SBA to the Commission is that a ready supply of low-fat chocolate crumb from imported sources is necessary for the small producers of milk chocolate to remain competitive and viable. Accordingly, SBA suggested that, if it were necessary to impose quotas, they should be imposed in such a way as to make adequate provision for the interests of the small businessmen involved.

Since in this case we have unanimously determined on the merits that the quota of low-fat chocolate crumb should be zero, the procedural question of how to allocate it does not arise. However, it appears to us that points raised by SBA may properly be considered in Tariff Commission proceedings, and we hope that issues will again be raised by SBA in appropriate future cases.

Also, we would again like to call attention to the possible desirability of establishing dairy product quotas on an overall milk equivalent basis. This method was discussed with numerous witnesses in the present proceedings, and it appeared that a large segment of the industry would favor it.

Moreover, we believe that such a system may well prevent

interference with the price support program, without the numerous trade disruptions and section 22 proceedings which have been necessary under the present system. 1/

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1/ For a more complete discussion of the milk equivalent quota proposal, see Tariff Commission Publication 274 (December 1968), pp. 35-38.



## INFORMATION OBTAINED IN THE INVESTIGATION

## The Domestic Dairy Situation

Milk for ultimate sale in the fluid state usually is produced near large population centers throughout the United States, whereas most of the milk used in manufactured dairy products is produced in the North Central States. In recent years the North Central States have accounted for nearly 70 percent of the milk used in manufactured dairy products. Wisconsin and Minnesota have been the leading milk-producing States in the North Central region and also the leading producing States of manufactured dairy products.

Recent trends in the U.S. production of milk

In the past 2 decades U.S. dairy farmers have altered their operations considerably. The number of U.S. farms selling milk and/or cream declined from about 1.5 million in the mid-1950's to 400,000 in 1969; the farmers that have remained in dairying have expanded and specialized, thus increasing their output per unit. Concurrently, the number of cows kept for milking declined from about 22 million to 13 million head. Output per cow, meanwhile, increased from about 5,500 pounds in 1953 to 9,200 pounds in 1969. During this period the U.S. output of milk reached an all-time high level of 127 billion pounds in 1964 (table 1). Since then, production has declined significantly; in 1969, it amounted to 116 billion pounds. Notwithstanding the reduced output of milk in 1969, the value of production in that year was \$6.2 billion, the highest on record. In February 1970, the Department of Agriculture estimated that the output of milk in 1970 would be about the same as that in 1969.

Utilization of the domestic output of milk

In recent years, about half of the total U.S. production of milk has been consumed in the fluid form; of the remaining half, about 44 percent has been used in making butter (and its byproduct nonfat dry milk); 27 percent, in cheese; 17 percent, in frozen dairy products (principally ice cream); and the remaining 12 percent, in a variety of other products, including condensed and evaporated milk (table 2). The aggregate quantity of milk used in making dairy products has declined since 1964, largely because of a reduction in the output of butter. The quantity of milk used in making cheese, however, has increased. Because of the strong demand for cheese and the declining supplies of milk, producers of cheese have been increasing the prices paid to farmers for milk more than have the producers of butter.

Yearend stocks of dairy products

Total annual yearend stocks of dairy products (commercial and Government-owned) have been smaller since the early 1960's than in many preceding years (table 3). From 1967 to 1969, moreover, total yearend stocks declined 35 percent. During that period the bulk of the stocks were owned commercially, indicating that supplies of dairy products were more in balance with commercial demand at prevailing prices than in earlier periods such as 1960-62 and 1953-55, when total stocks were exceedingly large and the bulk of the stocks were Government-owned.

## Federal Programs for Dairy Products

Federal Marketing Orders

About 56 percent of the milk sold in 1969 by farmers to handlers (processors or dealers) was marketed under Federal Milk Marketing Orders, as compared with about 50 percent in 1967. These orders, administered by the U.S. Department of Agriculture, require milk handlers in each Federal Milk Marketing Order area to pay farmers in the area certain minimum prices for milk, based on its end use. In June 1970, 68 orders were in effect as compared with 74 orders in 1967. Minimum prices for Grade A milk marketed for consumption in the fluid state (class I) and that marketed for manufacturing use (surplus Grade A 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-grade milk, particularly in the Minnesota-Wisconsin area, where about half of that milk is produced. Minimum prices for Grade-A milk in other areas are generally fixed at specified premiums above the price of manufacturing milk in the Minnesota-Wisconsin area. 1/

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1/ For a comprehensive discussion of Federal Milk Marketing Orders, see U.S. Tariff Commission's Dairy Products: Report on Investigation No. 332-53 Under Section 332 of the Tariff Act of 1930 Pursuant to a Resolution of the Committee on Ways and Means of the House of Representatives Adopted May 10, 1967, TC Publication 233, 1968 (processed).

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--which enables farmers to be paid a price for their milk at least equal to the announced support objective for manufacturing milk and butterfat. 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 manufacturing milk, and the price at which the Department of Agriculture will purchase butter, Cheddar cheese, and nonfat dry milk in order to reflect that objective to the farmer. 3/ The support objective for milk for manufacturing and the purchase price of the three

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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 (for dairy products, 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.



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 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 Secretary of Agriculture has periodically increased the price-support objective for milk for manufacturing since the beginning of the 1963 marketing year (table 4). The most recent increase was on April 1, 1970, when the support price for manufacturing milk was increased from \$4.28 to \$4.66 per hundredweight, the highest price on record. The support objective on April 1, 1970, was equivalent to 85 percent of parity. During 1969 the average price received by farmers for manufacturing milk was 26 cents per hundredweight above the Commodity Credit Corporation (CCC) support objective; the market price for Cheddar cheese at Wisconsin assembly points averaged about 5.5 cents per pound above the CCC support price. Market prices for butter and nonfat dry milk approximated the support prices.

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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 except, indirectly, through its effect on price.

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

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. 1/ The announced resale price ordinarily sets a ceiling on the wholesale market price for the products except when Government stocks are low. Stocks of dairy products owned by the CCC have not been resold to the domestic market at less than 110 percent of the purchase price since March 30, 1967. Previously the Department's resale price of dairy products for unrestricted use was about 105 percent of the purchase price.

#### Government purchases

The U.S. Government removes dairy products from the commercial market through the Department of Agriculture's purchase program and the payment-in-kind export program (PIK) (see following section). 2/ The great bulk of the dairy products so removed have been acquired through the Department of Agriculture's purchase program conducted by the CCC.

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1/ Public Law 91-223, 91st Cong., in effect, specified that dairy products acquired by the CCC through its price-support operations may, insofar as they can be used in the United States in nonprofit school lunch programs and certain other charitable and welfare programs, be donated for any such use prior to any other use or disposition.

2/ 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 5 in the column labeled "special milk program".

U.S. milk production, the gross removals (CCC purchases and PIK exports) of butter, Cheddar cheese, and nonfat dry milk, and the subsequent unrestricted domestic sales to the commercial market in recent years were as follows (in millions of pounds, milk equivalent fat-solids basis):

Period <sup>1/</sup>	U.S. milk production	Milk equivalent of gross removals (CCC purchases and PIK exports on a delivery basis)	Percent of U.S. milk production	Milk equivalent of subsequent unrestricted domestic sales
Average:				
1953-57--	123,070	7,089	5.8	180
1958-62--	124,055	5,962	4.8	19
Annual:				
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-----	118,769	7,428	6.3	1
1968-----	117,234	<sup>2/</sup> 5,165	4.4	6
1969-----	116,200	<sup>3/</sup> 4,552	3.9	25
Jan.-				
June:				
1969---	60,221	<sup>4/</sup> 3,562	5.9	21
1970---	60,404	4,216	6.9	-

<sup>1/</sup> Calendar year basis.

<sup>2/</sup> Includes milk equivalent of 115 million pounds of evaporated milk purchased with Sec. 32 funds.

<sup>3/</sup> Includes milk equivalent of 226 million pounds of evaporated milk purchased with Sec. 32 funds.

<sup>4/</sup> Includes milk equivalent of 32 million pounds of evaporated milk purchased with Sec. 32 funds.

The gross removals of dairy products from the commercial market by the Department of Agriculture accounted for a smaller share of the U.S. output of milk in 1968 and 1969 than in most earlier years. Such removals were larger in January-July 1970, however, than in the comparable period of 1969. Annual purchases of the individual

products--butter, Cheddar cheese, and nonfat dry milk--under the support program have varied (table 6); generally, CCC purchases have decreased when the market prices have been materially greater than the Government's support prices (table 4).

When purchases at support prices have been small and stocks of dairy products owned by the CCC are deemed insufficient to meet commitments under various Government programs such as the school lunch program, the Secretary of Agriculture is authorized under section 709 of Public Law 89-321 (the Food and Agriculture Act of 1965) to use CCC funds to purchase dairy products at market prices (rather than at support prices). In 1966, when purchases were first made under the authority of section 709, all of the cheese and about a third of the butter were bought at market prices; no nonfat dry milk was purchased under section 709. From 1966 until the latter part of 1969, dairy products were not purchased under section 709, but rather were bought at support prices. During the period October-December 1969 Cheddar cheese was again purchased at market prices under section 709.

During the period January-March 1970 no purchases of cheese were made by the Government. On April 1, 1970, the support price for cheese was increased (table 4) and the difference between the market prices and the support prices narrowed. Thus in April the Government resumed purchases of cheese at support prices.

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. As shown in the tabulation in the previous section, small quantities have been disposed of through unrestricted commercial sales. 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 consumed under Federal programs and that consumed through commercial channels in the United States is shown in table 7. Disposal abroad has been through sales 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 6). The purchases of butter and Cheddar cheese by the Government 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. 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 September 1, 1970, the program had not been reinstated. 1/

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1/ The PIK program is discussed in more detail in Certain Dairy Products (TC Publication 274), December 1968, p. A-12.

Costs of the dairy price-support programs

The U.S. Department of Agriculture reports that the annual 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, owing to unusually large Government purchases of butter, Cheddar cheese, and nonfat dry milk. During the years ending June 30, 1963-69 the expenditures ranged from \$68.6 (1966) million to \$485.5 (1963) million a year (table 5); in the year ending June 30, 1970, they amounted to about \$285.0 million. With the exception of 1966, annual expenditures were lower in the year ending June 30, 1970 than in any year since 1963. In July 1970, the Department of Agriculture estimated that the expenditures for the 1970-71 marketing year (ending March 31) would amount to \$403 million. 2/

The great bulk of the expenditures have been for purchasing butter, Cheddar cheese, and nonfat dry milk. In recent years the expenditures for purchasing Cheddar cheese have been lower than those for purchasing butter and nonfat dry milk. Since 1965, the expenditures for Cheddar cheese have only accounted for 4 percent (1966) to 18 percent (1968) of the total annual expenditures for the three products.

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1/ CCC purchases and other costs (processing, repackaging, transportation, storage, and handling), less proceeds from sales, do not include costs of the special milk program to increase milk consumption by children in schools, child-care centers, and similar institutions.

2/ Transcript of hearing, p. 12.

Section 22 quotas on imports of dairy products

For a number of years, U.S. imports of a variety of dairy products have been subject to absolute quotas under the provisions of section 22 of the Agricultural Adjustment Act, as amended (hereinafter referred to in this report as section 22).

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

<u>Commodity 1/</u>	<u>Quantity (product weight)</u>
Fluid or frozen milk and cream containing over 5.5 percent by weight of butterfat.	1,500,000 gallons
Milk and cream, condensed or evaporated---	5,391,000 lbs.
Dried buttermilk and dried whey-----	496,000 lbs.
Dried skimmed milk-----	1,807,000 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 substitutes for cheese containing, or processed from, blue-mold cheese.	5,016,999 lbs.
Cheddar cheese, and cheese and substitutes for cheese containing, or processed from, Cheddar cheese.	10,037,500 lbs. <u>2/</u>
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.
Edam and Gouda cheeses-----	9,200,400 lbs.
Cheese and substitutes for cheese containing, or processed from, Edam and Gouda cheeses.	3,151,000 lbs.
Italian-type cheeses, made from cow's milk, in original loaves (Romano made from cow's milk, Reggiano, Parmesano, Provolone, Provolette, and Sbrinz).	11,500,100 lbs.

See footnotes at end of table.

<u>Commodity</u>	<u>Quantity (product weight)</u>
Italian-type cheeses, made from cow's milk, not in original loaves (Romano made from cow's milk, Reggiano, Parmesano, Provolone, Provolette, and Sbrinz), and cheese and substitutes for cheese containing, or processed from, such Italian-type cheeses, whether or not in original loaves.	1,494,000 lbs.
Swiss or Emmenthaler cheese with eye formation; Gruyere-process cheese; and cheese and substitutes for cheese containing, or processed from, such cheese: 3/	
Swiss or Emmenthaler cheese with eye formation.	4,271,000 lbs.
Other than Swiss or Emmenthaler cheese with eye formation.	3,289,000 lbs.
Cheese and substitutes for cheese provided for in items 117.75 and 117.85, part 4C, schedule 1 (except cheese not containing cow's 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 provided for in part 3 of the appendix to the TSUS (hereafter referred to as "other cheese"). 3/	25,001,000 lbs.
Malted milk, and articles of milk or cream---	6,000 lbs.
Chocolate provided for in item 156.30, part 10, schedule 1, if containing over 5.5 percent by weight of butterfat (except articles for consumption at retail as candy or confection).	17,000,000 lbs.
Certain articles containing more than 45 percent of butterfat.	None.
Certain articles containing over 5.5 percent, but not over 45 percent; by weight of butterfat and classifiable under item 182.92 or 182.95.	2,580,000 lbs.

1/ For the complete description, see part 3 of the appendix to the Tariff Schedules of the United States.

2/ 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.

3/ All the foregoing, if shipped otherwise than in pursuance to a purchase, or if having a purchase price (as provided in headnote 3 (a)(iii) to part 3 of the appendix to the TSUS) under 47 cents per pound.



About half of the import quotas shown above were established in

1953; the remainder were proclaimed subsequently after imports

of particular articles derived from milk were determined to have

interfered with the price-support programs of the U.S. Department of

Agriculture for milk and butterfat. The most recent quotas, which

were established in January 1969 (Presidential Proclamation No. 3884),

apply to condensed or evaporated milk and cream; process Edam and

Gouda cheese; certain Italian-type cheeses not in original loaves;

Swiss or Emmenthaler cheese, Gruyere-process cheese, and certain

"other cheese", if having a purchase price of less than 47 cents per

pound; certain chocolate provided for in item 156.30; and certain

articles containing over 5.5 percent, but not over 45 percent, butterfat

provided for in items 182.92 or 182.95. 1/

On an annual basis, the maximum permissible quantity of the spec-

ified dairy products that can currently be imported under the quotas

amounts to about 946 million pounds (milk equivalent, fat-solids

basis)--an amount equal to 0.8 percent of U.S. production of milk in

1969. With respect to some dairy products, the quantity permitted

entry under quota is very small compared with U.S. production, whereas

the quantity of others is large. The quantities specified in the

existing quotas on butter, cream, Cheddar and American-type cheeses,

1/ Earlier actions under section 22--including the temporary quotas imposed in 1968 on condensed or evaporated milk and cream, process Edam and Gouda cheese, certain Swiss or Emmenthaler and Gruyere-process cheese and certain "other cheeses"--are discussed in IC Publication 274, op.cit., pp. A-16 and A-17.

Administration of section 22 quotas.--Import quotas on butter substitutes containing over 45 percent butterfat and butter oil, aged Cheddar cheese, certain articles containing 5.5 to 45 percent butterfat--including fluid or frozen milk and cream--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. 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

certain Swiss cheese, and certain "other cheese", and dried milk products, for example, are very small compared with the domestic output. The quotas on blue-mold cheese and Italian-type cheeses, however, were equivalent to about 24 percent and 14 percent, respectively, of the domestic output in 1968 (the latest year for which data are available), while the quotas on Edam and Gouda cheese (natural and process) and Gruyere-process cheese were larger than the domestic output. In recent years the quotas on most dairy products (except dried cream) have been filled or substantially filled. The quotas on dried cream (500 pounds) and on condensed milk and cream not packed in airtight containers (5,000 pounds) are not large enough to attract commercial shipments.

product from a designated country through a specified port of entry; the license for entries of some cheeses further require that not more than half of the designated quantity can be imported in the first 6 months of the quota year.

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 have affected or may be affecting the trade in the articles concerned. 1/ 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. Licenses may not be transferred or assigned to others, except as authorized by the Department of Agriculture.

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1/ Headnote 3(a)(1) to Part 3 of the Appendix to the TSUS.

## 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 have exceeded exports since 1966 (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. Unsubsidized U.S. exports of dairy products have been negligible. During the period 1963-69 annual U.S. exports of dairy products ranged from 6,872 million pounds in 1964 (equivalent to 5.4 percent of the U.S. output) to 363 million pounds in 1967 (0.3 percent of U.S. output). In 1969 exports amounted to 937 million pounds, equal to 0.8 percent of milk production.

For many years, U.S. imports of dairy products have been small compared with domestic production (table 1). The U.S. imports of certain dairy products are shown in table 8 for the years 1966-69 and January-July 1969 and 1970 (product-weight basis). Until 1966, annual imports amounted to less than 1 billion pounds (milk equivalent) and were equal to less than 1 percent of U.S. production of milk. In 1966, however, imports increased sharply, amounting to 2.8 billion pounds (equivalent to 2.3 percent of domestic output). Imports in 1967 were even higher--2.9 billion pounds (equivalent to 2.4 percent of U.S. production).

Effective July 1, 1967, quotas were imposed on several dairy products (principally Colby cheese, certain butterfat-sugar mixtures, and frozen cream) which had accounted for the great bulk of the increase in imports during 1966 and early 1967. Although aggregate

imports of dairy products declined from 2.9 billion pounds in 1967 to 1.8 billion pounds in 1968 (equivalent to 1.5 percent of domestic output) they were, nonetheless, substantially above the pre-1966 ("normal") level of 1 billion pounds, because imports of the uncontrolled dairy products continued to increase. 1/

In 1968, several Presidential actions were taken with regard to U.S. imports of dairy products. First, on June 10, 1968, the President requested the Tariff Commission to make an investigation under section 22 with respect to eight articles, the imports of which he had reason to believe, as did the Secretary of Agriculture, were interfering with the price-support program for milk and butterfat. 2/ In conjunction with the request, the President proclaimed emergency (temporary) quotas under section 22(b) on condensed or evaporated milk and cream; 3/ subsequently on September 24, 1968, he proclaimed emergency quotas on "process" Edam and Gouda cheese and, if having a purchase price under 47 cents per pound, on Swiss or Emmenthaler cheese, Gruyere-process cheese, and certain "other cheese". 4/

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1/ On June 30, 1967, the President issued the following statement simultaneously with Proclamation No. 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."

2/ The articles were condensed or evaporated milk and cream; "aged" Cheddar cheese; "process" Edam and Gouda cheese; certain Italian-type cheeses made from cows' milk, not in original loaves; certain "other cheese"; Swiss or Emmenthaler cheese with eye formation and Gruyere-process cheese; certain chocolate products containing over 5.5 percent by weight of butterfat; and certain articles provided for in TSUS items 182.92 and 182.95 containing over 5.5 percent by weight of butterfat.

3/ Presidential Proclamation No. 3856.

4/ Presidential Proclamation No. 3870.

On January 6, 1969, following a report by the Tariff Commission, the above mentioned emergency quotas on the canned milk products and on all cheese except "other cheese" were made "permanent"; 1/ for "other cheese" the product coverage and the quota quantity were changed. For the purpose of the "permanent" quota, the term "other cheese" does not include cheese, except cottage cheese, containing no butterfat or not over 0.5 percent by weight of butterfat but does include whey cheese if it contains 0.5 percent or more by weight of butterfat or has a purchase price under 47 cents per pound. Moreover, the quantity specified in the new annual quota was 7,500,000 pounds larger than that in the emergency quota; all of the increase was allocated to New Zealand, a country that had not been a historical supplier of "other cheese" to the United States.

Certain Italian-type cheeses (not included in "other cheese") and certain other products having a butterfat content of 5.5 percent or more were also made subject to quota for the first time on January 6, 1969. When the proclamation was issued on that date, the U.S. Department of Agriculture announced: "It is estimated that 1969 U.S. imports of all dairy products--both within and outside the import control system--will amount to approximately 1.3 billion pounds (milk equivalent)." 2/ In 1969, imports of dairy products amounted to 1.6 billion pounds (equal to 1.4 percent of the U.S. production of milk). In January-June 1970, imports of dairy products amounted to 845 million pounds, about 28 percent larger than in the corresponding period of

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1/ Presidential Proclamation No. 3884.

2/ U.S. Department of Agriculture press release U.S.D.A. 31-69, Jan. 6, 1969.

1969. Projected on an annual-rate basis, imports in 1970 would amount to 1.7 billion pounds of milk equivalent.

Shortly after the quotas became effective in January 1969, imports of uncontrolled dairy products increased sharply or entered for the first time in substantial quantities. Four of the articles that entered in increased quantities in 1969 and early 1970 are the subject of this section 22 investigation: ice cream, chocolate crumb containing 5.5 percent or less by weight of butterfat (low-fat chocolate crumb), certain animal feeds containing milk or milk derivatives (milk replacer bases), and certain cheese containing 0.5 percent or less by weight of butterfat (skim-milk cheese for manufacturing). For many years the principal components of the imported milk replacer bases (e.g., nonfat dry milk and dried whey) and several of the components of the imported ice cream have been subject to section 22 quotas. Like virtually all the imports of the other three articles here under investigation, the imported ice cream--which differs materially from the bulk of the ice cream produced in the United States--is destined for commercial processing before entering the retail market.

Two of the products subject to this investigation--ice cream and low-fat chocolate crumb--accounted for about 100 million of the 1.6 billion pounds of milk equivalent (fat-solids basis) imported in 1969 and about 115 million of the 845 million pounds of milk equivalent imported in January-June 1970; in those periods, virtually all of the fat solids imported in the two products were contained in ice cream. The milk equivalent (fat-solids basis) of the low-fat cheese amounted

to about 300,000 pounds in 1969 and about 600,000 pounds in January-June 1970; that of the milk-replacer bases was virtually nil. On a product-weight basis, however, estimated imports of these two articles here under investigation increased sharply in recent years, as indicated in the following tabulation (in millions of pounds):

<u>Period</u>	<u>Milk replacer</u>	<u>Low-fat cheese</u>
1968-----	2.4	0.1
1969-----	10.0	3.0
Jan.-July:		
1969-----	3.1	<u>1/</u>
1970-----	13.6	7.7

1/ Not available.

For many years, the price-pull in the U.S. market for foreign dairy products has been greater for products of high butterfat content than for products of high nonfat milk solids content. In recent years, as the quotas have lowered the butterfat content of permissible imports, shipments of dairy products to the United States have consisted of increasing quantities of products of either relatively high nonfat milk solids content and/or little or no butterfat. 1/ An increase in U.S. prices of nonfat milk solids has been a contributing factor in the rise in imports of articles primarily containing, or made from, nonfat solids (e.g., those shown in the above tabulation).

Pressures of foreign countries to enter the U.S. dairy market despite the widening coverage of dairy products by import quotas can

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1/ Imports of certain dried nonfat milk solids--in the form of nonfat dry milk, dried buttermilk, and dried whey--have been subject to quantitative limitation since the section 22 quotas for dairy products became effective in 1953.



be explained largely by a significant differential that has existed in recent years between the U.S. price of dairy products and the substantially lower world price. For example, in March 1970 the wholesale price of butter (finest grade from New Zealand) in London--a principal market--was 32.1 cents per pound; in Chicago, it was 68 cents per pound. The price of nonfat dry milk in London was 9.4 cents per pound; the average U.S. market price was 27.0 cents per pound.

#### 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. Important among these has been the use of export subsidies to increase sales in foreign markets. 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 Community (EC) 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 all milk sold by producers in the marketing year. <sup>1/</sup> It is not a guaranteed price. The intervention prices for butter, skim-milk powder, and certain cheeses are support prices at which intervention agencies must purchase these commodities when they are offered for sale. The intervention prices assure that actual market prices do not fall materially below designated levels. They are set at levels slightly below the corresponding target prices for the respective products. The threshold prices 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-

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<sup>1/</sup> The marketing year for dairy products runs from Apr. 1 to Mar. 31.

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 regarding a common agricultural policy for milk and other dairy products became operative on November 1, 1964. On July 24, 1966, the Community 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. 1/

When the new regulations came into effect in 1968, it was already clear that the system was conducive to serious imbalance--i.e., a material excess of production over requirements of consumption and exports. The Community fixed prices at a high level to enable many marginal producers to continue in operation. The price guarantees at the established level generally assured higher returns to farmers per unit of output than they had attained prior to the introduction of the CAP. Hence milk production increased in the Community, and milk deliveries to dairies grew even faster, stimulated no doubt by the CAP. In view of a relatively stable per capita consumption of dairy products, such growth of output could not be absorbed by domestic consumption. Surplus production began to accumulate in the form of butter beginning in

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1/ The new regulations did not, however, fully accomplish this goal; common intervention prices were not consistently applied in all countries. Moreover, the devaluation of the franc, effective Aug. 10, 1969, and related measures, separated the dairy market of France as well as its other farm markets from the agricultural markets of the rest of the Community.

1965, and recently, in the form of skim-milk powder. Both butter and skim-milk powder are easily storable dairy products. Butter stocks increased to 941 million pounds (427,000 metric tons) by August 31, 1969, and were equivalent to about one-third of that year's production (2.9 billion pounds). Close to two-thirds of this stock represented surplus production of the last 17 months and more than one-third, of the last 5 months. Stocks of skim-milk powder stood at 846 million pounds (384,000 metric tons) on August 31, 1969. 1/

The high support cost of the dairy market, as well as of other surplus commodities such as wheat and sugar, and the realization that despite such high cost the farmers' living standard had fallen short of the desired level, induced the Community to consider a basic reform of the CAP. In December 1968 the EC Commission introduced to the EC Council the so-called Mansholt Plan which recommended far-reaching social and economic measures to limit farm production and increase the efficiency thereof, such as the concentration of farming in large, well-managed farms and reduction of the agricultural work force by about half. At the writing of this report, the Community has not yet agreed on the Mansholt Plan or any other comprehensive plan for agricultural reform. Nonetheless it adopted some minor measures along the lines suggested in the Mansholt Plan, such as "slaughter premiums" for dairy cows, to limit the production of milk. According to a regulation adopted in October 1969, 2/ farmers may be granted, under

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1/ It appears, however, that by the end of 1969 butter stocks declined to 761 million pounds (345,000 metric tons), and stocks of skim-milk powder to 750 million pounds (345,000 metric tons) owing to disposal programs discussed later in this section.

2/ Regulation No. 1975/69. See Journal Officiel No. L 252, Oct. 8, 1969.

designated circumstances, a premium of \$200 per milk cow for slaughtering it or the same amount per cow for renouncing the commercial marketing of milk and other dairy products and switching to beef production. The direct objective of the measure was a reduction of the Community's cow population by 250,000 and removal of another 250,000 as a source of commercial dairy products. The half-million cows affected represent over 2 percent of the Community's cow population. The measure did not, however, represent a solution to the surplus problem; stocks of dairy products were still expected to grow.

In November 1969 the EC Commission urged the EC Council repeatedly to solve the growing crisis in the markets of the surplus commodities, as proposed in the Mansholt Plan. The Commission called for a significant reduction in the price of milk products to increase their consumption and for additional measures to dispose of existing stocks, both on Community markets and markets of third countries. Measures of surplus disposal thus far employed within the Community have been (a) sales of cold storage butter to general consumers and special consumer groups such as the armed forces and low-income groups at prices lower than the price of fresh butter, (b) sales of butterfat for cooking purposes at prices competitive with those for other edible fats and oils, (c) donations of skim-milk powder and milk fats to developing countries, and (d) sales of skim-milk powder at reduced prices for animal feed.

As possibilities of disposal on the EC market are limited, exports to non-EC countries constitute an important tool left for the

Community in reducing its dairy stocks. Since the prevailing prices for dairy products in most world markets are considerably lower than in EC markets, the only way of achieving significant EC exports is granting sizable subsidies (refunds) to exporters that offset the difference between the supported domestic price in the Community and the competitive world price. 1/ Such direct subsidies are supplemented by many forms of indirect subsidies. 2/ Owing to high EC support prices and depressed world market prices in dairy products, subsidies have been substantial. For example, as of January 1970, export subsidies for skim-milk powder exceeded the average c.i.f. Rotterdam price by 62 percent; for whole-milk powder, by 211 percent. For butter, the subsidy was almost 5 times the Rotterdam price.

Among the products subject to this investigation, only two are imported from the Community--ice cream and low-fat cheeses. Both commodities are eligible for export subsidies. The authorized subsidy on low-fat cheeses ranges from 3.6 to 4.5 cents per pound, depending on the type of cheese. No single rate of subsidy has been authorized for ice cream; export refunds for this product are calculated as the sum of authorized refunds for various eligible components. The amount of the authorized subsidies on some of the components (e.g. skim-milk powder, whole-milk powder, and butter) indicate that the export payments on ice cream are substantial.

Exports to the United States of the products subject to this investigation are encouraged also by the dairy subsidy schemes of many countries other than EC members. Such countries apparently do not

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1/ Rates of subsidies are normally fixed for several months in advance and may be differentiated by destination. However, rates may be changed as often as necessary to adjust to price fluctuation.

2/ For example, butter--price-supported at 78 cents per pound--is sold in the Community for processing of export products at 11 cents per pound.

have the Community's system of publicizing authorized export refunds for individual dairy products. Countries such as Australia, Denmark, and Ireland subsidize the dairy industry by covering the losses of the dairy farmers on their domestic and/or export sales to varying degrees. Export subsidies thus appear an integral part of the overall dairy subsidy systems of these countries. Australia, Canada, and Denmark have arrangements for pooling returns from domestic and export sales of dairy products and equalize returns to farmers whether the product moves in domestic or export channels. Available information indicates also that Austria and Finland have export subsidy systems in operation for dairy products, whereas Argentina, Japan, New Zealand, and the United Kingdom do not.

## Products Covered in the Investigation

The four products subject to this investigation--ice cream, low-fat chocolate crumb, animal feeds containing milk or milk derivatives, and skim milk cheese for manufacturing--accounted for about 100 million of the 1.6 billion pounds of milk equivalent imported into the United States in 1969, and about 115 million of the 845 million pounds imported in January-June 1970. Ice cream accounted for nearly all of the milk equivalent of the four products. In 1969 the value of U.S. imports of the four products amounted to about \$3.7 million; the value of the imports of dairy products subject to existing section 22 quotas amounted to about \$41.0 million.

The following portion of this report gives pertinent information on the four individual products subject to this investigation. Data shown are expressed (unless otherwise noted) in terms of product weight, rather than in terms of milk equivalent; see discussion on the concept of milk equivalent on page 5 of this report.



Ice cream

Ice cream is a frozen dairy food which is consumed as a dessert or a snack. It is made from cream (or other products derived from milk such as butter, butter oil, condensed milk, evaporated milk, and dried milk), flavoring, sweetening, and sometimes eggs. Under the Standards of Identity of the Food and Drug Administration, 1/ ice cream generally must contain not less than 10 percent by weight of butterfat, and not less than 20 percent by weight of total milk solids, 2/ and must weigh not less than 4.5 pounds per gallon. Frozen custard must conform to the standards for ice cream and in addition contain not less than 1.4 percent by weight of egg-yolk solids.

The bulk of the ice cream produced in the United States generally weighs about 4.5 pounds per gallon, has an overrun 3/ of 80 to 90 percent, and contains about 10 percent butterfat, 10 percent nonfat milk solids, and 15 percent sugar. Because of its overrun, domestic ice

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1/ 21 C.F.R. 20.1.

2/ When certain bulky flavoring ingredients are used (e.g., chocolate, fruit, nuts, etc.), the butterfat content must be not less than 8 percent and the total milk solids content not less than 16 percent by weight of the finished ice cream.

3/ Overrun is the increased volume of ice cream over that of the ice cream mix caused by whipping air into the semi-frozen ice cream.

cream is a somewhat bulky product that generally is not transported great distances. The composition of the imported ice cream has differed materially from that of the bulk of the ice cream produced in the United States. The imported article has generally weighed about 7 pounds per gallon, had an overrun of about 30 percent, and contained about 20 percent butterfat, 15 percent nonfat milk solids, and 18 percent sugar. The Bureau of Customs has sampled most individual shipments of the imported articles labeled as ice cream and determined that they have the characteristics (taste, texture, body, etc.) generally attributed to ice cream. Before being sold at retail, the imported ice cream has been reworked to a composition closely conforming to that of the bulk of the ice cream produced in the United States.

U.S. customs treatment.--Since August 31, 1963, U.S. imports of ice cream have been dutiable under item 118.25 of the TSUS at the rate of 20 percent ad valorem; ice cream was previously dutiable at the same rate under paragraph 1558 of the Tariff Act of 1930.

Novelties consisting of ice cream coated with chocolate, or, in part of ice cream and baked articles, and sherbet are not classifiable as ice cream under item 118.25, but are classifiable as edible preparations under item 182.95. 1/ The United States has never granted a trade-agreement concession on ice cream. U.S. imports of ice cream have not been subject to quantitative restrictions.

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1/ T.D. 66-23(3).

Imports of ice cream are restricted from countries where it has been determined that rinderpest or foot-and-mouth disease exists. <sup>1/</sup> Imports from such countries must be accompanied by an affidavit stating that the product will not be used for animal feed, will be reworked (including pasteurization), and that the butterfat source was butter or butter oil. For further discussion of foot-and-mouth disease regulations, including areas of the world affected, see the section of this report on animal feeds containing milk or milk derivatives. In addition, violation of Food and Drug Administration regulations on food additives have prevented certain shipments of ice cream from entering the United States. Such detentions amounted to 227,000 gallons in September-December 1969, all of which came from Belgium.

U.S. consumption, producers, and production.--Domestic production comprised all of the U.S. consumption of ice cream prior to 1969. U.S. production of ice cream in recent years has been as follows (in thousands of gallons):

<u>Year</u>	<u>Quantity</u>
1965-----	757,000
1966-----	752,164
1967-----	756,845
1968-----	773,207
1969-----	776,320

In 1969 ice cream was imported into the United States for the first time. Such imports, which amounted to 2,588 thousand gallons in that year were reworked and thereby used as ingredients in making a small portion of the domestic ice cream shown in the above tabulation.

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<sup>1/</sup> 9 C.F.R. 94-95.

In the decade 1959-68, per capita consumption of ice cream remained nearly constant at 15.4 quarts while that of ice milk increased from 3.0 quarts to 5.2 quarts. The rise in the consumption of ice milk resulted from increased consumer preference for low-fat products and the increased popularity of drive-in frozen dessert stands which usually sell ice milk in a soft-frozen form. Most soft-frozen products are sold from direct-serve or shake machines from which the product is drawn directly into a cone or cup. Ice cream is generally not marketed in the soft-frozen form.

Plants that produce ice cream are generally located near the large population centers. In 1968, 11,228 plants produced ice cream in the United States. Twelve percent of the plants (1,291) had an annual output of more than 20,000 gallons each and, in the aggregate, their output accounted for 96 percent of the total U.S. production. For most of the plants frozen desserts were the only products produced; however, some of the plants also produced cottage cheese, butter, condensed milk, or other dairy products. Apparently, only a few plants reworked imported ice cream.

U.S. exports and imports.--U.S. exports of ice cream have been negligible or nil for many years. Recently, a few shipments of ice cream in retail-size packages have been air shipped from the United States to Europe and the Caribbean; however, such shipments have been largely promotional and the trade does not expect a large commercial operation to develop.

Prior to June 1969 there had been no reported imports of ice cream into the United States. Imports in the last 7 months of 1969 totaled 2.6 million gallons, valued at \$1.9 million, and came from Belgium, New Zealand, Denmark, Jamaica, the Netherlands, and Canada (table 9). Imports in January-July 1970 amounted to 4.0 million gallons, valued at \$3.1 million. The ice cream imported in January-July 1970 had an average value of 76 cents per gallon. At the hearing the spokesman for the Department of Agriculture testified that the cost of a comparable type product made with ingredients purchased at prevailing U.S. price-support levels would be about \$1.90 per gallon. 1/

Foreign production and trade.--The United States is by far the world's largest producer of ice cream. Other major producers, all of which have an annual production of less than 70 million gallons each, are Canada, Italy, Japan, Australia, and the United Kingdom. Ice cream normally does not enter international trade in significant quantities. The components of ice cream (e.g., cream, condensed milk, and sugar) are more frequently traded than the finished product. The principal exporters of ice cream to the United States have been among the less important world producers of the product.

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1/ Transcript of hearing, p. 19.

Chocolate and certain articles containing chocolate, containing  
5.5 percent or less of butterfat

Chocolate provided for in TSUS item 156.30 and articles containing chocolate provided for in TSUS item 182.95, are included in this investigation if they contain 5.5 percent or less by weight of butterfat but are not articles for consumption at retail as candy or confection. The only known product of commercial significance meeting the foregoing requirement is low-fat chocolate crumb which is usually classifiable as sweetened chocolate in TSUS item 156.30. However, due to a Bureau of Customs ruling 1/ that sweetened chocolate as it is known in the trade and commerce of the United States does not normally contain more than 55 to 60 percent sugar, imported chocolate crumb containing more than 60 percent sugar is classifiable as an edible preparation in item 182.95. To date, imports of articles containing chocolate (other than candy or confection) entered under item 182.95 are believed to have been negligible, if any.

Chocolate crumb is an intermediate product that is mixed with cocoa butter to make milk chocolate. The added cocoa butter provides the necessary fat to solidify the powdery chocolate crumb. Chocolate crumb is produced by concentrating, under vacuum, liquid milk with sugar and chocolate liquor. Chocolate crumb ordinarily contains about 15 percent chocolate liquor, 30 percent whole milk solids (9-10 percent butterfat), and 55 percent sugar. In the following discussion, chocolate crumb of such composition is referred to as "regular" chocolate crumb.

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1/ ORR Ruling 49-70, January 26, 1970.

On January 6, 1969, imported chocolate crumb containing more than 5.5 percent of butterfat was placed under quantitative restrictions pursuant to section 22 of the Agricultural Adjustment Act, as amended. 1/ Shortly thereafter, chocolate crumb containing slightly less than 5.5 percent butterfat began to be imported. The low-fat chocolate crumb is made either with partially skimmed milk or with more sugar and less whole milk than is used in making regular chocolate crumb.

Milk is incorporated into milk chocolate by using chocolate crumb, milk crumb, or dry whole milk. As previously indicated, to produce milk chocolate from regular chocolate crumb, manufacturers have only to add cocoa butter. Using low-fat chocolate crumb, the manufacturer adds butteroil and cocoa butter if the crumb was made from partially skimmed milk, or he adds dry whole milk and cocoa butter if the crumb formula contained a larger proportion of sugar and a smaller proportion of milk than those usually used in making chocolate crumb. Milk crumb (not subject to this investigation) which is made by concentrating fluid milk and sugar under vacuum, is made into milk chocolate by blending the milk crumb with chocolate liquor and cocoa butter. In the dry milk process of making milk chocolate, dry whole milk is blended with sugar, chocolate liquor, and cocoa butter. Milk chocolate made from chocolate crumb or milk crumb differs somewhat in taste from that made from dry whole milk.

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1/ Presidential Proclamation No. 3884.

Certain beverage powder mixes containing cocoa powder, which are classified in TSUS item 182.95, are not subjects of this investigation inasmuch as the investigation is concerned with articles containing chocolate. According to standards of identity of the Food and Drug Administration 1/, chocolate is made from chocolate liquor (the usual trade designation of ground cocoa beans) and not from cocoa powder.

U.S. customs treatment.--Chocolate provided for in TSUS item 156.30 is dutiable at the rate of 7 percent ad valorem. This rate reflects the third 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 (GATT). The rate is being reduced to 5 percent ad valorem in 5 annual stages, with the final stage becoming effective on January 1, 1972. Articles containing chocolate provided for in TSUS item 182.95 are dutiable at the rate of 14 percent ad valorem. This rate also reflects the third stage of a 5-stage concession granted by the United States in the sixth round of trade negotiations under the GATT. The rate of duty is being reduced to 10 percent ad valorem, with the final rate becoming effective on January 1, 1972.

"Chocolate provided for in TSUS item 156.30" is limited to products consisting wholly of ground cocoa beans with added sweetening and with or without, added fat, milk, flavoring, and emulsifying agents. 2/ Imports of such chocolate containing over 5.5

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1/ 21 CFR 14.

2/ Headnote 1 to subpart B, part 10, schedule 1, of the Tariff Schedules of the United States.



percent by weight of butterfat (except articles for consumption at retail as candy or confection) are subject to an absolute annual quota of 17 million pounds as provided in TSUS item 950.15, pursuant to section 22. The quota, which became effective on January 6, 1969, is allocated to Ireland (9,450,000 pounds), the United Kingdom (7,450,000 pounds), and the Netherlands (100,000 pounds). Imports of articles classifiable in item 182.95 which contain more than 5.5 percent by weight of butterfat (whether or not they contain chocolate) are subject to the section 22 quotas provided for in TSUS items 950.22 and 950.23. These quotas embargo imports of products which contain over 45 percent butterfat and limit imports of products classifiable under TSUS items 182.92 and 182.95, and containing more than 5.5 percent by weight of butterfat, to 2,240,000 pounds from Australia and an aggregate of 340,000 pounds from Belgium and Denmark. As already indicated, the only known entries of chocolate crumb subject to quotas have been entered under the quota provided for in item 950.15.

U.S. consumption, producers, and production.--All of the chocolate crumb produced domestically is believed to contain more than 5.5 percent butterfat. Four of the approximately two dozen U.S. firms that produce milk chocolate (including the two largest chocolate manufacturers) produce about half of the total U.S. output of milk chocolate. These four firms currently produce chocolate crumb only for their own output of milk chocolate. In addition, a domestic producer of milk crumb has stated that his firm has the capacity of producing, and has produced, chocolate crumb. 1/

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1/ Transcript of hearing, pp. 354 and 375.

U.S. exports and imports.---There have been no known exports of chocolate crumb from the United States.

Chocolate crumb containing 5.5 percent or less of butterfat was first imported into the United States following the imposition of section 22 quotas on imports of chocolate crumb containing over 5.5 percent of butterfat on January 6, 1969. Estimated imports of the low-fat chocolate crumb in 1969 and actual January-July 1970 imports were as follows (in thousands of pounds): 1/

	<u>1969</u>	<u>January-July</u> <u>1970</u>
Ireland-----	43	6,221
United Kingdom-----	434	935
Total-----	<u>477</u>	<u>7,156</u>

Trade sources report that the quantities of chocolate crumb containing more than 5.5 percent by weight of butterfat permitted to be imported under the section 22 quota are not large enough to satisfy the needs of those chocolate manufacturers who do not produce their own chocolate crumb. They are, therefore, mixing imported low-fat chocolate crumb with other ingredients (butterfat and cocoa butter) to produce a milk chocolate they claim has the flavor necessary to compete with the chocolate made by the large chocolate manufacturers who make their own chocolate crumb.

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1/ Data supplied by the Bureau of Customs.

Impact of imports on U.S. production of products processed from domestic milk.--At the hearings, much testimony was directed to the effects of imported chocolate crumb on the quantity of domestic milk solids used in making milk chocolate and on the domestic production of dry whole milk and milk crumb.

Data on the total quantity of milk solids used in making milk chocolate are not available inasmuch as the quantities of fluid milk used by the four chocolate manufacturers who produce their own chocolate crumb (and account for over half of the total U.S. production of milk chocolate) and that used by the domestic producer of milk crumb are not reported. 1/ The chocolate manufacturers who do not have facilities for producing chocolate crumb from fluid milk use imported chocolate crumb, domestic milk crumb, or domestic dry whole milk as a source of milk solids in the production of milk chocolate. In recent years, the manufacture of milk chocolate has accounted for all the milk crumb usage and about 72 percent of the dry whole milk usage in the United States. U.S. production of dry whole milk declined by 13.7 million pounds from 1968 to 1969. In this period the wholesale price of dry whole milk at New York increased by only 2 percent while the price support level for manufacturing milk increased 7 percent. The estimated quantities of dry whole milk used by the manufacturers of milk chocolate and candy 2/and the

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1/ The quantities of milk crumb sold in recent years were reported to the Tariff Commission in a "business confidential" brief filed Aug. 21, 1970.

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

estimated quantities of whole milk solids contained in imported chocolate crumb in recent years are as follows (in millions of pounds):

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
Domestic dry whole milk-----	44.6	42.4	49.7	36.2	30.7	33.0
Whole milk solids content of imported chocolate crumb-----	0.6	0.6	2.0	6.5	13.6	5.1

The total whole milk solids shown above are believed to account for nearly half of whole milk solids used annually in the domestic production of milk chocolate.

Imports of low-fat chocolate crumb--a product covered in this investigation--began in 1969 and accounted for only about 0.1 million pounds of the 5.1 million pounds of milk solids contained in imported chocolate crumb in that year. Imports of regular chocolate crumb--a product subject to section 22 quotas since January 1969--accounted for the remainder of the milk-solids content of imported chocolate crumb shown above. The foregoing tabulation shows that the rise in imports of chocolate crumb was accompanied by a reduction in the amount of dry whole milk supplied by domestic producers; however, the annual variations in the total quantity of milk solids used in the manufacture of milk chocolate from dry whole milk and chocolate crumb indicate that there may be factors other than the amount of chocolate crumb imported into the United States which affect the amount of dry whole milk used in the manufacture of milk chocolate. Part of the year-to-year changes probably reflects a statistical aberration. For example, a large part of the chocolate crumb

imported in 1968 entered in the last half of the year and was not used until 1969.

The use of imported chocolate crumb rather than domestic milk crumb or dry whole milk in making milk chocolate is claimed by the small chocolate manufacturers to be necessary for them to produce a distinctive type of milk chocolate coating which is competitive with the milk chocolate made by the large chocolate manufacturers who produce their own chocolate crumb; the fact that the imported chocolate crumb is less expensive is incidental. 1/ Data submitted by the Chocolate Manufacturers Association indicate that the cost in the United States of the raw materials for producing a pound of milk chocolate using dry whole milk is 31.93 cents while that using regular chocolate crumb is 31.08 cents and that using low-fat chocolate crumb is 31.36 cents; however, they state that the processing costs are about 1 cent per pound higher when using chocolate crumb (regular or low-fat) than they are when using dry whole milk. Thus, the use of imported chocolate crumb is more costly to the small milk-chocolate producer than the use of dry whole milk.

The current average price of the imported chocolate crumb delivered duty paid to New York City--about 23 cents per pound 2/-- appears to be a factor contributing to the use of imports. The corresponding prices for low-fat and regular chocolate crumb (using formulas for the imported articles) based on U.S. costs rather than

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1/ Transcript of hearing, p. 393.

2/ Transcript of hearing on Investigation No. 22-28, p. 392.

costs in Ireland (the largest foreign supplier of chocolate crumb) would probably be at least 28 cents per pound for low-fat chocolate crumb and 30 cents for regular chocolate crumb. These estimates reflect the cost of transportation, profit, a processing cost in the United States of 4 cents per pound, 1/ and the cost of ingredients per pound of product as shown below:

<u>Low-fat chocolate crumb</u>	<u>Cents</u>
15% chocolate liquor -----	5.865
18.3% skim milk solids-----	4.978
11.7% whole milk solids-----	4.271
55% sugar-----	6.160
Total-----	21.274
<u>Regular crumb</u>	
15% chocolate liquor-----	5.865
30% whole milk solids-----	10.950
55% sugar-----	6.160
Total-----	22.975

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1/ Exhibit No. 16, Investigation No. 22-28.

Animal feeds containing milk or milk derivatives

The animal feeds with which this investigation is concerned contain milk or milk derivatives and are classifiable under item 184.75 of the TSUS. <sup>1/</sup> The principal animal feeds considered herein are milk replacers and bases used to make milk replacers. Milk replacers are powders which are mixed with water and used in place of milk in feeding young calves and orphaned pigs, sheep, and horses.

Milk replacers, particularly those used for feeding dairy herd replacement calves, have usually contained about 90 percent nonfat dry milk (or mixtures of nonfat dry milk and dry buttermilk and/or dry whey) and about 10 percent fat (lard, tallow, etc.) with small quantities of vitamins, minerals, antioxidants, and emulsifiers. As the Department of Agriculture's support price for nonfat dry milk has increased in recent years, U.S. manufacturers of milk replacers have used less expensive nonfat solids of milk, such as dry buttermilk, dry whey, and whey fractions (including delactosed whey).

The proportion of fat in the total solids of most milk replacers (about 10 percent) is less than that in whole milk (about 30 percent) but is adequate for the growth of dairy herd replacement calves. In the manufacture of milk replacers from nonfat dry milk

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<sup>1/</sup> The qualification "classifiable under item 184.75 of the TSUS" removes from consideration here most animal feeds, which contain significant amounts of grains or grain products. Mixed feeds and mixed-feed ingredients which contain not less than 6 percent of grains or grain products are provided for under TSUS item 184.70.

and liquid fat, the inclusion of more than about 11 percent fat causes the mixture to become a gummy mass which is difficult to mix with water for feeding. In recent years increased production of veal calves and dairy animals for beef has created a demand for milk replacers which contain 20-25 percent fat because of the need for faster weight gains in the calves. To produce a high-fat-content product in powder form, the liquid fat is added to liquid skim milk (usually partially condensed) and the resulting mixture is spray dried and called high-fat milk replacer bases. The fat content of the base is often as high as 65 percent. In order to make milk replacer for feeding veal or dairy calves, feed manufacturers mix nonfat dry milk with the high fat bases.

In addition to milk replacers and replacer bases, an analysis of entry papers shows several other animal feed products containing milk or milk derivatives have been entered under TSUS item 184.75 since 1967, including dog food "candy" composed of sugar, palm kernel oil, cocoa powder, and about 20 percent nonfat milk solids and certain fish foods which contain nonfat dry milk. Inasmuch as it appears that these products are insignificant articles in the domestic and international trade of the United States, they will not be further discussed in this report.

U.S. customs treatment.--Animal feeds containing milk or milk derivatives and classifiable under TSUS item 184.75 are currently dutiable at the rate of 8 percent ad valorem. That rate which became effective January 1, 1970, reflects the second reduction of a multi-staged concession granted by the United States in the sixth



round of trade negotiations under the GATT. The third and final reduction--to 7.5 percent ad valorem--will become effective January 1, 1972.

Imports of products classified under item 184.75 have not been subject to section 22 quantitative limitations. Imports of milk-derived ingredients of milk replacers--nonfat dry milk, dry whole milk, and dry whey--have been subject to quotas since June 1953. Milk replacers are not believed to have been imported in commercial quantities until 1967.

Imports of animal feeds made from dry milk are restricted from countries where it has been determined that rinderpest or foot-and-mouth disease exists (9 C.F.R. 94-95). The restrictions are to prevent the introduction of the foot-and-mouth virus into the United States. Milk produced by infected animals contains the virus, which is not killed by the usual procedures used in drying milk. The restrictions limit such imports from all countries other than Australia, New Zealand, Republic of Ireland, Northern Ireland, Norway, Channel Islands, Iceland, Fiji Islands, Japan, and all areas of North and Central America except the Leeward Islands of the Netherlands Antilles, Martinique, Cuba, and Guadeloupe.

U.S. consumption, producers, and production.--Although official data are not available, information from trade sources indicate that U.S. consumption and production of milk replacer feeds have been rising in recent years. The consumption of milk replacers has increased despite the declining number of dairy calves produced. Many dairy

farmers realize greater returns by marketing their whole milk and purchasing milk replacers for their young animals. Moreover, it appears that the feeding of veal and dairy beef calves on milk replacers has increased somewhat.

At the hearing an industry spokesman estimated that about 80 million pounds of nonfat dry milk and animal fat blends (milk replacer bases) were produced in seven plants in 1969. Numerous feed manufacturers used the bases, mixing them with various combinations of nonfat dry milk, dry whey, dry buttermilk and delactosed whey to produce an estimated 250 million pounds of finished milk replacer (containing about 170 million pounds of milk solids). 1/ Of the 170 million pounds of milk solids used in making milk replacers in 1969, 6.3 million pounds were contained in imported milk replacer bases; 2/ about 34.6 million pounds were supplied by domestic dry skim milk, nonfat dry milk, and dry buttermilk; 3/ and about 130 million pounds were supplied by domestic dry whey or delactosed whey.

The disposal of whey--the liquid portion that remains after cheese is made from milk--has become of growing concern to ecologists in recent years. There is no commercial use for about half of the whey solids (some 700 million pounds) produced in the United States each year, although much effort is being expended on developing new or expanded uses for whey. 4/ Hence, most of the domestic liquid whey

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1/ Transcript of the hearing, page 489-490.

2/ Assuming a milk solids content of 65 percent in the 9.7 million pounds of imported milk replacer bases.

3/ The American Dry Milk Institute, Inc., 1969 Census of Dry Milk Distribution and Production Trends.

4/ Transcript of hearing, p. 491.

not used commercially is dumped into streams or sewage systems. 1/ Imports of milk replacers and milk replacer bases are among the articles that both displace domestic dried whey and make it less profitable to dry or commercially process additional quantities of the of the fluid whey. Moreover, such imports undoubtedly further burden Federal expenditures--including those of the Department of Agriculture--for research on utilization and disposal of liquid whey.

U.S. exports and imports.--Trade sources indicate that only negligible quantities of milk replacers are currently exported from the United States, principally because of competition from subsidized European exports and because of the low CCC export price for U.S. nonfat dry milk.

Milk replacers were first reported to have entered the United States in substantial quantities in May 1968. 2/ An analysis of the entry documents indicate that imports in 1968 amounted to 2.4 million pounds and were almost entirely from Ireland (table 10). Imports in 1969 amounted to 9.7 million pounds of which Ireland accounted for 8.5 million, New Zealand for 1.2 million, and Australia for 85,000 pounds. Imports in January-July 1970 amounted to 13.6 million pounds, with Ireland supplying 10.7 million and New Zealand, 2.9 million pounds. Imports were 337 percent greater in January-July 1970 than in the corresponding period of 1969.

Information from the trade, from Customs officials, and from the analysis of entry documents indicate that nearly all of the

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1/ In some states the disposal of whey is reported to be the greatest source of stream pollution. In 1969, Federal expenditures for research on utilization and disposal of processing wastes (including whey) amounted to \$17.5 million (Table 2, Agricultural Science Review, Vol. 8, No. 1, U.S. Department of Agriculture).

2/ It is believed that two entries from Ireland in 1967, totaling 24,400 pounds, were milk replacer.

imported milk replacer has consisted of bases. These bases are further processed before entering the retail market. Generally they are mixed with dry milk solids to make a domestic milk replacer of lower fat content than that of the imported base. Complete milk replacers for feeding lambs, however, have been imported in small quantities. From 62 to 73 percent of the content of the imported bases have generally consisted of nonfat dry milk, with most of the remainder consisting of animal fat (other than butterfat). At least one product (from New Zealand) is reported to contain butterfat (21.6 percent of the total product) in addition to other animal fat (2.4 percent of the product). Also, the Bureau of Customs has classified other products containing as much as 80 to 90 percent nonfat dry milk in item 184.75 as long as the imported article is of a class (or kind) of product which is chiefly used as a feed or an ingredient for animal feeds; imports of such products are not believed to have entered in significant volume.

Imported milk replacers reportedly have a price advantage over those produced domestically. An imported product containing 80 percent nonfat dry milk, 18 percent fat and 2 percent emulsifier and vitamin mix was offered for sale in the United States with a landed duty-paid price of \$14.49 per 100 pounds while the same product made with domestic ingredients would be \$23.08 per 100 pounds. 1/

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1/ Transcript of hearing, p. 499.

Certain cheese and substitutes for cheese containing 0.5 percent or less by weight of butterfat

The imported cheese and substitutes for cheese subject to this investigation are, as stated in the President's request, provided for in TSUS items 117.75 and 117.85. They are among the "other" cheeses that are not specifically provided for by name in the TSUS and are not made from sheep's milk. 1/ They contain less than 0.5 percent by weight of butterfat and have a purchase price under 47 cents per pound (determined in accordance with headnote 3(a)(iii) to part 3 of the appendix to the TSUS). Also included in this investigation are the cheese and substitutes for cheese described above if shipped otherwise than in pursuance to a purchase.

Although several varieties of cheese may be included in the above product description, only two have thus far been identified. One variety is referred to in the trade as skim-milk cheese for manufacturing (21 CFR 19.685); 2/ the other is known as handcheese. Both of these cheeses are made from skimmed milk (the liquid portion that remains after the fat is removed from milk). Handcheese is invariably consumed as a natural cheese, whereas skim-milk cheese for manufacturing is used as an optional dairy ingredient (commonly called "filler") in imitation pasteurized process cheese foods (21 CFR 19.765), cheese spreads.

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1/ Although TSUS items 117.75 and 117.85 provide for substitutes for cheese, there have been virtually no imports of such products.

2/ Trade sources have indicated that domestic skim-milk cheese for manufacturing may contain slightly more than 0.5 percent by weight of butterfat. Apparently it is very difficult to produce a domestic or imported cheese containing less than 0.5 percent by weight of butterfat.

(21 CFR 19.775), or cold-pack cheese foods (21 CFR 19.787). 1/ Skim-milk cheese for manufacturing furnishes nonfat milk solids that blend readily into a processor's formulas.

U.S. customs treatment.--U.S. imports of the miscellaneous cheeses herein considered are dutiable at the rate of 5 cents per pound if valued not over 25 cents per pound (TSUS item 117.75) or 14 percent ad valorem if valued over 25 cents per pound (TSUS item 117.85). Most of the imports are believed to have entered under item 117.75. The ad valorem equivalent of the duty on skim-milk cheese for manufacturing, based on samples of entries in 1969, averaged about 25 percent; for handcheese, it averaged about 20 percent.

The rates of duty applicable to items 117.75 and 117.85 reflect concessions granted by the United States in the General Agreement on Tariffs and Trade (GATT). The rate on item 117.75 has been in effect since 1951; that on item 117.85 reflects the third stage of a five-stage concession granted by the United States in the sixth round of GATT negotiations. The rate will be further reduced in two annual stages to 10 percent ad valorem effective January 1, 1972.

The cheeses and substitutes for cheese herein considered are not subject to the quotas imposed on imports of many cheeses under section 22 of the Agricultural Adjustment Act, as amended.

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1/ A natural cheese is cheese produced directly from milk whereas a processed cheese is natural cheese which has been further processed by heating, emulsifying, and stirring into a plastic mass. (21 CFR 19.75d).

U.S. consumption, producers, and production.--Data are not available on the U.S. output of handcheese; trade sources have reported, however, that small quantities are produced for local consumption by persons of German ancestry in the State of Pennsylvania.

Skim-milk cheese for manufacturing is produced principally in the States of Vermont, New York, Pennsylvania, Ohio, North Dakota, and Missouri. There are probably not more than a dozen U.S. producers; some of them process Grade A milk, cheese (including Cheddar cheese--which is purchased by the Department of Agriculture under the price-support program) and/or other dairy products.

The following tabulation shows the U.S. production of skim-milk cheese for manufacturing--reported in official production statistics as full-skim American-type cheese--during 1965-69 (in thousands of pounds product weight):

<u>Year</u>	<u>Quantity</u>
1965-----	3,431
1966-----	5,583
1967-----	4,600
1968-----	3,547
1969-----	3,500

Although official data are not available for 1970, several producers have indicated that thus far they have not produced skim-milk cheese for manufacturing in the current year. The decline in U.S. output of skim-milk cheese for manufacturing in recent years reflects a combination of many factors including imports of Danish low-fat block cheese and Danish full-skim cheese (products made subject to quota on January 6, 1969); producers realizing greater returns by utilizing

their supply of milk to produce butter, cheddar cheese or, in the case of skimmed milk, nonfat dry milk; and utilization of larger amounts of Grade A milk for fluid consumption rather than for manufacturing purposes.

During the period 1965-69, total U.S. output of pasteurized process cheese foods, spreads, and cold-pack cheese foods--the articles in which skim-milk cheese for manufacturing is used as an optional dairy ingredient--increased from 229 million to 367 million pounds (product weight); imported articles supply only a small part of the ingredients used to produce those cheese products. In 1965-68 domestic output supplied all of the skim-milk cheese used for manufacturing in the United States. In 1969, however, foreign-produced skim-milk cheese for manufacturing was first used in the United States in significant quantity, and supplied nearly half of the total amount --some 6.5 million pounds--of skim-milk cheese consumed.

U.S. exports and imports.--U.S. exports of handcheese and skim-milk cheese for manufacturing have been negligible or nil for many years.



Prior to 1969, there were no known U.S. imports of the cheese subject to this investigation other than handcheese. 1/ According to the trade, annual U.S. imports of handcheese have averaged about 60,000 pounds, valued at some \$12,000, for the past decade. 2/ Such cheese has been imported exclusively from West Germany. It has been entered by only a few importers and marketed as a natural cheese primarily to persons of German or middle-European extraction.

Imports of the cheese considered herein amounted to an estimated 3.0 million pounds in 1969 (equivalent to 60 percent of U.S. consumption) and to an estimated 7.7 million pounds in January-July 1970. The principal source of supply was Denmark; small quantities entered from the United Kingdom, Ireland, Poland, West Germany, and Australia. There are less than 10 U.S. importers of such cheese; some of them are also large processors of domestic and imported cheeses. Trade sources report that the imported cheese has been delivered to U.S. plants at prices ranging from 6 to 10 cents per pound below the prices for domestic skim-milk cheese for manufacturing.

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1/ Although testimony was presented at the hearing that about 5 million pounds of skim-milk cheese for manufacturing containing less than 0.5 percent by weight of butterfat was shipped from Denmark to the United States in 1968 (transcript of the hearing, p. 581), the Commission has been unable to verify this contention. Moreover, another witness stated: "Our intensive research and development efforts lead to the development [in Denmark] of full-skim block cheese [i.e., low-fat cheese or cheese containing less than 0.5 percent by weight of butterfat] late in 1969, when our imports of this product commenced on a trial basis." (Ibid 564) He further testified that the amount of the quota licensed to him as a result of Proclamation 3884 of Jan. 6, 1969, was clearly insufficient to cover his requirements for Danish low-fat block cheese and Danish full-skim cheese (articles made subject to quota by the proclamation); therefore, he was forced to develop a nonquota product to meet his requirements. (Ibid pp. 563 and 564.)

2/ Transcript of hearing, p. 141.

APPENDIX A

STATISTICAL TABLES

Table 1.--Dairy products: U.S. milk production and milk equivalent (fat-solids basis) of U.S. exports of domestic merchandise and imports for consumption, 5-year averages 1953-62, annual 1963-69, January-June 1969, and January-June 1970

Period	Exports						Imports		
	Total milk production	Sales 1/	Donations 2/	Total exports 1/		Ratio to total milk production	Quantity	Ratio to total milk production	Export or import (-) balance
				Million pounds	Million pounds				
Average:									
1953-57-----	123,070	952	2,850	3,802	3.1	519	0.4	3,283	
1958-62-----	124,055	648	687	1,335	1.1	648	.5	687	
Annual:									
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-----	118,769	353	10	363	.3	2,908	2.4	-2,545	
1968-----	117,234	456	732	1,188	1.0	1,780	1.5	-614	
1969-----	116,200	445	481	926	.8	1,621	1.4	-684	
January-June:									
1969-----	60,221	3/	3/	677	1.1	658	1.1	19	
1970-----	60,404	3/	3/	223	.4	845	1.4	-622	

1/ Includes some commercial sales subsidized by the Commodity Credit Corporation (CCC).  
 2/ Donations by CCC chiefly to relief agencies for shipment to overseas destinations.  
 3/ Not separately reported.

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

Table 2.--Milk: U.S. utilization of domestic output, 5-year averages 1953-62, and annual 19

Period	(In billions of pounds of milk or milk equivalent)										
	Fluid use 1/	Butter 2/	Cheese		Evapo-rated milk	Con-densed milk	Frozen prod-ucts	Other factory prod-ucts 3/	Total	Grand total	
			Ameri-can	Other	Total						
Average:											
1953-57-----	57.2	31.9	10.2	3.4	13.6	5.4	0.9	8.1	2.7	62.6	
1958-62-----	58.0	31.9	10.1	3.5	13.6	4.3	1.1	9.4	3.1	63.4	
Annual:											
1963-----	58.4	31.5	10.9	3.9	14.8	3.9	1.1	9.9	3.5	64.6	
1964-----	58.6	31.9	11.5	4.2	15.7	3.8	1.2	10.3	3.2	66.1	
1965-----	58.8	29.0	11.5	4.3	15.8	3.5	1.1	10.6	3.3	63.3	
1966-----	58.5	24.0	12.2	4.5	16.7	3.5	1.1	10.5	3.6	59.4	
1967-----	56.9	26.4	12.7	4.5	17.2	3.1	.9	10.5	1.8	60.0	
1968-----	56.4	25.2	12.7	4.7	17.4	2.9	1.0	11.0	1.5	59.0	
1969 4/-----	55.2	24.1	12.8	5.1	17.9	2.9	1.1	11.0	2.2	59.2	

1/ Does not include milk fed to calves, but does include other milk consumed on farms.

2/ Includes farm and nonfarm butter.

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

4/ Preliminary.

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

Table 3.--Dairy products: Commercial and U.S. Government yearend stocks, 1953-69

Year	(In millions of pounds)							
	Articles containing butterfat							
	Butter	American cheese	Other cheese	Evaporated and condensed milk	Dry whole milk	Cream	Whole milk equivalent of specified products	Nonfat dry milk
Commercial								
1953	30	159	31	268	10	11	3,246	74
1954	35	162	30	211	8	7	3,187	56
1955	28	213	27	218	9	9	3,586	88
1956	23	210	40	234	11	8	3,607	78
1957	32	206	34	230	9	15	3,684	86
1958	28	238	44	199	6	8	3,795	88
1959	20	245	38	236	6	9	3,734	97
1960	21	291	41	228	7	9	4,197	103
1961	20	366	53	231	7	8	4,990	133
1962	31	307	38	147	5	7	4,342	99
1963	32	283	39	138	5	5	4,134	82
1964	37	272	42	193	7	8	4,321	109
1965	27	270	38	141	5	8	3,917	58
1966	30	322	50	206	7	13	4,813	119
1967	18	302	46	190	6	9	4,259	99
1968	14	291	62	99	8	7	3,910	79
1969	25	264	52	105	6	9	3,799	85
U.S. Government								
1953	252	242	-	-	-	-	7,515	466
1954	344	357	-	-	-	-	10,517	268
1955	135	279	-	-	-	-	5,509	162
1956	3	191	-	-	-	-	1,960	123
1957	55	171	-	-	-	-	2,785	137
1958	41	11	-	-	-	-	981	155
1959	11	21	-	-	-	-	433	60
1960	56	1	-	-	-	-	1,196	280
1961	205	54	-	-	-	-	4,912	355
1962	328	79	-	-	-	-	7,824	576
1963	239	39	-	-	-	-	5,556	405
1964	34	24	-	-	-	-	973	65
1965	25	2/	-	-	-	-	541	96
1966	2	2/	-	-	-	-	46	-
1967	150	81	-	-	-	-	3,994	158
1968	103	52	-	6	-	-	2,723	199
1969	64	1	-	43	-	-	1,447	138
Total								
1953	282	401	31	268	10	11	10,761	540
1954	379	519	30	211	8	7	13,704	324
1955	163	492	27	218	9	9	9,095	250
1956	26	401	40	234	11	8	5,567	201
1957	87	377	34	230	9	15	6,469	223
1958	69	249	44	199	6	8	4,776	243
1959	31	266	38	236	6	9	4,167	157
1960	77	292	41	228	7	9	5,393	383
1961	225	420	53	231	7	8	9,902	488
1962	359	386	38	147	5	7	12,166	675
1963	271	322	39	138	5	5	9,691	487
1964	71	296	42	193	7	8	5,294	174
1965	52	270	38	141	5	8	4,458	154
1966	32	322	50	206	7	13	4,859	119
1967	168	383	46	190	6	9	8,253	257
1968	117	343	62	105	8	7	6,633	278
1969	89	265	52	148	6	9	5,246	223

1/ Excludes stocks of cream and bulk condensed milk, which are relatively insignificant.

2/ Less than 0.5 million pounds.

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

Table 4.--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, 5-year average 1953-57, and annual 1958-70

(In cents per pound)									
Marketing year beginning April 1--	Butter (Grade A) at Chicago		Cheddar cheese		Nonfat dry milk (spray process)		Milk for manufacturing		
	Market price	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
Average: 1953-57-----	60.1	60.0	34.5	34.7	15.5	16.0	3.28	3.31	82
Annual:									
1958-----	58.3	57.8	33.3	32.8	13.8	14.2	3.16	3.06	75
1959-----	59.7	58.0	<u>1/</u> 35.6	32.8	13.7	14.2	3.21	3.06	77
1960:									
Apr. 1- )	(	(	(	(	(	(	(	(	(
Sept. 16----- )	(	58.0	(	32.8	(	13.4	(	3.06	76
Sept. 17- )	(	(	(	(	(	(	(	(	(
Mar. 9 )	59.7	(	37.6	(	13.8	(	3.30	(	(
(1961)----- )	(	60.5	(	34.2	(	13.9	(	<u>2/</u> 3.22	80
Mar. 10-31 )	(	(	(	(	(	(	(	(	(
(1961)----- )	(	60.5	(	36.1	(	15.9	(	3.40	85
1961:									
Apr. 1- )	(	(	(	(	(	(	(	(	(
July 17----- )	(	60.5	(	36.1	(	15.9	(	<u>3/</u> 3.40	83
July 18- )	60.5	(	37.4	(	(	(	3.38	(	(
Mar. 31 )	(	(	(	(	(	(	(	(	(
(1962)----- )	(	60.5	(	36.5	(	16.4	(	<u>3/</u> 3.40	83
1962-----	58.6	58.0	36.1	34.6	14.4	14.4	3.19	3.11	75
1963-----	58.2	58.0	37.1	35.6	14.5	14.4	3.24	3.14	75
1964-----	59.1	58.0	38.0	35.6	14.6	14.4	3.29	3.15	75
1965-----	61.1	59.0	40.0	36.1	14.9	14.6	3.45	3.24	75
1966:									
Apr. 1- )	(	(	(	(	(	(	(	(	(
June 29----- )	64.1	61.0	43.7	39.3	17.2	16.6	3.71	3.50	78
June 30- )	(	(	(	(	(	(	(	(	(
Mar. 31 )	(	(	(	(	(	(	(	(	(
(1967)----- )	69.1	66.5	47.2	43.8	20.1	19.6	4.24	4.00	89
1967-----	66.7	66.5	45.3	43.8	19.9	19.6	4.07	4.00	87
1968-----	66.9	66.4	48.3	47.0	23.3	23.1	4.30	4.28	89
1969-----	68.0	67.6	53.6	48.0	23.6	23.4	4.54	4.28	83
1970-----	<u>4/</u> 69.8	69.8	<u>4/</u> 53.8	52.0	<u>4/</u> 26.6	27.2	<u>4/</u> 4.58	4.66	85

1/ Prices are those quoted for "Cheddars," 1953-57 and 1958; thereafter, prices shown are for 40-pound blocks.

2/ Increase required by Public Law 86-799.

3/ 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 were designed to assure achievement of the \$3.40 price-support objective. 4/ April-May.

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

Table 5.--Net U.S. expenditures on dairy price-support and related programs, years ending June 30, 5-year averages 1953-62, annual 1963-69

Year ending June 30--	(In millions of dollars)									
	CCC net expenditures (excluding foreign donations) 1/		Foreign donations		Military milk program 4/	Payment-in-kind programs 5/	Section 32 expenditures 6/	Section 709 purchases and donations 7/	Total (excluding special milk) 8/	Special milk program 9/
	Section 416 (Title III P.L. 480) 2/	Title II P.L. 480 3/	Section 416 (Title III P.L. 480) 2/	Title II P.L. 480 3/						
Average:										
1953-57-----	135.4	127.9	12.9	5.6	25.6	47.6	-	329.4	26.3	
1958-62-----	132.3	95.9	7.9	25.6	-	78.9	-	340.6	80.3	
Annual:										
1963-----	303.1	136.6	14.3	24.8	6.7	-	-	485.5	93.7	
1964-----	59.9	232.1	19.7	26.5	36.5	4.4	-	379.1	97.1	
1965-----	72.7	79.8	4.7	26.2	44.7	105.6	-	333.7	86.5	
1966-----	-46.1	57.7	14.5	-	3.8	38.7	-	68.6	97.0	
1967-----	217.9	5.9	60.2	-	-	.9	14.2	299.0	96.1	
1968-----	271.5	-	85.6	-	-	-	-	357.1	103.1	
1969-----	163.5	-	105.4	-	-	8/ 45.4	-	314.3	101.9	
1970-----	9/	9/	9/	9/	9/	9/	7.6	285.0	103.0	

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/ Includes \$12.5 million for evaporated milk and \$0.8 million for instant chocolate flavored milk beverage mix.  
 9/ Not available.

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 6.--Butter, Cheddar cheese, and nonfat dry milk: Commodity Credit Corporation (CCC) and section 32 purchases, utilization (disposals), and CCC uncommitted stocks, 5-year averages 1953-62, annual 1963-69, January-July 1969, and January-July 1970

(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	123
1958-62-----	237	184	93
Annual:			
1963-----	308	482	120
1964-----	266	368	18
1965-----	216	225	9
1966-----	<u>3/</u> 29	32	6
1967-----	259	128	137
1968-----	193	255	77
1969-----	188	223	33
January-July--			
1969-----	176	142	108
1970-----	215	125	122
Cheddar cheese			
Average:			
1953-57-----	233	204	228
1958-62-----	93	108	25
Annual:			
1963-----	120	164	19
1964-----	120	121	17
1965-----	39	56	<u>4/</u>
1966-----	<u>5/</u> 20	12	8
1967-----	182	133	57
1968-----	78	111	24
1969-----	<u>6/</u> 36	58	4
January-July--			
1969-----	22	39	9
1970-----	35	26	13

See footnotes at end of table.



Table 6.--Butter, Cheddar cheese, and nonfat dry milk: Commodity Credit Corporation (CCC) and section 32 purchases, utilization (disposals), and CCC uncommitted stocks, 5-year averages 1953-62, annual 1963-69, January-July 1969 and January-July 1970--Continued

(In millions of pounds)			
Period	Purchases <u>1/</u>	Utilization	Uncommitted supplies at end of period <u>2/</u>
Nonfat dry milk <u>7/</u>			
Average:			
1953-57-----	678	681	120
1958-62-----	1,022	880	184
Annual:			
1963-----	998	1,146	303
1964-----	677	977	66
1965-----	888	823	143
1966-----	367	433	64
1967-----	615	478	201
1968-----	625	582	246
1969-----	354	461	137
January-July--			
1969-----	205	214	243
1970-----	253	348	39

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

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

3/ Includes 9.7 million pounds purchased for school lunches under Sec. 709 of the Food and Agriculture Act of 1965.

4/ Less than 0.5 million pounds.

5/ Includes 15.3 million pounds purchased for school lunches under Sec. 709 of the Food and Agriculture Act of 1965.

6/ Includes 13.5 million pounds purchased for school lunches under Sec. 709 of the Food and Agriculture Act of 1965.

7/ Includes instant nonfat dry milk.

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

Note.--Table does not include 107 million pounds of evaporated milk purchased between Apr. 1, 1969 and Apr. 1, 1970 with Sec. 32 funds for domestic welfare use.

Table 7.--U.S. apparent consumption of milk and other dairy products (milk equivalent), by selected categories, 5-year averages 1953-62, and annual 1963-69

Period	(In millions of pounds)						Apparent consumption	
	Consumed on farms	Federal programs			Commercial channels 2/	All categories	Excluding Federal programs	
		CCC donations to welfare programs 1/	School lunch and special milk programs					
<b>Average:</b>								
1953-57-----	11,222	2,489	1,353		100,922	115,986		112,144
1958-62-----	6,730	3,889	2,442		106,290	119,352		113,021
<b>Annual:</b>								
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	4,025	3,215		110,356	121,511		114,271
1966-----	3,508	1,129	3,373		111,089	119,099		114,597
1967-----	3,174	3,015	3,441		105,937	115,567		109,111
1968-----	2,891	5,223	3,519		105,330	116,984		108,242
1969 3/-----	2,630	4,641	3,494		105,238	116,026		107,891

1/ Includes donations to the Military; such donations averaged 477 million pounds annually during 1955-69.

2/ Includes milk purchased by the Military; such purchases averaged 2,828 million pounds annually during 1953-69.

3/ Preliminary.

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

Table 8.--Certain dairy products: U.S. imports for consumption, by kinds, annual 1966-69, January-June 1969, and January-June 1970

Item	1966	1967	1968	1969 1/	Jan.-June 1969 1/	Jan.-June 1970 1/
Quantity (pounds)						
Fluid milk and cream:						
Containing over 5.5 percent but not over 45 percent of butterfat: 2/						
Within tariff quota 3/-----	15,029,045	11,971,688	12,667,192	14,818,936	6,466,908	4,671,771
Over tariff quota 3/-----	-	242,886	1,702,134	-	-	-
Milk and cream, condensed or evaporated:						
In airtight containers:						
Not sweetened-----	610,864	1,310,881	4,908,466	1,313,371	1,108,711	1,212,311
Sweetened-----	2,102,221	4,074,177	4,845,138	3,591,731	1,226,207	647,311
Other-----	576,113	5,000	8,932	466,284	461,420	9,111
Dried milk and cream:						
Buttermilk containing not over 6 percent butterfat-----	400,556	158,055	375,916	174,176	93,872	140,500
Other:						
Containing not over 3 percent of butterfat-----	2,835,330	924,324	1,746,784	1,914,280	1,057,904	1,343,440
Containing over 3 percent but not over 35 percent butterfat-----	6,950	3,450	127,000	7,000	-	1,000
Containing over 35 percent butterfat-----	-	-	-	-	-	-
Butter and cream containing over 45 percent butterfat-----	666,594	676,506	739,155	677,514	440,093	453,300
Oleomargarine and other butter substitutes 4/-----	12,496	-	84,800	16,304	11,936	5,600
Cheese, and substitutes for cheese:						
Containing 0.5 percent or less by weight of butterfat-----	5/ 60,000	5/ 60,000	5/ 60,000	5/ 3,000,000	6/ 5,800,000	5/ 5,800,000
Other-----	135,473,233	151,779,982	170,425,496	144,101,688	59,595,295	69,476,660
Other milk products: 7/						
Yoghurt and other fermented milk-----	-	-	-	-	-	75
Chocolate milk drink 8/-----	-	-	-	-	-	14,300
Ice cream 2/-----	-	-	-	18,115,468	40,964	20,219,480
Malted milk articles, not specially provided for, of milk or cream-----	720	1,183	9,436	11,815	11,815	-
Certain chocolate and articles containing chocolate:						
Containing 5.5 percent or less by weight of butterfat-----	-	-	-	477,000	6/ 13,247,700	4,164,000
Other-----	6,500,000	21,544,000	45,337,322	16,708,000	1,133,514	4,134,000
Edible animal oils (butter oil)-----	1,177,014	1,278,146	905,146	1,506,776	-	898,830
Edible preparations, not specially provided for, containing over 5.5 percent butterfat and not packaged for retail sale (Jumex, etc.) 4/-----	107,761,874	100,547,509	1,882,266	2,741,488	792,118	1,687,450
Animal feeds containing milk or milk derivatives-----	-	24,000	2,398,000	9,693,000	2,466,000	8,886,000

See footnotes at end of table.

Table 8.--Certain dairy products: U.S. imports for consumption, by kinds, annual 1966-69, January-June 1969, and January-June 1970--Continued

Item	1966	1967	1968	1969 <sup>1/</sup>	Jan.-June 1969 <sup>1/</sup>	Jan.-June 1970 <sup>1/</sup>
	Value					
Fluid milk and cream:						
Containing over 5.5 percent but not over 45 percent of butterfat: <sup>2/</sup>						
Within tariff quota-----	\$3,195,200	\$2,755,055	\$2,918,261	\$3,199,551	\$1,501,000	\$1,085,285
Over tariff quota-----	-	55,836	385,791	-	-	-
Milk and cream, condensed or evaporated:						
In airtight containers:						
Not sweetened-----	65,560	164,470	555,318	144,339	123,567	130,888
Sweetened-----	362,542	867,479	1,028,832	821,974	281,474	118,814
Other-----	41,066	4,159	981	37,350	35,494	669
Dried milk and cream:						
Buttermilk containing not over 6 percent butterfat-----	56,592	21,188	56,852	24,400	13,525	19,134
Other:						
Containing not over 3 percent of butterfat-----	370,162	141,071	202,850	209,014	109,737	121,440
Containing over 3 percent but not over 35 percent butterfat-----	1,677	877	19,417	1,803	-	258
Containing over 35 percent butterfat-----	-	-	-	-	-	-
Butter and cream containing over 45 percent butterfat-----	365,150	377,305	402,700	367,015	226,487	220,709
Oleomargarine and other butter substitutes <sup>4/</sup> -----	2,877	-	10,071	4,403	2,610	1,144
Cheese, and substitutes for cheese:						
Containing 0.5 percent or less by weight of butterfat-----	<sup>6/</sup> 60,109,871	<sup>6/</sup> 64,587,476	<sup>6/</sup> 69,313,328	<sup>6/</sup> 68,224,203	<sup>6/</sup> 27,159,045	<sup>6/</sup> 35,047,442
Other-----	<sup>10/</sup> -	<sup>10/</sup> -	<sup>10/</sup> -	<sup>10/</sup> -	<sup>10/</sup> -	<sup>10/</sup> -
Other milk products: <sup>7/</sup>						
Yoghurt and other fermented milk-----	-	-	-	-	-	442
Chocolate milk drink-----	-	-	-	-	-	1,395
Ice cream-----	-	-	-	1,895,900	5,179	2,176,154
Malted milk articles, not specially provided for, of milk or cream-----	489	637	3,868	3,553	3,553	-
Certain chocolate and articles containing chocolate:						
Containing 5.5 percent or less by weight of butterfat-----	-	-	-	<sup>6/</sup> -	<sup>6/</sup> -	<sup>6/</sup> -
Other-----	1,200,000	3,715,000	7,703,000	<sup>6/</sup> 374,079	<sup>6/</sup> 290,547	<sup>6/</sup> 230,096
Edible animal oils (butter oil)-----	459,177	459,824	225,902	-	-	-
Edible preparations, not specially provided for, containing over 5.5 percent butterfat and not packaged for retail sale (Junex, etc) <sup>4/</sup> -----	24,641,210	21,417,070	569,576	740,085	175,635	456,667
Animal feeds containing milk or or milk derivatives-----	-	1,000	272,000	1,074,000	256,000	847,000

<sup>1/</sup> Preliminary.<sup>2/</sup> There were no imports in the years shown of fluid buttermilk or fluid milk and cream containing not over 1 percent butterfat or containing over 1 percent but not over 5.5 percent of butterfat.<sup>3/</sup> Converted to pounds at rate of 8.4 pounds to 1 gallon.<sup>4/</sup> Certain articles containing over 45 percent butterfat are not permitted entry into the United States (see TSUS item 950.22).<sup>5/</sup> Estimated by staff of Tariff Commission.<sup>6/</sup> Not available.<sup>7/</sup> There were no imports of whey in the years shown.<sup>8/</sup> Converted to pounds at rate of 8.8 pounds per gallon.<sup>9/</sup> Converted to pounds at rate of 7 pounds to 1 gallon.<sup>10/</sup> Includes value of imports of cheese containing 0.5 percent or less by weight of butterfat.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Table 9.--Ice cream: U.S. imports for consumption, by sources,  
1969, January-July 1969, and January-July 1970

Source	1969	January--July	
		1969	1970
(Quantity (1,000 gallons))			
New Zealand-----	526	-	1,694
Belgium-----	1,997	19	1,517
Netherlands-----	11	-	492
Denmark-----	37	-	22
Jamaica-----	17	18	-
Canada-----	<u>1</u> /17	-	287
Total-----	2,588	37	4,012
Value (1,000 dollars)			
New Zealand-----	401	-	1,403
Belgium-----	1,433	15	950
Netherlands-----	8	-	451
Denmark-----	37	-	17
Jamaica-----	16	16	-
Canada-----	1	-	315
Total-----	1,896	31	3,136

1/ Less than 500 gallons.

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

Note.--No imports of ice cream into the United States were reported prior to June 1969.

Table 10.--Milk replacer and milk replacer bases: U.S. imports for consumption, by sources, 1967-69, and January-July 1969 and 1970

Source	1967	1968	1969	January-July	
				1969	1970
Quantity (1,000 pounds)					
Ireland-----	24	2,393	8,456	3,028	10,726
New Zealand-----	-	1	1,152	98	2,924
Australia-----	-	-	85	-	-
Canada-----	-	5	-	-	-
Total-----	24	2,399	9,693	3,126	13,650
Value (1,000 dollars)					
Ireland-----	1	270	957	343	1,278
New Zealand-----	-	1	109	13	294
Australia-----	-	-	8	-	-
Canada-----	-	1	-	-	-
Total-----	1	272	1,074	356	1,572

Source: Compiled from consumption entry documents of the U.S. Department of Commerce.