PROBLEMS IN INTERNATIONAL AGRICULTURAL TRADE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

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CONTENTS

ADMINISTRATION WITNESSES

PUBLIC WITNESSES

COMMUNICATIONS

ADDITIONAL INFORMATION

PROBLEMS IN INTERNATIONAL AGRICULTURAL TRADE

WEDNESDAY, JULY 13, 1977

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:35 a.m. in room 2221, Dirksen Senate Office Building, Hon. William V. Roth, Jr., presiding.

Present: Senators Long, Byrd, Jr., of Virginia, Moynihan, Curtis, Dole, Packwood, and Roth, Jr.

Senator ROTH. The committee will please come to order.

Today, we want to examine some of the key problems in our agricultural trade policy and look at possibilities for increasing farm exports. These are issues that are crucial to our American farmer and to our economy as a whole.

Our farmers are a part of the most efficient agricultural system the world has ever known, but less than 4 percent of our labor force is in agriculture in the United States. It not only feeds itself, it sells $20 billion of farm products overseas.

Our net trade surplus in the agricultural sector is more than $10 billion, one bright spot in a disastrous foreign trade picture this year.

The problem we face is not lack of production but lack of markets. It is driving prices below production costs, particularly in wheat. Farmers have been urged to produce and they have responded, but this year, thousands of farmers are faced with bankruptcy because of a lack in storage facilities.

This affects consumers as well, because a glut one year can lead to shortages the next year. Larger export markets can help relieve this glut.

We want to look at both short term and long term problems and remedies. In the short term, are there potential export markets that we are neglecting? If so, what governmental action is necessary to help the agricultural industry exploit these markets?

Are our export promotion programs effective, and what improvements can be made in them?

For the longer term problem, we will be interested in the current trade negotiations as they affect farm products. What is being done to reduce restrictive trade barriers, particularly in Western Europe, and to combat unfair subsidized competition in third markets?

[The committee press release announcing this hearing and a statement of Senator Curtis follow:]

[Press release, July 6, 1977]

FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARINGS ON PROBLEMS IN INTERNATIONAL AGRICULTURAL TRADE

The Honorable William V. Roth, Jr. (R., Del.), ranking minority member of the Subcommittee on International Trade of the Committee on Finance, today announced that the Subcommittee will hold public hearings on problems in international agricultural trade. The Subcommittee plans to examine the current state of U.S. agricultural trade and means by which agricultural exports might be increased. The hearings will be held at 9:30 a.m., Wednesday, July 13, 1977, in Room 2221 of the Dirksen Senate Office Bldg.

Noting the importance of exports to American agriculture, Senator Roth said, "Exports help maintain American farm incomes and dependable food supplies, both in the United States and around the world. One of every three acres in the U.S. is being cultivated for the export market."

The Delaware Senator added, "It is essential that the United States bargain hard to reduce overseas barriers to farm exports, especially with the European Common Market countries. I consider this a top priority in our trade negotiations. Our farmers are far and away the most efficient in the world. We could greatly expand our markets overseas and reduce unnecessary surpluses if it weren't for unfair and restrictive trade barriers."

Senator Robert Dole (R., Kan.), a member of the Committee on Finance, called for the hearings, noting that potential export markets for U.S. agricultural commodities, particularly grains, are not being tapped. "The United States is now experiencing balance of trade problems of record proportions," Senator Dole said. "This year's balance of trade deficit is estimated at $20 to $25 billion."

Senator Dole went on to explain the importance of international trade for agricultural products. "In 1976, the United States exported $23 billion worth of agricultural goods, or 20 percent of total exports. Expanding export markets are necessary to maintain an efficient agricultural sector. This year, however, bumper grain crops are being harvested, driving down the price of wheat and other exportable grains. Because of a large carryover from last year and a shortage of grain storage capacity. Wheat which costs $3 a bushel to produce is now selling for below $2 in Texas and Kansas," Senator Dole remarked. The Kansas Senator said that "larger grain exports would relieve the downward pressure on prices caused by the wheat surplus and a lack of storage capacity."

Senators Roth and Dole said that the hearings will focus on the key problems facing our agricultural trade:

What are potential, untapped export markets for U.S. agricultural surpluses, particularly grain? How can the government help the agricultural industry become aware of new trading opportunities?

What means can the government use to encourage additional agricultural exports: Export promotion and expanded government-sponsored financing programs (CCC)?

What would the effects and benefits for domestic grain and other agricultural markets and supplies be of higher levels of exports?

What are the major foreign barriers to trade affecting U.S. agricultural exports, particularly grains?

The following witnesses have been scheduled to testify on July 13:

Bob Bergland, Secretary, Department of Agriculture.

Julius L. Katz, Assistant Secretary of State, for Economic and Business Affairs.

Tom A. Hammer, Assistant Director, American Farm Bureau Federation.

PANEL

Seymour Johnson, Chairman, American Soybean Association.

John Curry, National Corn Growers Association.

Joe Halow, Executive Director, North American, Export Grain Association, Inc.

Norman Weckerly, Chairman, North Dakota Wheat Commission.

Joe Williams, President, Tobacco Association.

Frank Snodgrass, Vice President and Managing Director, Burley Dark Leaf Tobacco Exporters Association.
G. L. Seitz, AMCOT.

Legislative Reorganization Act.—The Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by the close of business the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in their statement.

(3) The written statements must be typed on letter size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) The witnesses will be allowed 15 minutes for their presentation.

Written testimony.—Other persons interested in presenting their views to the Subcommittee must prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Michael Stern, Staff Director, Committee on Finance, room 2227, Dirksen Senate Office Building, on or before July 20, 1977.

Statement of Senator Curtis

Mr. Chairman, these hearings have been called at a critical time for certain segments of the Agriculture Community. As stated by Senator Dole, this country is in the process of acquiring large surpluses of wheat which is depressing the market price ~~at a~~ time of escalating costs to the grower.

We must do all we can to remove impediments in our laws that prevent the export of grains and one of the most glaring obstacles is contained in the Trade Act of 1974.

Section 402 of the Trade Act of 1974 makes the products of a non-market economy country not now receiving nondiscriminatory treatment (i.e. all communist countries except Poland and Yugoslavia) ineligible to receive such treatment during any period in which the President determines that certain conditions exist within a country.

Such countries are barred from participating in any program of the U.S. Government that extends credits or credit guarantees or investment guarantees, directly or indirectly, such as programs of the Export-Import Bank and Commodity Credit Corporation, thus effectively hindering the export of agricultural products.

Perhaps we should consider an amendment to the Trade Act of 1974 to state that the Commodity Credit Corporation could provide credit whether or not a country qualified for Most Favored Nation (MFN) treatment under section 402 of the Trade Act of 1974.

Mr. Chairman, action is needed to clear surplus wheat from the 1976 crop year projected by USDA at 1.2 billion bushels and production estimated at 2.05 billion bushels on 8.2 million planted acres. USDA's latest price estimates indicate a season average of about $2.25 to $2.35 per bushel.

The combination of large supply, increased plantings, and low prices, make it vital that we do everything possible to encourage the export of wheat. I am hopeful that these hearings will assist us in finding ways in which we can substantially increase our agricultural exports.

Senator Roth. I am very pleased that the Secretary of Agriculture, Bob Bergland, is here as our first witness. Before calling on him, I want to turn to my colleague, Senator Dole. Senator Dole, of course, is the ranking minority member on the Agriculture and Nutrition and Forestry Committee. He has been a strong and consistent supporter of the farmer.

Do you have a statement that you care to make, Senator Dole?

Senator Dole. Thank you, Mr. Chairman. I will just summarize my statement. Secretary Bergland is here and I know he has a busy schedule. We have already talked off the record about getting the price of grain up. He has agreed to do that. I am already heartened by the hearings.

As you have indicated, the purpose of the hearing is to explore possibilities to expand U.S. farm exports. I want to say first of all that we have a very good export policy. We have been expanding; we are expanding now. It just seems to me that we also have a number of crops, particularly wheat, that are in deep trouble. We are having marketing difficulties, and these difficulties are very serious. There is no way we can have a full production farm policy without a vigorous export policy. We supply about 45 percent of world wheat exports, 55 percent of coarse grain exports, and 75 percent of soybean exports.

As you have indicated, Senator Roth, farm exports are not only important to the American farmer, they are also important to our trade balance. A few years ago, earnings from farm exports were about $22 billion. This almost offset the cost of imported oil. This year our oil import bill will be $45 billion, while our earnings from agricultural exports will be $24 billion. This deficit is not only important from the standpoint of fiscal policy, but a narrowing of the trade gap through increased farm exports would be of tremendous value to rural America.

I would just point out for the record, when we look in aggregate terms for this fiscal year from October to May, the farm exports are not doing badly. About $17.1 billion worth has been exported, compared to $16.6 billion in that same period last year. This is due largely to the strong demand for soybeans and soybean products.

On the other hand, exports of wheat and wheat products from October 1976 through May 1977 are down from $3.2 billion to $1.9 billion. Therein lies a great deal of the difficulty. In the Midwest, particularly in the wheat producing areas, the volume has dropped in this period from 745 million to 551 million bushels.

Feedgrain tonnage for this period has increased slightly from 34.3 million metric tons to 35.6 million. However, because of lower prices, the value of feedgrain exports declined from $4.1 billion to $3.9 billion. Though the one commodity that faces most difficulty now is wheat, problems are mounting for corn. I think the price of wheat in my home town in Russell, Kans., yesterday was $1.91 a bushel. The cost of production, we would all agree, is somewhere between $2.50 and perhaps slightly over $3 a bushel. The net result is the farmer who must sell their wheat because of economic factors are taking a loss of around $1 per bushel.

The banks are hardpressed. 83 percent of the wheat farmers, in a recent survey in Kansas, will lose money on this year's wheat crop. Many are holding their wheat, looking for better prices, but so far there is not much indication of any early relief in the market.

To say a word about the purpose of the hearings, it has been my hope, from the standpoint of coming from a wheat area and also to underscore the need for expanded farm exports, that we might find some way to extend credit to countries like the People's Republic of China. We should at least look at expansion possibilities to the Soviet Union and other so-called nonmarket countries, with the exclusion of such countries as Vietnam, Cambodia, Laos, Cuba, North Korea, and Angola.

I understand when you mention extending credit to Russia you run head-on into the Jackson-Vanik amendment and a great deal of opposition, It does seem to me, based on conversations that I have had, that there would be a possibility of selling additional wheat and other grains to Russia if CCC credit could be extended. The same might be true with the People's Republic of China. This hearing is to explore these possibilities and to bring into focus the need for some additional way to expand exports. I thank the distinguished chairman, Bill Roth, and also Senator Ribicoff, for scheduling the hearings. I think it will be very worthwhile, because we have not only Secretary Bergland but Mr. Katz from the State Department. We also have other witnesses from farm associations and panels that will be very helpful to focus on this very important problem. If we have any relief, it is not going to be through some Government subsidy program for the American producer. If it is going to be meaningful relief, it is going to be through increased export sales. That is what the hearing is all about.

I hope we can figure out some way to ease the problem during these hearings.

Senator ROTH. Thank you, Senator Dole.

[The prepared statement of Senator Bob Dole follows:]

STATEMENT OF SENATOR BOB DOLE—INTERNATIONAL AGRICULTURAL TRADE AND INCREASING U.S. EXPORTS

The purpose of this Hearing is to explore with government and industry leaders ways and means of expanding U.S. farm exports. We shall be hearing from a rather broad spectrum of agricultural commodity interests. Some of these commodity groups, such as soybeans, are enjoying better export markets than was the case a year ago. Others, such as wheat and feed grains, are experiencing export marketing difficulties that are extremely serious. Some commodities that have faired well recently, may be heading for difficulty in the near future.

There is no way we can have a full production farm policy without a vigorous export policy. The United States supplies about 45 percent of world wheat exports, about 55 percent of the coarse grain exports and 75 percent of the soybean exports.

BALANCE OF TRADE

Farm exports are not only important to the American farmer but they are also important to our trade balance. A few years ago, earnings from farm exports, about $22 billion, almost offset the cost of imported oil. This year, our oil import bill will be $40–45 billion annually while our earnings from agricultural exports will amount to about $24 billion. This year our overall balance of trade deficit will probably reach $20 to $25 billion. This deficit is not only important from the standpoint of fiscal policy, but a narrowing of the trade gap would be of tremendous value to rural America if it resulted from increased farm exports.

WHEAT EXPORTS DECLINE

When viewed in aggregate terms this fiscal year (October–May), farm exports are not doing badly. About $17.1 billion worth has been exported compared with $15.6 billion for the same period last year. However, this is due largely to strong demand for soybeans and soybean products. Exports of wheat and wheat products from October 1976 through May of 1977 are down from $3.2 billion to $1.9 billion. Volume has dropped for this period from 745 million to 551 million bushels. Feed grain tonnage for this period has increased slightly from 34.3 million metric tons to 35.6 million; however, because of lower prices the value of feed grain exports have declined from $4.1 to $3.9 billion. Corn is now receiving competition from wheat as a feed grain in the domestic market. This puts further price pressure on corn. Thus, we have a situation where wheat and feed grain producers are being hurt badly by the lack of movement of grain into export channels.

We need to explore today the problems—both long and short range—that confront U.S. exports, especially those now experiencing marketing difficulties and those that may soon be facing similar problems. What can industry do and what role should government play in giving this matter the attention it deserves?

U.S.D.A. RESOURCES

The U.S. Department of Agriculture has certain tools that are used or could be used to facilitate agricultural exports. At the disposal of the Secretary for use in assisting exports are:

(1) CCC credits with terms up to three years.

(2) PL480 programs—both donations and concessional sales.

(3) Barter program which has been inactive since June 30, 1973.

(4) Concessional cash sales under authority of the CCC Charter Act. Now inactive but which have been used in the past to export milk at competitive world prices.

(5) Grain export subsidies—suspended in 1973.

I would be interested in hearing the Secretary's plans on how he might use these programs to further stimulate exports as well as his thoughts on any new programs that might be effective. We wish especially to hear from the industry leadership on how to more effectively use available programs or new ideas to expand exports.

LONG TERM BENEFITS

Looking toward long-term benefits to farm exports, the USDA has cooperator/USDA market development programs. In addition, the USDA has input into the Geneva trade negotiations. These areas are of sufficient importance to merit considerable discussion by witnesses at this Hearing. I do not wish to detract from the long-term need of American farm exports to flow in world trade with a minimum of trade restrictions. Neither do I want to minimize the solid and continuous effort necessary to build markets overseas through promotion and trade servicing.

Therefore, at these Hearings we need to focus on both the immediate problems of needed export stimulation and the longer term problems of access to markets and market development.

Senator ROTH. Senator Packwood, would you care to make a statement?

Senator PACKWOOD. No; I have no statement.

Senator ROTH. If not, we would request Secretary Bergland to come forward.

Mr. Secretary, I want to warmly welcome you to these hearings. As Senator Dole has already pointed out, we are delighted that the price of wheat is already going up as a result of these hearings. That is the fastest action I have ever heard.

You, of course, may read your statement, or summarize it and it can be included in its entirety in the record, whatever you desire.

STATEMENT OF HON. BOB BERGLAND, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary BERGLAND. Thank you very much, Mr. Chairman and members of this distinguished subcommittee. If I may, I would like to have my statement submitted for the record in its entirety. I would proceed to paraphrase and shorten it to some extent.

Senator Dole has correctly assessed the situation, some of which is repeated in my testimony. There is no point in going back over that. We do not dispute his analysis.

For the fiscal year ending September 30 of this year, we expect farm exports may reach $24 billion, which will be a record level.

Having said that, however, let me assure you that we are not complacent. We are deeply concerned, as is President Carter, over the export and price situation of wheat and feed grains, a subject upon which I will spend most of my allotted time this morning.

Many other commodities are doing well. Growth commodities this year include cotton, oilseeds products, livestock products, fruits, nuts, and vegetables.

As to specific nations, we expect substantial increases in U.S. export this fiscal year to the Middle East, East and Southeast Asia including Japan; to Western Europe and to Canada.

As members of this subcommittee are well aware, this export trade in agriculture is one of the brightest spots in our Nation's economic picture. Last year, with $23 billion in exports balanced against $10.5 billion in imports to this country, agriculture contributed a surplus of more than $12 billion to our balance of trade, an extremely important contribution in view of the very high costs of imported oil.

For the third consecutive year, we expect 2 billion bushels of American wheat to be harvested. The rest of the world, by and large, also expects yet another good wheat harvest.

Therein lies our problem. As a result of this world situation, U.S. wheat exports were down 20 percent to 26 million metric tons in the 12 months ending May 31. Feed grain exports may be down from last year's 50 million-ton record.

What is this administration doing about it?

I do not hold out hope of easy or instant solutions to our dilemma. The fix we find ourselves in took years to develop. It will not be solved overnight. In the 6 months that I have held this post we have—or are taking—these actions:

First and foremost, we are acting to hold and expand the $24 billion agricultural export market we already have. Specifically, through legislation this Congress is now considering the target price concept will act to move our agricultural products at competitive prices, to assure continued access to world markets, while at the same time providing a measure of protection to assure decent incomes for U.S. producers.

The key word in the foregoing is "competitive."

When our prices are not competitive, two things happen. First, we lose markets because many nations—especially developing nations—cannot afford our products. Second, we encourage nations to seek more supplies by increasing their own production—sometimes at high cost to themselves—or we encourage production from other competitive suppliers.

As in the case of Brazilian soybeans, it took a combination of $12 soybeans and an export embargo to encourage that development, something we are trying to avoid in the future. So the legislation that Congress is now considering is a key action that this administration is attempting to meet the problems I discussed earlier.

The question of reserves generates more discussion and is more controversial than most things considered these days. We are providing through our farmer-reserve program and proposed multilateral negotiations on wheat, a reserve concept that can be adjusted to the supply/demand situation as it changes from time to time.

We do not, Mr. Chairman, as a matter of policy wish to pursue a program which would result in the U.S. Government acquiring title to substantial stocks of wheat, or any other commodity. We want very much to have policies that will keep the wheat and other commodities in private hands so it can be traded at the proper time, as the situation seems to demand that trade.

The farmer-reserve program aims, first, to reduce the pressure farmers now feel to market excess supplies at low prices and, second, to protect our farmers' overseas customers, thereby keeping our access to the markets we already have. Our aim in the negotiations now beginning in London is to assure that the United States—and U.S. farmers—don't bear the entire burden of carrying reserves and adjusting production.

Finally, we are taking, or have taken, these additional actions to increase our foreign agricultural trade to the benefit of U.S. producers:

Through negotiation, we are attempting better access to overseas markets by reducing trade barriers and establishing long-term trade arrangements in the multilateral trade negotiations.

We are examining our programs to come up with better ways of providing international food aid including grants to poorer nations and CCC credit to developing countries.

We are examining the potential for expansion of bilateral trade agreements.

The Commodity Credit Corporation credit program is being expanded. CCC-financed exports this fiscal year are budgeted at $1 billion, up from $623 million in fiscal year 1976 and only $249 million in 1975. Two-thirds of this year's CCC credit is for grain.

Public Law 480 calls for $1.2 billion this year, up from $849 million in 1976. Grain makes up about 60 percent of the total value.

These initiatives on our part have yet another purpose, in addition to their economic effects on our balance of trade and the incomes of our domestic producers. In the formulation of each we have not lost sight that the world must be assured of adequate supplies of food. President Carter is deeply committed to enhancement of human rights—and the most basic human right, perhaps, of all the rights that human beings have, is the right to enough to eat.

Thus our reserve proposals, domestically and in international negotiations, will serve both our economic interest, and, in addition, assure adequate supplies in terms of widespread drought or other natural disaster. Similarly, the studies of our foreign food assistance plans are designed to assure that U.S. food goes to those who need it most, and additionally, that developing countries are assisted in their own efforts more adequately to feed their own people.

These are the positive steps we have taken and are attempting to accomplish. In closing, let me say that we are also committed to avoid those actions which have proved so clearly disastrous in the past. I have mentioned my own personal embargo on future embargoes. They lose us customers; they lose us markets; they encourage foreign competition and they shake the confidence of our market overseas.

Attempting to restore such confidence was an overriding reason for my recent visit to the Far East.

Another policy that has proved unworkable is the idea that this Government—or any government, for that matter—can control agricultural output within very narrow limits. This is the so-called "fine-tuning" concept. It is my belief that the weather, which is under the administration of One more highly placed than the Secretary of Agriculture, can have more effect on supply than all the regulations issued from Washington, Moscow or Ottawa. Too much "fine tuning" does not work any more than the idea that uncontrolled and uncontrollable "market" forces always produce adequate farm prices. We are witnessing the bankruptcy of this idea in the wheat market right now.

I appreciate this opportunity to come before this subcommittee. I commend the subcommittee for its diligence in pursuing what is one of the most important domestic issues we face, the issue of adequate returns for U.S. farmers, and how we may act to assure them. I am aware, better than most perhaps, of the hardship being experienced by our wheat and feedgrain producers, and I wish to assure the subcommittee that this administration is doing its best to ease these hardships.

Thank you.

Senator ROTH. Thank you, Mr. Secretary.

I would like to welcome the chairman of the Finance Committee and ask him at this time if he would care to make any opening statement.

Senator LONG. I would prefer that some of the others have their turn, Mr. Chairman. Thank you very much.

Senator ROTH. We will follow the leadership of our chairman and proceed under the 10-minute rule.

Mr. Secretary, on this question of human rights, I notice that recently in the Washington Post there was an article by Dan Morgan in which he noted that despite these grain surpluses, some experts believe the world is rapidly approaching another food crisis that may well be of greater magnitude than that experienced in 1972 and 1974.

Would you agree with this assessment, and, if so, what steps could be taken to avoid such a crisis?

Secretary BERGLAND. Mr. Chairman, no one knows for sure. That is why this whole matter is so difficult.

Some things we do know. We do know that the world's population has doubled in my lifetime from 2 billion to 4 billion people. We know it grows at the rate of 200,000 a day. We do know at the rate things are going that the world's population will double again in 35 years. We do know in my lifetime we have paved over the cropland equivalent to the State of Ohio. If we continue to do that, we will pave over Indiana before the century is out.

We do know we have an agriculture in this world that is highly dependent on petroleum. We do know that it will not last forever.

So we submit, Mr. Chairman, that we have to approach these matters very carefully. We cannot afford to leave things to chance. We also realize that the weather has turned for the better in the last 3 years and the world has produced good crops of rice and wheat.

India, which for as long as I can remember has been regarded as being on the verge of catastrophe indeed, and has suffered catastrophic conditions from time to time, now has reserves of foodgrains on hand because they have been blessed with good weather.

As a result of these weather circumstances, we in the United States have the largest carryover in wheat that we have had since 1963. We are on the way to producing the largest corn crop in the history of the United States, and the problem is that no one knows what the demand will be next year, or even for the balance of this year, because of the vagaries of weather. But it is safe to say, Mr. Chairman, that over the next generation, the demands on the food-producing resources of this world will be tested as never before in our history.

Senator ROTH. Some comment has been made about the movement of price. I wonder if you would like to look into the crystal ball and tell us what do you expect in the next several months as to what will happen to the price of wheat, corn, during the next several months.

Secretary BERGLAND. That is a dangerous business, Mr. Chairman. I could read from the financial pages of the morning newspapers and quote the futures market in Chicago. That is a value produced by people who are putting their money where their mouth is. I tend to think that the futures market is the best single indicator as to what these crops are likely to be worth.

I do not particularly like what I see. In fact, I am distressed by what I see happening in the case of wheat, which has been well-documented. The New York world spot sugar price is down to 7 cents; the sugar industry is being devastated by these prices. There is no relief in sight unless the Government moves to act.

We are going to be making payments under the 1977 wheat program to producers. We know we are going to be making at least 22 cents a bushel payment under the target price concept now set by law. The bill which the Senate has acted upon and which is now pending in the House would result in a further increase in income to 1977 wheat producers; some payments undoubtedly will be at least 40 cents a bushel, according to the House version. It could be as high as 65 cents a bushel according to the Senate bill.

There will be income to the wheat producers through that mechanism which I think has largely been overlooked in the minds of many wheat growers. They become accustomed to deriving all of their income from the marketplace, which is fine. I am for that, so long as the market can produce a decent income.

With this big corn crop, Mr. Chairman, yesterday I signed a crop report as of July 1; 6.3 billion bushels, the largest crop we have ever grown. Undoubtedly, it will have a depressing effect on price. We do not think that the United States can consume that or export that much corn.

Senator ROTH. Speaking of going to exports, there have been some rumors that the Chinese are interested in making large-scale grain purchases again. Would you care to comment on those reports?

Secretary BERGLAND. Mr. Chairman, we have those same reports. We do not have any official or informal communique from representatives of the PRC—we are talking now about the Government of the People's Republic of China. We do, from time to time, see smoke signals that are sent our way as to what their intentions are. It is obvious that the PRC uses some politics in its decisionmaking regarding the purchase of some of its needed imports.

They have purchased wheat from both Canada and Australia—probably all the Canadians or Australians can deliver. We think that the PRC needs additional wheat, but so far they have not come to the United States with any tender, or any offers, as far as we know.

We have told the People's Republic of China that wheat will never get any cheaper; if I have my way, it will get more expensive; now is the time to buy it and cover themselves. They have read our figures, because we saw the reaction in the Chinese press. They have not purchased.

Senator ROTH. You made some reference to the fact that Australia and Canada have made some fairly substantial sales, whereas ours have gone down. Why is this? For political reasons? Or are other countries doing a better job in promoting or marketing their products?

Secretary BERGLAND. We think it is largely political. The PRC purchased some cotton from the United States recently because there was really no other place to get it. They purchased 400,000 tons of soybeans and soybean products recently. They did not stipulate from whom the beans should be purchased. We think that the company in that transaction will buy most of its beans from Brazil, and possibly some from the United States.

So far, they have been trying to apply political pressures, I think, so as to encourage the United States to resume a more diplomatic and commercial relationship with the PRC.

Senator ROTH. One final question. Do you think that there is any possibility of negotiating a long-term agreement along the lines that we have with the U.S.S.R.?

Secretary BERGLAND. We are more interested in multilateral arrangements than we are in these bilateral arrangements. We are in the first year of a 5-year agreement with the Soviet Union. They have agreed to buy a minimum of 6 million tons. They are living up to their agreement. They are honorable in this regard, and other matters, obviously. We have no problems with the Soviets in that matter.

We are concerned, however, that if we were to establish a series of bilateral arrangements, we would have to give a promise that we would fulfill that contract commitment under all circumstances. This could lead us into some dangerous ground. Should we have a serious drought and are unable to live up to those commitments, a serious choice would have to be made, fulfilling a contract commitment overseas, or denying our own consumers, which could result in some reaction at home.

We think a multilateral arrangement is far preferable where producing and consuming countries would join in an arrangement so that when we have excess stocks—may I repeat, Mr. Chairman, something we cannot control—when we have excess stocks due to good weather, those stocks are insulated from the market and held in reserve, because the bad years will surely come.

We think there should be an international arrangement, not a series of bilateral agreements between the United States and a series of other countries.

Senator ROTH. You are talking about commodity reserves. That would not take care of the problem of assuring decent supplies for the People's Republic of China or U.S.S.R.

Secretary BERGLAND. The proposal we have tabled regarding sugar, for example, which is being actively considered in the World Sugar Forum in Geneva, would provide that participating countries would have first claim on the reserve stocks, if they are reduced through weather changes.

The wheat program has not been spelled out in detail yet, but we will have a wheat proposal to table at the upcoming World Wheat Council preparatory group meetings in London. We have not yet worked out everything in that matter, but it is safe to say that this would be an international arrangement and participating countries would have first claim to reserves if their own demand so warranted their purchasing grain.

This would have the effect of insulating grain from the marketplace. The market would say, no, it is not for sale until the price rose above a stipulated level.

We think that is the most reasonable way to go about this business.

Senator ROTH. My time is up.

Senator Dole?

Senator DOLE. Thank you.

The nub of what could be helpful, is whether or not we extend Commodity Credit Corporation credit to the People's Republic of China and to Russia. This is now prohibited under the 1974 Trade Act. It would take an amendment to that act to extend CCC credit for farm commodity exports to these countries.

The question is whether or not we move in the Congress, because you cannot extend credit without a change in the law. I think that it would be helpful to have your expression whether you favor such a move, how far should it go? We recognize that if we start extending credit or even talk about extending credit to Russia we stir up the Jackson-Vanik amendment and the question of Jewish emigration. It is a very sticky problem, but how do you see that, as the man charged with farm export policy?

Secretary BERGLAND. Senator Dole, I would prefer that Jules Katz, Assistant Secretary of State for Economic Affairs, respond to that question in detail, because he can speak from a different perspective.

May I respond from my own personal point of view, making it clear that it is my own private opinion and not that of the administration, I would support that amendment, personally. I think the administration, while it may not be able to endorse it, I do not think we would oppose it officially.

Privately, I think it is something that we ought to consider very seriously, because I think the more we can trade goods, notions, and ideas with countries with whom we often disagree politically, the better chance we have at arriving at lasting peace.

Senator DOLE. I understand there is a very strong philosophical question involved in extending credit to any Communist, or nonmarket, country. There is détente, the Helsinki Pact that includes trade, and the Belgrade Conference coming up in October. The People's Republic of China purchased wheat from Canada on credit. They purchased wheat from Australia on credit. It seems to me it is certainly a scenario that we ought to explore, and then make a judgment.

I do not see much congressional opposition to the extension of credit to the People's Republic of China. I can see stirring up a hornet's nest if credit is extended to Russia. Since there are these concerns, it is a matter we could explore further.

You did make reference to one area that sometimes farmers overlook, and that is the target price concept. I want to pursue that not only because it was raised, but it is the hope of many of us that when we finish the farm bill this year we will end up with a 1977 target price for wheat as it is in the Senate bill, $2.90. I do not know if you have a comment on that. Hopefully you can support that target level. The House takes it up starting Friday. Next week, they really get into it.

Do you have any comment at this time, any word of encouragement or discouragement?

Secretary BERGLAND. The current law limits the target price payment to $2.47. We certainly would make payments amounting to 22 cents a bushel times the yield times the allotment, no doubt about that.

The House bill has a $2.65 target price on the 1977 wheat crop; a 40-cent payment. The House has another amendment which is of significance. The House amendment provides that the payments would be made on the wheat planted this year, irrespective of the allotment. That would result in some increase of payments to wheat producers above the Senate amendment in that regard, and I think it is safe to say that we will be making at least 40 cents a bushel, assuming we can agree and have a farm bill passed and signed into law. We will be making 40-cent-a-bushel payments based upon this year's crops. It could be higher in the Senate bill. Your amendment has a 65-cent-a-bushel payment. We are in the process of working out the administration's attitude regarding the level of the 1977 target price, but we are going to urge an increase in that matter.

Senator DOLE. As I indicated before the hearings, this is not an adversary hearing. I think we will agree right now that in the Midwest Farm Belt, farm prices are depressed. They are down whether we are talking about soybeans, corn, or wheat. I can give you figures since January 20. I do not think it is a problem that started January 20. We have to go back to the past administration, too.

So, having said that, I believe the question is, how do we work our way out of it, particularly in the area that you said you just signed off on the corn crop which is the largest in history. The wheat crop, I think, may be down about 6 percent but still over 2 billion bushels.

I assume you are programing as best you can under the Public Law 480 program. As you look at it from your level, having just returned from a trip where you have had the chance to explore the possibilities, what are the prospects?

Secretary BERGLAND. Mr. Dole, the situation in the world is still not clearly settled, obviously. The monsoons in India were slow in developing, and there is still a chance that the Indian rice crop may be less than they need. They may be forced to draw down reserve stocks to the point where they need to enter commercial wheat markets. That is a matter we simply cannot judge at this time.

The Russian crop appears to be headed for a record-breaking 225 million tons or thereabout. It is a substantial crop but not yet in the bin.

We are getting reports out of the Soviet Union that it has been wet and cool over much of the important grain-producing region. Some of the crops in the field are not yet harvested. We do not know what the next 5 weeks will hold. It will have a very direct bearing on what happens to the U.S. exports.

We have to assume, for the moment, that the situation will not improve, that our exports could be down to maybe the 900-million-bushel mark. If that does indeed occur, then we will be forced to give the first really good domestic crop report. Based on that, we will make that decision shortly after the 10th of August, the date which we get ~~the first~~ really good domestic crop report. Based on that, we will make a decision as to whether we will urge wheat producers to cool it next year, restrain acreage. The way it stands now, I think it is safe to say that it is probable.

We will urge farmers across the United States to curtail wheat planting next year, reserve that wheat in the soil. Do not waste the fuel and fertilizer to raise the crop, because there is no place to sell it.

Senator DOLE. If they do not comply with the set-aside recommendations, they can still participate, but they are not eligible for target price or loans on their crop?

Secretary BERGLAND. Senator, we have no current authority to go with the 1978 set-aside. The law runs out the end of December. We are assuming there will be an extension of the farm law.

Under the provisions of the House and Senate bills—and they are similar in this regard—the participation in a wheat set-aside would be entirely voluntary. The wheatgrower is not obliged to cut back. If the wheatgrower decided that he or she wanted some income reduction, and it is on that basis that they make a decision that they want some income reduction, if they want to avail themselves of price supports, avail themselves of a guaranteed target-price income payments, if any are made, then they would be allowed to set aside some land, remove it from the planting of wheat, and devote it to a conserving use.

Again, the details of that have not been worked out. It is safe to say that it would not be forced on anybody. We do not plan to make payments to producers for the sake of not doing anything. We all remember the bad publicity that grew out of policies in the past when farmers were paid for not planting.

We do not intend to do that again, Senator. We simply intend to offer incentives and inducements to those who wish to participate in this program of voluntarily restraining production in the planting of wheat this year.

Senator DOLE. I think you said in your statement we went from \$623 million to \$1 billion as far as funds for the commodity credit programs. Will you be asking for additional funds? You are down to about \$115 million in uncommited funds now and have three months to go in the fiscal year.

Do you have enough funds to stimulate exports?

Secretary BERGLAND. I cannot answer that, Senator. I simply do not know. I think it is probable. I cannot say that it is for certain.

There are areas that we do not have good information, for example, out of the PRC. The People's Republic of China has not asked us for credit and has made no formal inquiry. We think they can use it, we do not know, and that is true with some other countries that are currently prohibited from participating in the credit sales policy of the CCC.

Senator DOLE. Just one quick question.

What about the cotton sales to the PRC? After President Nixon's visit and the issues of the Shanghai communique, the first years 1972–73 and 1973–74, there were very heavy purchases of cotton, 588,000 bales and 902,000 bales respectively. Then it tapered off. Is that market still a possibility in the People's Republic of China?

Secretary BERGLAND. We think so, Senator. Again, our information is not very substantial.

We do know that a few years ago, the PRC was a major exporter of soybeans. They are no longer a substantial exporter of beans. They import some, and we have reason to believe they would import more if their financial situation would afford them such an opportunity.

The same is true, to some extent, of cotton. The PRC has earned considerable foreign exchange by exporting cotton fiber processed into clothing and yard goods. In the last year, the international cotton fiber market has been depressed, trade is down, and the PRC presumably has not been able to keep up its income derived from this export of cotton products. Hence, they have not imported as much cotton.

But this is not just typical of the PRC. There has been a worldwide shift in that regard. We do not regard the cotton situation to be anything permanent; in fact, we see a bright future for cotton partly in view of the rising cost of producing polyester and the upward pressure in price for those fibers.

In the United States, about half the fiber worn is polyester produced from petroleum derivatives. Cotton can be produced for 20 percent as much energy as that which goes into polyesters.

So, as we develop our own buying habits and take into account the high-rising costs of industry, we think the demand for cotton will continue to climb at the expense of the polyesters.

Senator DOLE. Thank you, Mr. Secretary.

Senator ROTH. Senator Packwood?

Senator PACKWOOD. Mr. Secretary, in response to one of Senator Dole's earlier questions on embargoes and the Jackson-Vanik amendment, you said you would prefer for Mr. Katz to answer that question. Would he be speaking for the administration on that issue?

Secretary BERGLAND. Senator, I do not know, but he nods yes.

Senator PACKWOOD. You indicated that your personal advice would be to extend the Commodity Credit Corporation credits to the Soviet bloc or other nations that are, at the moment, prohibited from receiving it because of Jackson-Vanik?

Secretary BERGLAND. That is correct.

Senator PACKWOOD. Would you make the same recommendation to the international Export-Import Bank?

Secretary BERGLAND. That is an area I am not well enough equipped about; I do not know enough about it.

Senator PACKWOOD. They are similar circumstances.

Secretary BERGLAND. This is out of my area. Again, I would think so. I would have to qualify that because I really do not know.

Senator PACKWOOD. In your statement you indicated that you would personally want to embargo all embargoes if you could?

Secretary BERGLAND. Yes, sir.

Senator PACKWOOD. Does that mean that perhaps with the exception of a shortage of food supply in this country there are no circumstances you would recommend to the President an embargo in the export of farm products?

Secretary BERGLAND. The only circumstances under which I would recommend an embargo on the export of farm products were if we were engaged in a war and we had some disastrous circumstances confronting us. We were under some pressure to embargo the export of soybeans this last 3 months when prices went over $10. We did not do it. We said the market will work, and it has.

Senator PACKWOOD. You would not use an embargo as leverage to attempt to enforce human rights in other nations?

Secretary BERGLAND. I would not.

Senator PACKWOOD. To the extent that the Soviet Union will not live up to the Helsinki agreements which they signed, and if they had a shortage of foodstuffs, you would not use that as bargaining power to try to get them to increase their respect for the agreement?

Secretary BERGLAND. No; I would not. I look at the right to eat as a basic human right.

Senator PACKWOOD. Would you be willing to expand that to other trade, or are you saying that you would make a differentiation between foodstuffs and other economic power we might have?

Secretary BERGLAND. Senator, I must confine myself to the food area. It is the only area in which I have some expertise. If I go beyond that, I am beyond my own strength.

Senator PACKWOOD. Your expertise here is you say under no circumstances, as far as you are personally concerned, would you use that as a leverage for human rights.

Secretary BERGLAND. Yes, sir. I suggest that the food only be used in the war against hunger.

Senator PACKWOOD. I have no further questions.

Senator ROTH. Senator Long?

Senator LONG. You made reference to the very unfortunate situation with regard to sugar. Is not sugar the only, or at least one of the very few forms, of commodities today that does not have a program, either through loans, payments, or purchases of some sort?

Secretary BERGLAND. That is correct, one of the few. We have nonstorables, of course, for which there is no program—livestock and eggs and the like.

Senator LONG. As a means of achieving the 14-cent price of sugar, do you hope to treat sugar as the other farm commodities that do have a program today?

Secretary BERGLAND. Mr. Chairman, we have tabled a very detailed proposal of the Sugar Conference in Geneva. We are prepared to participate in an International Sugar Agreement. We hold that the best long-term permanent solution or hope, for the American and international sugar industry—the international sugar market, Mr. Chairman, as you know, is a dump ground, a zoo. It is not a free market. It is a residual market. We all understand that. It has to be dealt with in that context.

We think, therefore, because if there is an international problem it should be dealt with in an international forum, the international sugar talks we think is the most appropriate place. The talks commenced in April. Reasonable progress was made. No conclusion was reached. They resume next week.

Secretary Katz will represent the administration in those talks. You may ask him more details in this regard. If they blow up on us, if we cannot produce an International Sugar Agreement, then I think we have to seriously consider going about developing a policy of our own regarding sugar.

But until and as long as we have some reasonably good hope of getting an international agreement, I would urge that we not take any unilateral action beside the 2-cent-a-pound payment which has been agreed to.

Senator LONG. Mr. Secretary, I heard the statement made, and I agree with it, that under the leadership of Mr. Katz we sent the best negotiating team that we have sent to any such meeting of this sort to Europe, and they were not successful in working something out, and I doubt that they are going to be able to work it out this time. It is not their fault.

We are making a good proposal to the world, but because they do not want to pay the price, the consumer nations do not want to agree with something that would make it possible for the producer to charge them more for sugar.

I honestly do not see a great deal of prospect of Mr. Katz and his group of achieving any more cooperation from the world than they did before. Those people have a greater diversity of opinion over there than we do here, because they represent more countries.

Why can we not have some sort of a program that you could either support, or at least not oppose, to bring the sugar producers 13.5 to 14 cents for sugar, while all this effort to reach an international agreement is going on?

Secretary BERGLAND. Mr. Chairman, the sugar talks will resume next week and will continue on through the first week in August or so. If no progress is made there, then I think it is unfortunate, but a fact, that we will not have an agreement. The next few weeks will tell the story.

If the thing distintegrates, then we have to consider a domestic sugar policy. There are a variety of ways in which this can be done. We can establish a target price concept, authorize payments to be made to producers; by law we do not currently have authority to do that.

We could establish the price support level and a lower price range, a so-called competitive price most times in the market, and protect that by levies against the imports, to be sure that our own price support program is not overrun by low-cost or cheaper foreign imports.

We could establish quotas, restrictive import limits in various countries. There are a variety of remedies, Mr. Chairman, that we will consider.

Senator LONG. Mr. Secretary, it seems to me that all that we really need to do is pass some law to treat sugar like some of these other commodities, to let you fix the support price wherever you think it ought to be, and I think we know where you think it ought to be. That would take care of our sugar producers and give the administration the right to impose quotas and to handle the quotas however you want to handle them.

It seems to me that with the fine reputation and record that President Carter has, and you have, for integrity and fairness, you could have a program and we would not have any problem with it. Under the old sugar program, there was only one thing that gave us trouble. People would come in here and lobby and try to get some advantage regarding quotas. Representing the sugar-producing States, there was not much I could do about that, because we wanted a Sugar Act. On the House side, we would have to contend with Mr. Cooley who did not need a Sugar Act.

Those House fellows pretty well ran over us.

If we give the administration the right to handle the quota how they want to handle it, it seems to me that they could handle it, and it would make our foreign policy more effective. The President could use that as he wants to, to get a little leverage for human rights.

I think that would be a lot better leverage than to try to make some progress in the human rights area by telling a country you are not going to send them a weapon or something; they can get the weapons elsewhere, by trading with other foreign countries.

I cannot understand why we cannot simply make sugar a nonbasic commodity for which you fix a support price where you think it should be fixed and under section 22, as I understand it, that would require you to put quotas into effect. You could issue import rights and let everybody bid on them, or try to help people in some exporting countries to achieve an equitable and just standard of living by getting those people who receive the favorable price from the United States to pass it through to some of their workers in the field.

Why can we not do something like that?

Secretary BERGLAND. That is obviously one of the options we do have, indeed. As I stipulated earlier, we still have hopes that we can bring out a sugar agreement. If it does not work, we have to consider that remedy you suggested, Mr. Chairman, and there are some others.

Senator LONG. If Mr. Katz could get an agreement from all of these people he is too valuable to be sitting there negotiating sugar agreements. He should be Secretary of State. I know that he will do the best that can be done, but it seems to me what you are talking about cannot be done. I applaud his efforts to try to bring it about.

Meanwhile, it seems that we have people suffering, our own people. We owe it to them to look after them. You are interested in those people and you are doing your best to try to help them. Why can we not move ahead with something along the lines that I have been discussing, or something that would do the job, rather than do the type of thing that has been done up to now, a program that is a complete flop.

To say you are doing something for those people now is to apologize to them, and I think that we ought to give these people a program. They are suffering and you know they are suffering, do you not?

Secretary BERGLAND. Yes, Mr. Chairman. We are not satisfied with the current sugar situation.

There are two processors in Louisiana that have closed, four more in big trouble; two processors in Colorado have closed.

There are a dozen processors across the United States in serious financial trouble. There is not a sugar producer in this land who can produce sugar for these prices. Things are coming apart at the seams; we understand that.

We do not think the United States can afford to sit idly by to let its own domestic sugar industry fall apart. If we destroy our own productive capability, that mean we are going to have to import an addition 2 to 4 billion dollars' worth of sugar, making our own trade deficit even worse, obviously no better.

From our vantage point in the Department of Agriculture, we will never support a policy that will consciously or subconsciously allow the disintegration of the domestic sugar industry. It is in the process of coming apart at the seams.

Senator LONG. I would call the existing sugar program a Coca-Cola program. It will make money for Coca-Cola.

Mr. Austin could say that he saw to it that those who consume the product do well, but it is a disaster as far as the American sugar producer is concerned, and I think that the time has come for the Secretary of Agriculture to be called on and be given authority. I would frankly, Mr. Secretary, give you the power to do it, and settle for whatever you do.

My impression is that by the time your recommendations meet the variety of opinion down there at the White House and the Bureau of the Budget, we might as well forget about it. Nothing is going to happen. We will keep hearing conversations, and keep providing disappointments to our people. They are entitled to something better than that from me and you, it seems to me.

The President is interested in the farmer; he is a farmer himself. The responsibility should be vested in you and your Department to give us a program, and we should implement it.

If you cannot recommend something to us, can you just agree not to get involved at all until we do pass something?

Secretary BERGLAND. We still have high hopes that Mr. Katz, with all of his professional experience and wisdom and charm, can pull off the near impossible, that we will have a successful sugar agreement this fall.

Senator LONG. If you could have your way, my people would not be suffering. If Mr. Katz could have his way, my people would not be suffering, and I suppose some of those people down there in the White House have good intentions.

The problem is, we are getting the worst of it and are already in very bad shape. The same thing is occurring elsewhere in this country. We need action—not conversation, action.

I am pleading with you. If you cannot do something to help us, then send us word. If you cannot help please say you will not help the other fellow, you will just get out of the road and see what we can do by ourselves.

Secretary BERGLAND. All right, Mr. Chairman. I will be talking to you.

Senator LONG. Thank you very much.

Secretary ROTH. Thank you, Mr. Chairman.

Senator Curtis?

Senator CURTIS. I have read your statement. I am sorry I did not get in here to hear it. I notice that you say, last fiscal year we exported \$23 billion of farm products. Fiscal year ending September 30 this year, we expect to export \$24 billion. What will that \$1 billion increase consist of?

Secretary BERGLAND. Largely soybeans.

Senator CURTIS. How much will our wheat exports be down?

Secretary BERGLAND. From last year's, down about 270 million bushels.

Senator CURTIS. It is the one crop where we produce approximately three times as much as we use in this country, wheat?

Secretary BERGLAND. We export about 60 percent; yes, sir.

Senator CURTIS. There is an office in the Department of Agriculture entitled "Export Manager," or some such title—what is the correct title?

Secretary BERGLAND. General Sales Manager.

Senator CURTIS. Who occupies that office now?

Secretary BERGLAND. It is not filled at the moment.

Senator CURTIS. It has not been filled at all throughout the calendar year, is that correct?

Secretary BERGLAND. I am informed that it was filled recently by a gentleman named Kelly Harrison.

Senator CURTIS. It has been vacant throughout all of the calendar year of 1977.

Secretary BERGLAND. No, sir, since May.

Senator CURTIS. The prior one held over to May?

Secretary BERGLAND. Yes, sir.

Senator CURTIS. He was let go, but the post was not filled until within the last few days?

Secretary BERGLAND. That is correct. We were looking for the very best talent.

Senator CURTIS. I am sure you got somebody who was better than the vacancy. You are making progress.

Secretary BERGLAND. During the interim, Mr. George Shanklin, a very competent professional, was Acting General Sales Manager.

Senator CURTIS. Do you think our exports are going to be up $1 billion despite the holdout of wheat?

Secretary BERGLAND. That is our best guess; yes, sir.

Senator CURTIS. What other products, besides wheat, agricultural products, that will have a lower export record this fiscal year than the prior fiscal year, if any?

Secretary BERGLAND. Senator, that is a matter that we cannot forecast with any precision because of the variable weather factors that will occur between now and the harvest season around the world. But generally, we look for continued strong demand. We are talking about long-term trends, a continued very strong demand for corn, soybean meal, and edible oils.

Senator CURTIS. Will there be an increase or a decrease of corn in feedgrain exports?

Secretary BERGLAND. Probably a slight decrease this year. The Western Europe crop this year is very good. There is a tremendous crop of wheat in this world. A lot of wheat is being fed to livestock.

Senator CURTIS. What foreign countries, if any, do our exporters of wheat offer to their purchasers better credit terms than we do?

Secretary BERGLAND. I am not sure. The Canadians have a policy of extending credit to anybody who needs it, I think, and they, for example, will finance and have financed purchases by the PRC of Canadian wheat, which we cannot do.

Senator CURTIS. Also the Canadians will underbid us without batting an eye.

Secretary BERGLAND. Sometimes they do. The Canadians, for example, have a federally owned railroad, the Canadian National Railroad System, and their freight rates are one-half cent a ton-mile. There is no American railroad that can compete with that.

Senator CURTIS. In addition to that, a Government agent, the Wheat Board, takes title and possession to their wheat. Is that not true?

Secretary BERGLAND. The Wheat Board manages the wheat and, in effect, has title to it.

Senator CURTIS. It has title. If it decides, in order to make a sale, that they should cut the price, they do so and the Government picks up the loss?

Secretary BERGLAND. That is correct.

Senator CURTIS. There is a similar situation that exists with reference to Australia?

Secretary BERGLAND. Not exactly the same, but generally, yes, sir.

Senator CURTIS. Our grain industry is of a totally different nature. Our grain is owned by many people and when it is sold and gets to the terminal, it belongs to several grain companies.

Secretary BERGLAND. That is correct.

Senator CURTIS. Is there any way that we can more effectively meet the competition of those countries that do have sort of a government monopoly on their exports whereby they can lower the price without pushing the lower price back?

Secretary BERGLAND. There are two ways. We do not recommend either way.

The first way would be to lower our own price supports; our wheat prices would drop further. We do not think that is an appropriate remedy.

The other would be to use export subsidies. We do not think that is appropriate either, sir. We do not think it would be in the best interests of the United States over the long haul for us to engage in using export subsidies for wheat, pitting the U.S. Treasury against the Canadian Government for the benefit of some third party.

Senator CURTIS. I have always felt that the Wheat Producers Association had done a very good job in promoting exports, by establishing offices in Amsterdam, I think someplace in the Orient, maybe elsewhere.

Secretary BERGLAND. Yes, sir, they are what we would call "cooperators." Under our Foreign Agricultural Service, they have done an excellent job.

Senator CURTIS. Is any expansion being made of that?

Secretary BERGLAND. It is a matching program. The wheat producer cooperator organizations finance the bulk of it; the Department of Agriculture cooperates in planning and financing.

Senator CURTIS. In that connection, do they do any foreign advertising?

Secretary BERGLAND. Senator, I do not know. There will be some representatives of the wheat industry following me. I would prefer that they answer that.

Senator CURTIS. One more question. Are there any other wheat-producing countries that can justly claim a higher quality of wheat for export than we can?

Secretary BERGLAND. Higher quality?

Senator CURTIS. Yes.

Secretary BERGLAND. No, sir. Ours is second to none.

Senator CURTIS. I am glad to hear that.

Immediately following World War II, when you could export anything, some of our grain trade got pretty careless. Instead of having to grade up the very best, they exported grain that just barely reached the minimum level required.

Is it true that processors in foreign countries, and millers, and others, are interested in quality?

Secretary BERGLAND. Indeed they are, Senator. While I was in Japan and in the Philippines on a recent trip, I was told by representatives of the Japanese Government and the commercial sources there and in the Philippines that there has been a marked increase in the quality of grain delivered since the 1st of February. They appreciated that very much.

We have had no problem with producing high-quality grain in the United States, but we have had problems with contamination in seaports, as the gentleman well knows.

Senator CURTIS. Is it not also true that one thing that they are very much interested in, in addition to quality, is a sustained source of supply?

Secretary BERGLAND. Without question. The Japanese were most concerned about that very point. An uninterrupted supply line is to them of greater importance than price.

Senator CURTIS. That is all, Mr. Chairman.

Senator ROTH. Thank you, Senator Curtis.

I have two more questions that I would like to ask you. It is my understanding, Mr. Secretary, that Ambassador Strauss announced recently, on Tuesday, after consultation with the European Communities that the United States would not seek any structural changes in the common agricultural policy.

As you well know, this policy is a major barrier to U.S. exports to Europe and exports to third countries. I wonder what modifications, if any, the administration will seek, what the implications of this is?

Secretary BERGLAND. Mr. Chairman, we are meeting with our Trade Advisory Panel on this very matter this afternoon, along with the Ambassador. Tomorrow, I meet with the European Commissioner for Agriculture to discuss the MTN, discuss our trade policy in the European Economic Community.

The Ambassador shares my viewpoint in this matter. We are interested in getting these negotiations out of the trenches and onto the negotiating table. The matter has been stalemated for several years. We want to reexamine every possible alternative. We are not going to criticize the right of the community to adopt its own common policy. They have that right, obviously.

While I personally do not like the way they operate their variable levy system, that is their business. I do not think they can be negotiated away; neither does the Ambassador. Therefore, we are going to be talking about things that maybe we can work out solutions to; for example, the elimination of some of the seasonal barriers to American farm products.

We are vitally interested in ending the use of export subsidies. We think export subsidies are pernicious devices that force economic dislocation. There is no way the American wheat industry can compete with the European subsidies in the wheat markets of the Mediterranean; no way.

We are really going to drive hard in trying to end the use of export subsidies. It will take them years to do this, if, indeed, they ever do it. We are prepared to give it some time. We must see some progress.

Senator ROTH. Let me ask you, in the long run, do you think that we are basically stuck with the CAP? Is that what you are saying?

Secretary BERGLAND. When we look at the way that the Community has constructed its common agricultural policy, look at the way that the Commission operates, look at the political realities of France and other countries of the Community, it is not likely that the Community can, for political reasons, simply terminate its common agricultural policy.

In fact, it is the glue that holds them together. Maybe, in time, something can be done with the variable levy. I think they are making a mistake with it; that is their business. We probably cannot trade that away, again because of the political realities of the Community. Maybe there are things we can do, and what we are trying to do, Mr. Chairman, is separate those things that maybe we can work on from those that we regard to be a hopeless case, and proceed with the real possibilities, and forget about the rest.

Senator ROTH. Of course, the thing is a variable levy just makes it impossible to sell or export any of these products.

Secretary BERGLAND. It is difficult, but the Community is still the largest single cash customer for our products. It is a good market.

Senator LONG. Is it not easy enough to operate a variable levy so that, as a practical matter, American products cannot even come in? If they want to peg their price high enough that the so-called price against which the levy operates, it is easy enough to operate those variable levies so that American commodities cannot be brought in. There is no way you can make a profit.

Secretary BERGLAND. That is right, Mr. Chairman.

Senator LONG. Behind the protection of a variable levy on the one hand, they can do what they have been known to do for rice and grant an export subsidy on rice which exceeds the price that we are charging for it.

Secretary BERGLAND. That is correct. The Community recently sold 40 million pounds of butter to the Soviet Union for about 40 cents a pound and put $1 a pound subsidy in that transaction. There is no way that Americans can compete with that.

Senator LONG. The point is, if they are going to do business with us that way, I do not see how we can trade with them. I do not think that we can live with that kind of arrangement, if we are talking about trading at all.

Secretary BERGLAND. It is a difficult problem, but they still are our best single customer for American farm produce, they do pay cash, there are things they do need and will continue to buy: soybeans and other items.

Senator ROTH. The thing that bothers me in this area, they say they will not yield. In other areas, they expect us to give, and I just do not like the idea of our negotiators ever admitting we are going to accept that, short range or long range.

I think we are willing to recognize that there are political problems, but there should be some movement forward.

Senator LONG. Maybe we can make a deal to go over there and sign a contract with some of those people. We could provide them with what they can produce on those acres if they will turn those acres into a golf course. Their people could learn the great American sport on the one hand, and enjoy the use of some of that land for recreation purposes on the other, while their people get food at a more reasonable price at the same time.

Secretary BERGLAND. Mr. Chairman, I know you offer that as a jest. It is the very kind of thing——

Senator LONG. I am serious.

Secretary BERGLAND. It is a direction in which they ought to go, and I think they know it. The big problem is in dairy.

They have some astronomical supply of nonfat dry milk in storage in the Community. It is coming out of their ears. The kind of policy the Community provides, high price supports for the dairy industry, which is composed, generally, of small dairy farms, two, three, four cows apiece. Mostly they are in France and northern Italy and south Germany, and those cows really produce milk.

We shipped them some high-yielding and high producing cattle, and they have done very well with that by feeding American grains to them. They produce such a tremendous lot of dairy products, they have dairy products all over Europe. They cannot sell it to their own people because the price is too high, so they export it. They use a subsidy.

The only way they are going to get that matter under control is if they reduce their own production, and they cannot, for political reasons, they cannot lower their dairy price supports. At least, they have not. We do not think they can politically. The thing might fall apart on them.

What we are trying to do is find those areas where we can negotiate. You are right, Mr. Chairman. We do need to find some progress, get off of trench warfare, and see if we cannot get this thing going.

Senator LONG. I would think, Mr. Secretary, if I had the time to do it, I could make a lot of money on that idea. I could do it as private enterprise, as a free operator, by turning some of those acres into golf courses over there.

It is a shame what poor golfers the Europeans are. Eleven of the 12 best golfers who were top winners in the British Open were Americans. Now, mind you, those 11 Americans are probably of European ancestry. You know, those Europeans are not that poorly coordinated.

If somebody wants to play golf in Europe, he has to wait 1 month to get out there on the golf course. I think those people should at least give their people a fair, competitive chance by putting some of their farm acres into golf.

Secretary BERGLAND. That is a point I think I will bring up tomorrow with the Commissioner. He and I are going to talk about bringing some technical persons from the European Community to the United States to acquire additional technical skills. Perhaps they could bring the French dairy producers here to Burning Tree. Maybe we could do more good.

Senator LONG. Honestly, Mr. Secretary, they would make a lot more money doing business that way, and they ought to. They ought to trade with Americans in a little more sophisticated fashion, making a contract with us to put their land into something else, rather than producing farm commodities inefficiently. They could make enough money to make up for it just from the American tourists trade alone.

It is a shame to see those people insist on producing in such an inefficient fashion when they could make more money producing in a fashion that is beneficial to them and to the United States.

I would like to see them compete with us in the British Open, for a change, or move it over here. It is far less expensive to send one Britisher over here than to send those 11 Americans over there.

Thank you, Mr. Secretary.

Senator ROTH. In any event, I would just hope that you would continue to pursue ways and methods to break down this policy in the future. It continues to be an obstacle.

Senator Dole?

Senator DOLE. I want to pursue, just briefly, the line of questioning concerning sugar that Senator Long brought up. We have about 18 beet States and 4 or 5 cane States. It is a large industry and is experiencing difficulty.

The Senate has expressed itself as opposed to payments in excess of $50,000 which, having in mind that the other commodities be under the same limitation.

Would the Secretary oppose an amendment to the House farm bill which would do much of what Senator Long suggests, maybe 55 to 90 percent of parity, which would make the price about 13.5 cents per pound with the authority to impose quotas if necessary? Are you looking at that possibility?

Secretary BERGLAND. Yes, sir. We are, as a matter of fact. If the sugar talks fail, then we are going to look at every domestic alternative.

Senator DOLE. The farm bill is going to be up before the sugar talks have a chance to fail. It will be up Friday and again next week.

Secretary BERGLAND. Next week, yes, sir, which is unfortunate but a fact. We are urging that the House not take action on sugar until we come back with a proposal.

Senator DOLE. Would that not be helpful for Mr. Katz to know that the Congress is responding to the needs of the people? Would that not be something he could talk about?

Secretary BERGLAND. You should ask him that.

Senator DOLE. You do not think we ought to pay farmers over $50,000 in subsidies?

Secretary BERGLAND. When I was in Congress for 6 years, as you know, on the House Agriculture Committee, I never supported payment limits.

Senator DOLE. You think it is all right to pay one individual or firm $12 million or $14 million in subsidies?

Secretary BERGLAND. If the program is designed to provide income guarantees with certain other qualifying conditions, yes, sir, I do.

If the purpose of the program is to keep the industry alive, which is its stated purpose; not guaranteed profit, but simply to keep it together, then I think we have to do just that, sir.

Senator DOLE. I am not certain that the program advocated by the administration keeps anything alive. It costs $240 million with about 20 percent of the benefits going to five processors, not to sugar beet producers. I am looking for an alternative. If we cannot do it by bringing sugar in as a commodity and offering price supports or target prices, then why should we not override the Presidents decision and implement the U.S. International Trade Commission Report where we would have some quotas.

What is objectionable about that? Do you have any objection to that?

Secretary BERGLAND. I do, personally. My main objection is, it would completely complicate our negotiations in these international sugar tatlks. We are buying time, frankly. If the talks do not result in an agreement, then we are going to come back with proposals of our own, because we cannot let the American industry go down the tube.

Senator DOLE. I do not think anybody wants that to happen. That is the last thing we want. I do not want to be critical. We are concerned about the farmers, not so much about the foreign negotiators. I do not know how long the American farmers can wait for negotiation.

I have the highest respect for Mr. Katz and others who will be negotiating. I happened to talk to a group of women yesterday who are in the audience this morning about sugar beet production in a five-State area. They do not want the program advocated by this administration. They do not see any hope in it at all for the producers.

I am not suggesting it helps Coca-Cola.

Senator LONG. The low price.

Senator DOLE. It has been estimated that they are saving $5 million a day due to the low price of sugar, but the price of coke remains the same. It seems to me we should act very quickly. That is why we have a good chance next week, with the House considering the farm bill. You have already stated that.

Senator DOLE. What about export subsidies to help gain markets? Is that a possibility that you are looking at?

Secretary BERGLAND. In terms of grain exports, Mr. Dole? No, sir. We do not recommend export subsidies. It forces dislocation in the market. We are trying to get rid of export subsidies in this world.

Senator DOLE. We do not have any now in this country.

Secretary BERGLAND. We do not, no, sir.

Senator DOLE. As you know, they are very expensive.

Secretary BERGLAND. Very expensive.

Senator DOLE. We were paying 50 to 60 cents per bushel of wheat. That made it a very expensive program.

Secretary BERGLAND. Yes, sir.

Senator DOLE. The target price offers more hope for the producers than an export subsidy.

Secretary BERGLAND. Yes, sir. The target price concept was developed as an alternative for the export subsidy. We think it is working rather well.

Senator DOLE. Are you looking at the meat import quota law? Are you going to suggest that we make any changes in that?

Secretary BERGLAND. We are looking at it now very carefully from a departmental viewpoint. I personally think that the meat import law is not effective. It has no relationship to the price or supply and demand. It is tied to an old historical base that has no relevance today. We think that it ought to be changed; I personally think that it ought to be changed. We are looking at alternatives.

Senator DOLE. Many of us would be happy to help you change it. Once the Congress takes a look at it there is always the probability when you open it up it would go the other way. There are others in the Congress who might have a different view from those of us who are from producing States.

Secretary BERGLAND. Yes, sir, that is true.

Senator DOLE. On the basis it might be a threat to producers. I do not believe that.

Secretary BERGLAND. In the last year, the livestock numbers have been reduced by something on the order of 5 million head. In the last 3 years, we have had the most devastating reduction of livestock numbers in any 3-year history of the United States, this liquidation phase of the livestock cycle was accelerated by the drought.

The dry conditions in your State of Kansas and the western region, more recently the drought of the Southeast, Florida, Georgia, around the Gulf and eastern Atlantic coastline have resulted in a continuing drain on livestock numbers. They have been forced to sell because they could not keep them on the grass. There was no grass, and the continuing heavy run of those breeding cows have been depressing the market. Livestock producers have lost money 4 years in a row. It is hanging on by the skin of its teeth.

The longer run effect of this cyclical liquidation and drought is going to make cattle prices go up very, very much. It is unfortunate that the producers have taken this economic beating for 4 years. Maybe in 2 or 3 years, the consumer is going to be out of his or her mind with the prices that may be commanded in the market place.

Everybody loses when we have boom or bust. Our policy will be geared to introduce some businesslike predictability in this business of agriculture.

Senator DOLE. It seems to some of us the meat import quota law is backwards. Imports are just at the wrong time, instead of being reversed. You think that could be done and still offer some protection to the domestic producer without doing violence to the concept of free trade?

Secretary BERGLAND. I agree.

Senator DOLE. I have no further questions.

Senator ROTH. Senator Packwood?

Senator PACKWOOD. I have no questions.

Senator ROTH. Opponents of the cargo preference legislation are concerned that it might be opening a door to requiring certain percentages of other private cargoes, wheat or soybeans, in the future to be able to be carried on American bottoms. What effect do you think this would have on our competitive position?

Secretary BERGLAND. I would like to defer on that one to Mr. Katz. I ~~don't know~~ enough about that.

Senator ROTH. Yes.

Thank you very much, Mr. Secretary. We appreciate your being here today.

[The prepared statement of Secretary Bergland follows:]

STATEMENT OF HON. BOB BERGLAND, SECRETARY OF AGRICULTURE

Mr. Chairman, Members of the Subcommittee, on the subject of your hearings, farm exports and what we can do to expand them, the outlook is healthy.

Last fiscal year we exported $23 billion of farm products. For the fiscal year ending September 30, this year, we expect farm exports may reach $24 billion, a record level.

Having said this, let me assure you that I am not complacent. I am deeply concerned, as is President Carter, over the export and price situation of wheat and feedgrains—a subject upon which I'll spend most of my allotted time. Many other commodities are doing well. Growth commodities this year include cotton, oilseeds products, livestock products, fruits, nuts and vegetables.

As to specific nations, we expect substantial increases in U.S. exports this fiscal year to the Middle East, East and Southeast Asia including Japan; to Western Europe and to Canada.

As Members of this Subcommittee are well aware, this export trade in agriculture is one of the brightest spots in our Nation's economic picture. Last year, with $23 billion in exports balanced against $10.5 billion in imports to this country, agriculture contributed a surplus of more than $12 billion to our balance of trade, an extremely important contribution in view of the very high costs of imported oil.

That is the good news. The bad news we are all aware of:

For the third consecutive year we expect 2 billion bushels of American wheat to be harvested. The rest of the world, by and large, also expects yet another good wheat harvest.

As a result of this world situation, U.S. wheat exports were down 20 percent to 26 million metric tons in the 12 months ending May 31. Feed grain exports may be down from last year's 50 million-ton record.

What is this Administration doing about it?

I do not hold out hope of easy instant solutions to our dilemma. The fix we find ourselves in took years to develop. It will not be solved overnight. In the six months that I have held this post we have—or are taking—these actions:

First and foremost, we are acting to hold and expand the $24 billion agricultural export market we already have. Specifically, through legislation this Congress is now considering the target price concept will act to move our agricultural products at competitive prices, to assure continued access to world markets, while at the same time providing a measure of protection to assure decent incomes for U.S. producers.

The key word in the foregoing is "competitive."

When our prices aren't competitive, two things happen. First, we lose markets because many nations—especially developing nations—cannot afford our products. Second, we encourage nations to seek more supplies by increasing their own production—sometimes at high cost to themselves—or we encourage production from other competitive suppliers.

Take Brazilian soybeans, a new competitor to U.S. producers. It took a combination of $12 soybeans and an export embargo to accomplish this competition—something we are trying to avoid in the future.

And so the legislation that Congress is now considering is a key action this Administration is attempting to meet the problems I discussed earlier.

Then there is the vital question of reserves. We're providing this through a farmer-reserve program and proposed multilateral negotiations on wheat. The farmer-reserve program aims, first, to reduce the pressure farmers now feel to market excess supplies at low prices and, second, to protect our farmers' overseas customers, thereby keeping our access to the markets we already have. Our aim in the negotiations now beginning in London is to assure that the United States—and U.S. farmers—don't bear the entire burden of carrying reserves and adjusting production.

Finally, we are taking or have taken, these additional actions to increase our foreign agricultural trade to the benefit of U.S. producers:

Through negotiation we're attempting better access to overseas markets by reducing trade barriers and establishing long-term trade arrangements in the Multilateral Trade Negotiations.

We're re-examining our programs to come up with better ways of providing international food aid including grants to poorer nations and short-term "soft" CCC credit to developing countries.

We're examining the potential for expansion of bilateral trade agreements.

The Commodity Credit Corporation credit program is being expanded. CCC-financed exports this fiscal year are budgeted at $1 billion, up from $618 million in fiscal 1976 and only $249 million in 1975. Two-thirds of this year's CCC credit is for grain.

Public Law 480 calls for $1.2 billion this year, up from $831 million in 1976. Grain makes up about 60 percent of the total value.

These initiatives on our part have yet another purpose, in addition to their economic effects on our balance of trade and the incomes of our domestic producers. In the formulation of each we have not lost sight that the world must be assured of adequate supplies of food. President Carter is deeply committed to enhancement of human rights—and the most basic human right, perhaps, of all the rights that human beings have, is the right to enough to eat.

Thus our reserve proposals, domestically and in international negotiations, will serve both our economic interest and, in addition, assure adequate supplies in times of widespread drought or other natural disaster. Similarly, the studies of our foreign food assistance plans are designed to assure that U.S. food goes to those who need it most, and additionally, that developing countries are assisted in their own efforts to more adequately feed their own people.

These are the positive steps we have—and are—attempting to accomplish. In closing, let me say that we are also committed to avoid those actions which have proved so clearly disastrous in the past. I have mentioned my own personal embargo on future embargoes. They lose us customers; they lose us markets; they encourage foreign competition and they shake the confidence of our markets overseas. Attempting to restore such confidence was an overriding reason for my recent visit to the Far East.

Another policy that has proved unworkable is the idea that this government—or any government, for that matter—can control agricultural output within very narrow limits. This is the so-called "fine-tuning" concept. It is my belief that the weather, which is under the administration of One more highly placed than the Secretary of Agriculture, can have more effect on supply than all the regulations issued from Washington, Moscow or Ottawa. Two much "fine tuning" doesn't work any more than the idea that uncontrolled and uncontrollable "market" forces always produce adequate farm prices. We are witnessing the bankruptcy of this idea in the wheat market right now.

I appreciate this opportunity to come before this subcommittee. I commend the Subcommittee for its diligence in pursuing what is one of the most important domestic issues we face, the issue of adequate returns for U.S. farmers, and how we may act to assure them. I am aware, better than most perhaps, of the hardships being experienced by our wheat and feedgrain producers, and I wish to assure the sucommittee that this administration is doing its best to ease these hardships. Thank you.

Senator ROTH. Mr. Katz, we would like to welcome you for appearing before our committee this morning. As is our custom, you may read your statement or summarize it, whatever you prefer. In any event, it will be included in its entirety.

STATEMENT OF JULIUS L. KATZ, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. KATZ. Thank you, Mr. Chairman.

Chairman Long and members of the subcommittee, in the interests of time I will summarize my statement and request that the full statement be placed in the record. My statement points out the change in the export situation, particularly as it pertains to grain.

Secretary Bergland covered this in considerable detail, as did Senator Dole, in his introductory remarks. One possible approach to the problem that was indicated earlier is to use export subsidies; like Secretary Bergland, I think that would be unfortunate, because it could lead to a competitive race among exporters, each seeking to gain some marginal advantage over the other, and experience tells us there are really no winners. It is just the same amount of grain chasing the same market. All it will do is depress prices.

The importing countries would not benefit in the long run from such an approach. Eventually, depressed markets will require producers to cut back production. Once again, the world grain economy will be in the situation where bad crops in one or two major countries will provoke another violent swing toward short supply, disruptively high prices, and pressures for restrictions on exports.

We have recognized in the United States a need for new approaches to keep our free and open grain markets healthy and safeguard the interests of producers and consumers to help farmers face the current market pressures and insure adequate supplies for the future. The administration earlier this year announced the extended reseal storage program. The Senate endorsed that program.

This domestic reserve system will permit the producer a greater freedom to take advantage of market opportunities and help them avoid the need to forfeit its grain to the government. It also provides an example to other countries of the United States intention to follow agricultural policies for greater stability in the grain economy.

Fortunately, we think that there is reason to believe that most of the grain-exporting nations have learned the lessons of the past and now are prepared to seek a cooperative solution to problems of grain market stability. Last month, members of the International Wheat Conference, meeting in London, agreed to accelerate the pace of the negotiation of a new agreement on wheat. In these negotiations, the United States hoped to achieve an arrangement that will moderate extreme price swings while leaving wide latitude for market forces to operate.

An agreement that seeks to reduce extreme price fluctuations and to improve food security of poor nations must provide for flexibility in changing supply situations. The United States has proposed that a new wheat agreement should be centered about a coordinated system of nationally held grain reserves that would make possible, on a shared basis, the shifting of grain supplies forward from years of excess production to years of shortage. Under such an agreement all major grain trading nations would accept meaningful obligations for reserve stocks with common guidelines for accumulation and release.

We envisage an accumulation price consistent with the U.S. loan rate and a wide price band so that the system would be compatible with normal commercial trade. For that same reason, we regard fixed maximum and minimum trading prices as both undesirable and unworkable.

The United States and other exporting countries also believe that we should seek to complement an agreement on wheat with meaningful liberalization of world grain trade so that efficient producers retain adequate incentive to maintain their output and so that one or two countries do not have to carry the full burden of adjustment to changes in global conditions.

We must recognize that agricultural trade negotiations are not going to result in fundamental changes in the domestic agricultural support policies of other grain producers. Nevertheless, we believe that some modifications of these policies are possible which would enable the United States to compete for an equitable share of the growing world grain market.

We approach these negotiations pragmatically and are prepared to be flexible on the ways in which grain trade issues are handled. If satisfacory agreements cannot be worked out, however, the United States obviously will have to protect its interests. There is no likelihood that the United States would participate in an agreement that did not result in an equitable sharing of the burden of adjustment to changes in world demand.

However, if the international community can achieve agreement to stabilize conditions in world grain markets and improve food security and combine these with a lowering of barriers to trade in agricultural products, then we shall have greatly enlarged prospects for continued growth of world trade and for greater economic well-being for all nations.

Senator ROTH. Mr. Katz, I think you probably just addressed the Secretary just before he left. What effect do you feel if cargo preference legislation required wheat or soybeans to be in the future carried on American bottoms, what competitive effect would that have on the export of these products?

Mr. KATZ. It would obviously have a negative effect on our competitive position unless the price of grain were lowered to meet the increased cost of shipping grain on higher priced freighters.

Senator ROTH. To what extent? How serious would you consider that?

Mr. KATZ. It would depend on the degree of cargo preference and on freight rates at a given time. There have been times, on relatively few occasions, when, because of a very tight shipping situation, our rates were not that far off, but that is a fairly rare situation in most cases. The rates on U.S.-flag vessels normally are quite a bit higher.

Senator ROTH. I would like to ask you also, with respect to a recent statement of Ambassador Strauss, for whom I have the greatest respect, what you think the implications of his recent statement are for American farm policy and exports, the fact that we accept the position that CAP cannot be structurally modified?

Do you have any hopes or see any way of breaking through this barrier?

Mr. KATZ. Yes, I do, Mr. Chairman. What I understood Ambassador Strauss' statement to say is that we recognize that there is not likely to be a fundamental change in the Common Agricultural Policy. I think that is a simple statement of fact. I think that if we go into negotiations with the view that the common agricultural policy must be scrapped, we will have a Mexican standoff. We will have a complete deadlock.

On the other hand, we do have important objectives in regard to agricultural trade in these negotiations, and the common agricultural policy is going to have to accommodate to the interests of other trading nations, and we believe there are ways of doing that without changing the fundamental structure of the CAP.

Senator ROTH. I am somewhat encouraged by what you said. I think it is important that we not concede that there can be no change in this area. No one is asking for the impossible to be accomplished overnight. On the other hand, I am not very happy with the other extreme that nothing can be done.

Mr. KATZ. I think that we ought to recognize that it will not be an easy task. I do not thing anyone has said that it will be simple, but the point that I think needs to be made is that it is futile to get into a philosophical argument.

What we need to do is face pragmatically the impact of the CAP in particular areas, find ways of meeting the interests of the United States and other agricultural trading nations.

Senator ROTH. We also deal earlier with the question of possible sales to China. I wonder if you would care to comment on what the possibilities are there?

Mr. KATZ. Yes.

Mr. Chairman, there was a letter that was sent from the Department of State to Chairman Long yesterday describing our position. Perhaps the members of the subcommittee have not had an opportunity to see it. Perhaps it would be simpler if I read the letter.

Senator ROTH. That would be helpful.

Mr. KATZ [reading]:

Dear Mr. Chairman. The Secretary has asked me to respond to your inquiry of May 11 regarding S. 1415, introduced by Senator Dole, amending Section 402 of the Trade Act to permit extension of Commodity Credit Corporation credits to nonmarket-economy countries. We consider authority to extend CCC credits a useful instrument for expanding foreign markets for U.S. agricultural exports.

It is our understanding that this bill is intended to permit nonmarket economies to participate in CCC programs on the same basis as market-economy countries. To do so effectively, however, the bill would also have to amend Section 409(a) of the trade act, which prohibits extension of government-backed credits to nonmarket economies which deny their citizens the right or opportunity to emigrate to join close relatives in the United States. The laws, regulations, and practices which now make many nonmarket economy countries ineligible for U.S. government credit programs under Section 402(a) also make them ineligible under Section 409(a).

If both of these sections were amended, the following nonmarket economy countries would become eligible for CCC credits: Albania, Bulgaria, the People's Republic of China, Czechoslovakia, German Democratic Republic, Hungary, Laos, Mongolia and the Soviet Union. Romania, which is currently eligible to receive CCC credits through a Section 402(c) waiver of Section 402(a) and 409(a) would remain eligible for CCC credits even if the waiver lapsed. Poland would be unaffected by such legislation because it is eligible for CCC credits by virtue of being exempted from Section 402(a) by 402(e) and Section 409(a) and by 409(c).

The Department considers it inappropriate to the purposes of the Commodity Credit Corporation to extend credits in support of exports of commodities which a country is already committed to purchase from the United States. For example, the Soviet Union is committed through the 1980 crop year to purchase at least 6 million tons of U.S.-grown wheat and corn per year under the U.S.-U.S.S.R. Grain Agreement of 1975. However, the CCC credits could be considered in support of purchases over that amount, or in support of other commodities.

Since agricultural exports to North Korea, Vietnam, Cambodia and Cuba are not now authorized, these countries would not receive CCC credits.

The Department of State would not object to enactment of S. 1415.

The Office of Management and Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

It is signed by Douglas Bennet.

Senator ROTH. If the law were changed so Commodity Credit could support exports to the PRC, would it enhance agricultural sales?

Mr. KATZ. Not necessarily. They have not really shown themselves to very interested in agricultural credit. We do not think that is the obstacle to transactions with them.

Senator ROTH. As I understand it, we had a rather sizable sale a few years ago. Then there was a drop backwards. At the same time, Canada's sales and Australia continued at a very good clip.

Do you think there are other political considerations?

Mr. KATZ. I think there might be some other factors, yes, Mr. Chairman.

Senator ROTH. Senator Dole.

Senator PACKWOOD. Could I see that letter? May I look at it?

Mr. KATZ. Surely.

Senator ROTH. I believe Senator Dole is next on the list.

Senator PACKWOOD. Maybe Senator Long would like to pursue this. Since you are going to be his chief negotiator on sugar, would you like to do that now?

Senator LONG. I might, at this point.

Mr. Katz, I think we have pretty well fattened you up for the kill before you took the stand here. I really do not know anybody who can do a better job of representing this nation in these commodity agreements.

Are you in a position to predict, with any confidence whatever, that you are going to be able to reach any agreement on sugar at these next negotiations?

Mr. KATZ. Mr. Chairman, I cannot predict with any certainty what the outcome would be. In my view, the chances are reasonably good that we will succeed.

I should point out that we could have an agreement, we could have an agreement that would have a fairly immediate impact on the price of sugar.

What we are looking for, however, is a balanced agreement, one that would protect the interest of consumers as well as to bring the price up from its present very low level. The key to this, in our view, is to have an agreement that has adequate stocks. That is where the stumbling block has been.

We have some new proposals to make. We have already had some consultations with some of the countries that will be participating in the meeting next week, and I have some confidence, yes, that we will be successful, but it is not a sure thing. I should explain that the meeting next week is a working group session. It is a meeting of 15 key nations that has been called to meet in London, and we will be dealing with the outstanding issues in the negotiations.

If this meeting is successful, the conference will be resumed in September to finish up the agreements. If the meeting is not successful, I assume that September meeting will not take place.

Senator LONG. It seems to me that part of what we want to achieve in this country could be done unilaterally without the agreement. It seems to me that if you can endorse it, and the Secretary of State will go along with you, and if the Secretary of Agriculture supports that position, then we in the Congress will support that position. I think we can muster a majority vote in the Senate to pass it, and perhaps in the House.

I feel we should understand why we cannot get an agreement.

One, we should allow our farmers a price of 13.5 cents to 14 cents; and two, we should impose quotas, and if you want to help friendly countries who are doing business with us, you could grant quotas to countries who are suffering. Why could we not allow the State Department, however you want to do it—maybe the President wants to designate fixed quotas—to help some friendly countries who are trying to help us in what we are trying to achieve. Alternatively, we could put the quotas up for bid and let importers bid for them.

Why could we not do something like that, which would move us just that much closer what you were trying to do anyway?

Mr. KATZ. Mr. Chairman, that is an approach that we could take. I agree with Secretary Bergland, that should international negotiations fail, that is an approach we will have to take. I believe that an international agreement is a better approach. Sugar is somewhat different from other commodities which we produce in this country in that we are roughly dependent for about half of our supply on imports.

It may be in some years, 40 percent, but generally we produce about half of our requirements.

Since we are dependent on the world economy for half of our sugar, I think we are better off in a world sugar economy than in trying to isolate ourselves from the world.

The alternative is some kind of tariff approach, but that presents problems in management. We have surveyed all of these options. We have them in readiness. It is a question of what is the best approach.

Our conclusion has been that we ought to give the international agreement a good, hard try and I think, as I said, that we have a reasonably good chance of bringing this off. If we cannot, then inevitably, we will have to look at our domestic options.

Senator LONG. Let me tell you something that I am convinced of about international agreements, international understandings, or international cooperation. If you can do business in such a way that helps your friends, then you do not help the people who do not cooperate with you. If we give you some quotas and you impose them the way you ought to be, you would not be seeing a speech a day which insults us before the United Nations. Exporting countries would be ineligible until they found ways to make more diplomatic speeches and the quotas would be extended to countries who seem to be in harmony and sympathy with what we are trying to achieve.

By trying to work out a commodity agreement, the fellows you are trying to help here are the consumers, and you have little leverage to work with. But you could say that we just got through helping you out with his particular matter. That help does not have anything to do with our request, but it was nice that we could do this for you, and now here is something you can help us with.

You would be surprised, if you ever tried to do business that way, how far you can trade those stamps to achieve a result somewhere.

It is also my understanding that if you do not have any soap to take a bath with, you will not do much just pouring water on yourself. At some point, you need a little leverage to work with. I do not know why we cannot just put something like that into effect, which I think will help you get something worked out in some of these international meetings. Why cannot we do that?

Mr. KATZ. A domestic program clearly is an alternative to the international approach. But our view has been that the international approach has advantages, if we can bring it about. That is what we are trying to do.

If it does not work, obviously we are going to have to consider the alternative.

Senator DOLE. If the chairman would yield, what is the time frame? How soon do you think we could reach an agreement?

Mr. KATZ. This working group begins on the 20th. It goes from the 20th to the 29th of July. The plan is to try to reach agreement on the key issues among this group of 15 key nations, and if that is successful, the conference will be resumed, the agreement will be wrapped up in September.

Senator DOLE. Are you talking about 2 or 3 weeks?

Mr. KATZ. The London meeting, which begins next week is 10 days.

Senator DOLE. Do you know of any successful agricultural commodity agreement with pricing provisions? Can you list any that I have missed, whether it is wheat or sugar, where this country ever got anything out of it?

Mr. KATZ. For specific periods of time, agreements have worked. Ultimately, they have broken down. The sugar agreement did work. It was a very different kind of a market that it dealt with, but it did work for a time. I am told that the wheat agreement worked in the late 40's and early 50's for a time, but that was a different kind of a wheat market. Ultimately, it did break down.

Hope springs eternal. I think we can write a sugar agreement that will be an effective agreement for at least the 5-year term that we have in mind.

Senator DOLE. My only point is—I do not want to take the chairman's time but we have a very immediate problem. There are some of us who feel very strongly that payments of 2 cents per pound, which is not a price support program, is unacceptable. Whatever the price of sugar is, there is a payment of 2 cents per pound. It is not a satisfactory approach. It does not help the producer.

Most of the money is drained off by big processors, some receiving as much as an estimated $14 million. It would be in our interests to proceed along both fronts. While you are talking about an international agreement, why should not we in the Congress be talking about domestic programs suggested by the chairman earlier? You are not directly involved in that. We are considering on the House side the farm bill next week. There is a rumor around that someone may offer an amendment to bring sugar into the act, 55 percent to 90 percent of parity with some authority to impose quotas. Otherwise, the whole world would be exporting sugar into the country.

Is there something wrong with the two-pronged approach?

Mr. KATZ. I prefer to leave that to the Secretary.

Senator DOLE. He said to wait for you.

Mr. KATZ. Senator, I think I answered all the questions that he threw me. I would like to throw one back at him.

Senator DOLE. I understand—I do not understand, but I understand. Thank you.

Senator MOYNIHAN. If the Senator would yield, I would like to say to the Secretary that I think Chairman Long has made a very important proposal regarding the negotiation of trade agreements.

Negotiating trade agreements in a political, diplomatic vacuum is not in the interests of the United States. These negotiations should be seen as an opportunity to help our friends and to stop our adversaries. Not making that linkage, it seems to me, is totally in the interests of other nations, not our own.

There is an old song that says, "you may have been right to dissemble your love, but why did you kick me down the stairs?" If Senator Long's linkage were more in the mind of the Department of State, there might be a lot less abuse of this democracy by other countries.

Thank you.

Senator ROTH. Senator Dole?

Senator DOLE. One question.

Getting back to the real thrust of the hearings, do I understand your letter, which you have read, that you are not opposed to extending Commodity Credit Corporation credit to nonmarket economies, with those exceptions noted, that are not qualified in any event?

I think it is well the public understands we are not talking about a subsidized credit, but normal credit transactions.

Mr. KATZ. I regard CCC not as aid, but what has come to be a facilitation of commercial exports.

Senator DOLE. We all agree there is interest paid on the loan. It does not cost the U.S. Treasury anything, that I am aware of.

Mr. KATZ. That is my understanding.

Senator DOLE. Is it fair to conclude, based on the letter, that the administration not only does not object to extending credit to the People's Republic of China or to the Soviet Union, but they support an effort to do that?

Mr. KATZ. I think the letter says we would not object.

Senator DOLE. I cannot get many votes with that. I think it is important—if I understand the delicacy of any extension of credit to the Soviet Union, that raises all sorts of questions. There may be good reasons not to do that, based on section 409(a).

At least the letter indicates, in the first paragraph, you would consider the authority to extend CCC credits a useful instrument.

Mr. KATZ. Yes, sir, As a general statement, we do consider it to be useful, and we anticipate some increase in CCC operations this year.

Senator BYRD. If the Senator would yield at that point, it seems to me the first paragraph on page 2 suggests that it goes beyond the normal credit operation. It says the Department considers it inappropriate to the purposes of the Commodity Credit Corporation to extend credit in support of exports, commodities of which a country is already committed to purchase from the United States.

Senator DOLE. I agree with that. That is a limitation where Russia has agreed to purchase 6 to 8 million tons. They should not be given credit for that. If they purchase above that, maybe credit should be made available.

Mr. KATZ. That was the intent, Senator.

Senator BYRD. Could I ask this, what CCC credits have been extended to the Soviet Union at this point, or are outstanding at this point?

Mr. KATZ. I believe they are all repaid by now. I do not believe there are any outstanding. My understanding is that they have all been paid.

Senator BYRD. How much was outstanding at one particular time?

Mr. KATZ. In the case of the U.S.S.R., there were $750 million authorized between 1972 and 1974; $550 million was utilized, $400 million for wheat and $150 million for corn, and that has been repaid.

Senator BYRD. Under the Export-Import Bank legislation, there is a limit on the amount of Export-Import credits or loans that can be made to the Soviet Union. Is there any limit on CCC credits?

Mr. KATZ. Yes. The CCC credit at this point is prohibited. It is prohibited—I will have to get the citation. It is under the Trade Act in at least two provisions: Section 402(a), which is the Jackson-Vanik amendment; and section 409(a), the Helms amendment.

Senator BYRD. Those figures you gave a moment ago——

Mr. KATZ. Those were both loans prior to 1974; 1972 to 1974.

Senator BYRD. Thank you.

Senator PACKWOOD. Let me ask again. I do not understand what the position of the administration is. They do not object to the extension of the CCC credit. Does that mean they can be cited as supporting it, or have they no position?

Mr. KATZ. Our position is that we do not object to the bill, S. 1415. We are not going to take an initiative, I think is what we mean.

Senator PACKWOOD. If it is on the floor, can the administration be quoted as being in favor of it?

Mr. KATZ. The administration can be quoted as not objecting to the enactment of the bill.

Senator LONG. I know what that means.

Senator PACKWOOD. I know what that means, too. They are trying to play both ends, as I understand it.

Senator LONG. That means you are free to go out there and make your fight. If you win, that is fine. If you get beat, it is too bad.

Senator PACKWOOD. You indicated that the CCC credits are basically repaid, and you make a little money on it. The same is true of the Export-Import Bank. Would the administration position be the same on the extension of those credits, there would be no objection?

Mr. KATZ. We have not taken a position on that, Senator.

Senator PACKWOOD. How would you differentiate the two?

Mr. KATZ. As you know, it is a part of this larger problem having to do with emigration, and we have not discussed specifically that question. In my own mind, I do not really distinguish between CCC credit, which is designed to facilitate agricultural exports and the Export-Import Bank which is designed to facilitate manufacturing and industrial exports.

The terms are different, but the terms are related to the nature of the goods that are traded, and the competitive position of the world. It is designed to make us competitive in the world, basically.

From that point of view, I do not distinguish. I do not think I can speak for the administration on the question of Export-Import Bank credit. We have not addressed that question recently.

Senator PACKWOOD. Would the administration be prepared under any circumstances to embargo the export of agricultural products in an effort to enhance the observance of human rights overseas?

Mr. KATZ. Again, I am not sure I can speak for the administration on that. Personally, I would be opposed to it. I do not see how you promote human rights by embargoing the export of food.

Senator PACKWOOD. You are personally opposed, the Secretary is personally opposed to it, and neither of you will speak for the administration?

Mr. KATZ. It is a matter that has not been addressed specifically. I could not see the logic of an embargo on food to promote human rights.

Senator PACKWOOD. I could see the logic of it, if Russia has a tremendous shortfall, they need all the grain they could buy, we may be in a great bargaining position to increase the observance of human rights.

Mr. KATZ. You could do all kinds of things to enhance human rights. If you are basically interested in helping people, you are not helping them by withholding food from them.

Senator PACKWOOD. Would the administration, under any circumstances, consider using an embargo to try to bring down the domestic price that then existed for agricultural products?

Mr. KATZ. The Secretary of Agriculture spoke pretty forthrightly on that subject. The answer to that would be no.

Senator PACKWOOD. If wheat gets back to $6 or $8 or $10 a bushel and there is no shortage in this country, the administration would not support an embargo to attempt to bring that price down?

Mr. KATZ. The position, as I understand it, is that we would not support embargoes.

Senator PACKWOOD. I have no further questions, Mr. Chairman.

Senator ROTH. The Senator from New York.

Senator MOYNIHAN. Thank you, Mr. Chairman. A brief statement, if I may.

Mr. Katz, I quite appreciate your situation. I do not ask you to respond, because you did not come here with the expectation of having to speak to the matter. Yet, I cannot see your point on human rights. I concur in Senator Packwood's statement; we must understand that the question of human rights is simply not one of social work. It is a question of the defense of this country against some ideological adversaries who are determined to spread totalitarian government around the world, even to this country—adversaries determined to see that democratic arrangements do not prosper in the world.

The fundamental issue in this century is the conflict between totalitarianism and democracy. That is the large human rights question we are talking about. We have every reason, in my view, to use whatever leverage we have.

The Soviet Union is active on every continent in this world. It has political parties in every country in this world. It has money in every one of them, it has agents in every one of them, trying to subvert and weaken the position of the United States and the day comes when the Soviet crop fails and, facing the prospect of having to cut back their meat ration—not starvation, just cutting back the meat ration—and if they come to us to ask us to provide grains, then that seems to me to be a time for us to raise some of the things the Soviets are doing.

This letter of Mr. Bennet's is a little troubling to me. Are we to read this as the President repudiating the Jackson amendment?

During the campaign, Governor Carter said repeatedly that he was for—and I quote—"the effective implementation of the Jackson amendment." And here is the Department of State saying that the administration—which means the President—would have no objection to repealing the Jackson amendment.

Does this represent the President's view?

Mr. KATZ. Senator, it——

Senator PACKWOOD. They do not object to it.

Senator MOYNIHAN. The gentleman has been here longer and understands the language better. I am not sure this is the President speaking at all.

Mr. KATZ. I cannot say that the President has personally signed off on this letter. It has been coordinated with OMB.

Senator MOYNIHAN. Has the NSC been involved with this, sir?

Mr. KATZ. I believe it has, sir. In any event, it is a position which has been authorized to be taken on behalf of the administration by OMB.

Senator MOYNIHAN. You know the respect with which you are held in this committee; you are one of our most distinguished public servants. I do not mean to harass you, but sir, if the State Department says this, it must be speaking for the President; the State Department does not have its own foreign policy as against the President's foreign policy.

Mr. KATZ. That is true enough. But Senator, you were on the other side of the table. You know how the Government operates. I cannot say the President has personally authorized this letter, but it has been authorized by people who are authorized to speak on his behalf.

Senator MOYNIHAN. This is not exactly a marginal issue, having to do with nothing but the obscurities of trade policies. Let us remember that.

Thank you, Mr. Katz. I understand you to say that this has been approved by persons who are authorized to speak on the President's behalf?

Mr. KATZ. Yes, sir.

Senator MOYNIHAN. This will not be the last hearing we will have on this subject.

Thank you, Mr. Chairman.

Senator ROTH. The Senator from Kansas?

Senator DOLE. To pursue that, if the Soviet Union were split off, then could the State Department say that they endorsed the bill?

I understand the problem of the Soviet Union and Senator Moynihan's. I do not think that problem exists with the People's Republic of China. I am not sure of the Senator from New York's position on that issue.

Mr. KATZ. I would prefer to stand on the letter as it is. It is a carefully considered position, drafted with some precision.

Senator DOLE. Whoever did this could run for office—and may have. That is all I have.

Senator ROTH. Are there any further questions?

Thank you, Mr. Katz?

Mr. KATZ. Thank you, Mr. Chairman.

[The prepared statement of Mr. Katz follows:]

STATEMENT BY JULIUS L. KATZ, ASSISTANT SECRETARY FOR ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF STATE

Mr. Chairman, I am pleased to appear before your subcommittee to discuss agricultural exports and particularly exports of grain. The United States and other grain trading countries face major decisions concerning the future arrangement for world trade in these basic and essential commodities. U.S. policies have largely determined world market for grains for most of the past generation, and events in world grain markets have major implications for our own trade interests and economic well being.

Prior to 1972 U.S. agricultural policy had the effect of assuring fairly stable conditions for grain trade in terms of both volume and price as domestic programs generated the stocks that served as the world reserve. During the decade prior to the 1972/73 crop year, the U.S. market share for wheat was about 36 percent of total world exports and for coarse-grains our market share was about 40 percent. In 1970 U.S. earnings from agricultural exports were $7.2 billion.

In 1972 world demand for grain shifted dramatically as serious production shortfalls in some areas of the world and continued high levels of consumption set off a trend that pushed grain prices to record highs and reduced world stocks to low levels that generated serious concern over the adequacy of available world food supplies, particularly for those countries too poor to readily compete in world markets. All the variables have changed and by wide margins—between 1971 and 1973 average wheat prices tripled, the volume of grain traded increased by a third, and world grain consumption increased by ten percent exceeding one billion tons for the first time ever.

The United States, with a large and efficient production with ample stocks, and with unused acreage was able to supply a large part of that increased demand. Between 1972 and 1975 our market share for wheat exports rose to 47 percent and for coarse-grains to 60 percent. The value of agricultural exports rose to $22 billion. These trade gains, however, were not without some costs. Stocks were run down to low levels increasing inflationary pressures at home. Our domestic economy had to absorb the largest part of the burden of adjustment to increased foreign demand.

Since 1976 the market, particularly for wheat, has turned around as generally favorable weather around the world reduced import demand while the investments of recent years in exporting countries resulted in record production levels. Wheat prices have dropped to levels below the costs of many producers and stocks have risen to levels of the 1960's.

Some exporting countries responded in the traditional competitive manner as the market changed and agressively pushed sales, which in turn tended to depress prices further. U.S. producers generally decided to carry their investment over a longer term and to hold stocks. As a result the U.S. share of the market declined from the 1972–75 period. Performance of feed grains was much better and exports during the 1976/77 crop year are at record levels. Nevertheless, the future picture for all grains is uncertain and trading countries, both exporter and importer, must decide how they are going to respond. Within the past five years we have moved from "food crisis" scarcity to income depressing excess supply. With growing world consumption and the uncertainty of weather, the outlook is for recurring changes in the global supply of grain.

One possible response could be a competitive race among exporters each seeking to gain some marginal advantage over the others. Experience tells us that the risk of one country setting off a "beggar-thy-neighbor" scramble to move excess production is indeed real. Experience also tells us that there are no long-term winners in such a race for exports.

Cutthroat competition soon results in severely depressed prices with little increase in volume. There may be some shifting of sales among suppliers but eventually earnings for all decline. Governments incur heavy budget expenditures either through direct subsidies or price support programs, and domestic consumers end up paying higher prices than foreign buyers. Not even importing countries benefit in the long run from such markets despite windfall savings from bargain basement purchases. Eventually depressed markets will oblige producers to cut back production and once again the world grain economy will be into the situation where bad crops in one or two major countries will provoke another violent swing toward short supply, disruptively high prices, and pressures for restrictions on exports. Developing countries are especially vulnerable because depressed world grain prices can cause a false sense of security and they are deterred from investments to increase agricultural production to levels which assure that their minimum food requirements will be met.

In the United States we have recognized the need for new approaches in order to keep our free and open grain markets healthy and to safeguard the interests of our producers and consumers. To help farmers face the current market pressures and to assure adequate supplies for the future, the administration earlier this year announced the extended reseal storage program. Subsequently, the Senate endorsed that program through legislative action. This domestic reserve system will permit the producer greater freedom to take advantage of market opportunities and helps him avoid the need to forfeit his grain to the government. It also provides an example to other countries of the U.S. intention to follow agricultural policies aimed at greater stability of the world grain economy.

Fortunately, there is good reason to believe that most grain trading nations have learned the lessons of the past and are now prepared to seek a cooperative solution to the problems of grain market stability. Last month members of the International Wheat Council, meeting in London, agreed to accelerate the pace of work of the negotiation of a new agreement on wheat. In these negotiations the United States hopes to achieve an arrangement that will moderate extreme price swings while leaving wide latitude for market forces to operate. An agreement that seeks to reduce extreme price fluctuations and to improve food security of poor nations must provide for flexibility in changing supply situations. The United States has proposed that a new wheat agreement should be centered about a coordinated system of nationally held grain reserves that would make possible, on a shared basis, the shifting of grain supplies forward from years of excess production to years of shortage. Under such an agreement all major grain trading nations would accept meaningful obligations for reserve stocks with common guidelines for accumulation and release. We envisage an accumulation price consistent with the U.S. loan rate and a wide price band so that the system would be compatible with normal commercial trade. For that same reason we regard fixed maximum and minimum trading prices as both undesirable and unworkable.

The United States and other exporting countries also believe that we should seek to complement an agreement on wheat with meaningful liberalization of world grain trade so that efficient producers retain adequate incentive to maintain their output and so that one or two countries do not have to carry the full burden of adjustment to changes in global conditions.

We must recognize that agricultural trade negotiations are not going to result in fundamental changes in the domestic agricultural support policies of other grain producers. Nevertheless, we believe that some modifications of these policies are possible which would enable the U.S. to compete for an equitable share of the growing world grain market. We approach these negotiations pragmatically and are prepared to be flexible on the ways in which grain trade issues are handled. If satisfactory agreements cannot be worked out, however, the United States obviously will have to protect its interests. There is no likelihood that the U.S. would participate in an agreement that did not result in an equitable sharing of the burden of adjustment to changes in world demand.

However, if the international community can achieve agreement to stabilize conditions in world grain markets and improve food security and combine these with a lowering of barriers to trade in agricultural products, then we shall have greatly enlarged prospects for continued growth of world trade and for greater economic well being for all nations.

Senator ROTH. At this time, I would ask Mr. Hammer, assistant director of the American Farm Bureau Federation, to come forward.

Mr. Hammer, the hour is growing late. I think the committee would appreciate it if you could summarize your remarks. In any event, you are free to read them if you want to.

STATEMENT OF THOMAS A. HAMMER, ASSISTANT DIRECTOR FOR NATIONAL AFFAIRS, THE AMERICAN FARM BUREAU FEDERATION

Mr. HAMMER. I will try to summarize this as quickly as I can and leave it open to questions.

We do appreciate the opportunity to present the Farm Bureau's views on this very important matter. Many of the statistics that I have enumerated in my statement about the importance of agricultural trade, not only to the farmers but to the Nation as a whole, have already been well brought out, so I will skip over that, if I may, please, and I will begin to paraphrase.

There are benefits which have been achieved because we are the most efficient and productive agricultural system in the world. However, to insure this expanding, highly efficient and profitable production of food and fiber, we need an economic climate which will permit a high and expanding level of mutually advantageous international trade.

Given the proper economic incentive, farmers will continue to expand production not only for our domestic market, but for world markets as well. Because U.S. farmers and ranchers are efficient producers, their commodities are generally competitively priced in the international marketplace. To insure that this condition continues to exist, Government farm programs should be designed to create conditions which will permit farmers to operate under the market system. Government support programs must be carefully designed and implemented in order to protect our competitive position in world markets and to avoid undue interference with market directed adjustments in production and marketing.

If Government price support programs reach levels that are higher than world market prices, U.S. agricultural commodities will lose their competitive advantage in the world market and American farmers will become residual suppliers. Should this condition occur, it would be most difficult to continue to expand agricultural exports as has been done in the 1970's.

U.S. farmers and ranchers have demonstrated that they have the ability to compete for export markets in spite of the fact that an estimated two-thirds of U.S. agricultural product exports is subject to some form of restriction in foreign markets.

Agricultural trade barriers come in a variety of sizes and shapes. In addition to the more traditional tariff barriers there are literally hundreds of nontariff barriers affecting international agricultural trade. It would be difficult to enumerate all of the trade barriers that tend to distort or impede the normal volume, composition, and direction of agricultural trade; however, some of the more common barriers are variable levies, quotas, import levies, export subsidies, product standards, licensing arrangements, customs valuation methods, nuisance health regulations, and Government procurement practices.

American farmers are monitoring with keen interest the development at the multilateral trade negotiations in Geneva, Switzerland. These trade talks provide great opportunities for action to expand mutually advantageous trade through reciprocal agreements to reduce both tariff and nontariff barriers.

American farmers are more dependent upon international trade and export markets than any other segment of the American economy. The objective at the present trade negotiations in Geneva is to preserve—at a minimum—and to improve—if possible—American agriculture's current competitive position in world trade.

Previous international trade negotiations have been confined largely to the reduction of tariffs. Because the Tokyo round will also address the problems of nontariff barriers, it promises to be the most far-reaching round of trade talks to date. This is highly significant because what takes place during these trade negotiations may have an impact on international trading rules and patterns for the years to come.

It is imperative that agriculture be allowed to compete in world markets without impairment by international commodity agreements or stockpiling arrangements. Such agreements penalize efficient producers and encourage uneconomic production. They base the opportunity to expand markets on political negotiations rather than on one's economic ability to compete. Such a situation is not in the interest of U.S. farmers and ranchers, would have a tendency to reduce their competitiveness in world markets, and, therefore, would lead to a reduction in U.S. agricultural exports rather than an expansion.

If farmers are to keep their hard-won markets and maintain a high volume of exports it is important that our Government refrain from taking actions, such as embargoes and moratoriums, which will tarnish our reputation as a reliable source of supply and cause our trading partners to seek alternative sources of supply.

Given the proper climate, prospects for future expansion of U.S. agricultural trade look bright. We shall continue to have strong demand in traditional markets such as Japan and Western Europe. In addition, as the nations of the third world continue to develop and become full partners in the international commercial marketplace, they will demand more of our food and fiber. In recent years, the nonmarket economy, or Communist bloc nations, have been a very important market for U.S. agricultural commodities.

Emphasis should be placed on expanding commercial trade relations with the Soviet Union, other Eastern bloc countries, and the People's Republic of China. Farm Bureau firmly believes that the United States should immediately approve nondiscriminatory tariff—most-favored nation—treatment of goods from these nations.

In conclusion, if U.S. agricultural commodities and products maintain their competitive prices and high quality—and if the Government will refrain from imposing export embargoes or moratoriums, or entering into international commodity agreements—there is a very little doubt that we shall continue to experience a continuing expansion of agricultural exports.

Senator ROTH. Thank you.

As one who is generally opposed, as your organization is, to embargoes, I wonder if you would care to comment on Pat Moynihan's question to our earlier witness. Are there any circumstances where the Farm Bureau would make an exception?

For example, I agree with the statement that Senator Moynihan made about the deep division between the Communist countries and democracy. Would your organization support the use of embargo under any circumstances where it would be helpful in this conflict?

Mr. HAMMER. Our statement has been clear over the past several years. The only condition which we think an embargo would be justified would be in some sort of national security situation. What you are referring to would fall into that category. Of course, we would not supply the enemy, so to speak.

For example, take the Soviet Union. We have, as a principle, one of détente with the Soviet Union, and we also have one of advancing human rights around the world. I think détente in part is based on commercial trade. That is my understanding of the state of being we were in.

If we were moving in the direction of more international involvement and better mutual understanding, then trade can play a large part in that.

Senator ROTH. Do you feel making certain requirements with respect to cargo preference would place our wheat and other crops in an adverse position seriously?

Mr. HAMMER. I think the passage of the cargo preference bill would set a dangerous preference for agricultural products. Freight is one of the terms of the sale that will determine whether or not we are competitive; and if we are required to haul the U.S. agricultural commodities under our U.S. bottoms and their rates—I have seen some quotes that are two to three times as expensive as others—it would definitely have an adverse effect on our competitiveness.

Senator ROTH. There was a question asked of our earlier witness with respect to CAP. I wonder if you would care to comment on recent developments in this area in the negotiations in Geneva.

Mr. HAMMER. Yes, sir. For many trade negotiations, the European Community and the United States have discussed the existence of the CAP or common agricultural policy. I must say at the outset we are happy that the European Community exists as a political entity. I think it is very necessary.

I also recognize that the Europeans feel that if they are to exist as a political entity, then they must have some sort of economic base of structure.

At present, the only workable economic program that they have is the CAP. Having said that, I would not want to relax our stand against seeking modifications and/or limits to the uses of the variable levies and the export subsidies and the various practices that are part and parcel of running the CAP. We are not going to dismantle it; we are not going to get rid of it.

The example of our good Yankee trading senses and our ability to negotiate some concessions could be seen in our soybean binding. If we take the attitude we would not try to penetrate the variable levy, we would not have our present soybean concession.

I would hate to see us say that we are not going to try to make some modifications in this negotiation.

Senator ROTH. I see your concern.

Senator Dole?

Senator DOLE. With reference to page 3 of your statement, you indicate that emphasis should be placed on expanding commercial trade relations with the Soviet Union and other Eastern bloc countries. Are you saying that you support the standing Commodity Credit Corporation credit to those countries?

Mr. HAMMER. Senator, I am sure you are familiar with Farm Bureau policy which is generally my "crutch" for making the statement. At the present time, I can find nothing in our policy that addresses Commodity Credit Corporation to non-Communist countries.

However, I will give you some background also. We do favor the expansion of most-favored-nation treatment to the U.S.S.R. We did ask for the deletion, and we did oppose title IV of the Trade Act of 1974, which is, as was mentioned here earlier, the Jackson-Vanik amendment. It is that particular amendment that has led us not to be able to grant most-favored-nation status to certain countries, and also prohibited the granting of government credits to these nations.

We were opposed to that section.

I would also say I would agree with the statement earlier that we would not want government credit to supersede commercial credit, if that was an alternative. However, it is my judgment, Senator—and if this question continues to receive more attention, we will be discussing this further in our meetings—it is our judgment that if the farmers and ranchers of our organization believe not having CCC credit would lead to a loss of their competitiveness, I would have to think they would favor it.

I have given you the history up to this point in time; that is the best answer, sir, I can give you.

Senator DOLE. It is fair to say that there are very broad foreign policy philosophical issues involved as far as trade with nonmarket economies are concerned. Senator Moynihan has already indicated the rather widespread resistance to repealing the Jackson-Vanik amendment as far as the Commodity Credit Corporation credits are concerned. On the other hand, there are indications insofar as the People's Republic of China and even the Soviet Union that there is strong support for extending credit. Of course, we will do so only if it is in our national interest.

That is what we are hoping to explore this morning. I am not certain what would happen if such a bill went to the Senate floor. I am not sure what Senator Jackson's reaction would be. I am fairly certain that as far as the Soviet Union is concerned he would oppose it. I am not sure what his attitude would be to the People's Republic of China. My own attitude would be opposition to Cuba, Cambodia, Laos, Vietnam and North Korea—countries that are considered not to be in our interests to trade with. I wanted to clarify that, and also I would ask to be made a part of the record at this point a letter I received on May 6 from Dale Hathaway, Assistant Secretary of the Department of Agriculture wherein he states that the President asked him to reply to my communications. It even makes it clear that somebody is speaking for the President. He has not taken a firm stand. He does suggest we would have to amend the act, which we are hoping to amend.

[The following was subsequently supplied for the record:]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., May 16, 1977.

Hon. BOB DOLE,
U.S. Senate.

DEAR SENATOR DOLE: The President has asked me to reply to your communication concerning the financing of exports of wheat to the People's Republic of China (PRC) under the CCC Export Credit Sales Program (CCC Credit).

I wholeheartedly agree everything possible should be done to increase exports of U.S. wheat. I have received other inquiries, principally from U.S. exporters, as to the possibility of CCC Credit financing of wheat exports to the PRC and I think the Department would be favorably inclined to establish such a line of CCC Credit. However, you are aware, there currently exists a major legal impediment to CCC Credit financing of wheat to the PRC, namely Title IV of the Trade Act of 1974 (familiarly known as the Jackson-Vanik amendment). The Foreign Trade Act does provide for waivers if concurred in by the Congress, but to waive proscriptions of the Trade Act to permit CCC Credit financing with PRC presents complications. For example, the President would have to obtain "assurances" from the PRC that it is relaxing its restrictions on emigration. I think the PRC would not give such assurances.

If there is a remedy, it would appear to be found in congressional amendment to the Foreign Trade Act. I have noted with interest your own introduction of S. 1415 to authorize CCC to provide credit on a non-discriminatory basis.

I am not sure, of course, if CCC Credit financing would do the job but I will look into the possibilities if the legal impediment is removed.

Sincerely,

DALE E. HATHAWAY,
Assistant Secretary.

Senator DOLE. I appreciate your statement. I think that it does support the need to expand exports, the need to reduce trade barriers, nontariff or otherwise. You have heard Senator Long's comments this morning. Does the Farm Bureau favor moving ahead with legislation on sugar as the chairman has suggested might happen?

Mr. HAMMER. Since the expiration of the Sugar Act, the Farm Bureau has been requesting imposition of a quota system more commensurate with our import needs, and that is where we have been. I must say we have been crying in the dark for a few years also on that, but that still remains the position of the American Farm Bureau.

Senator DOLE. Do you have any position on overriding the President's position in May and supporting a resolution that may be introduced in the Senate soon by Republicans and Democrats to adopt the recommendation of the U.S. International Trade Commission?

Mr. HAMMER. That would go in the direction which we have been seeking to go in, as I have said, for some couple of years now. Whether or not that will actually become a reality I think is another question.

Senator DOLE. We have some doubts, too, but we are pursuing it.

What about the administration's proposed stopgap action to help sugar producers?

Mr. HAMMER. I think I would have to characterize that as a disappointment.

Senator DOLE. Or a disaster. It is a disappointment. I do not really think it goes to the problem, even on a temporary basis. I am not certain of the Farm Bureau's position on payment limitations, but the Senate supports a limitation at least keeping it in line with other commodities.

Mr. HAMMER. The Farm Bureau is opposed to payment limitations across the board.

Senator DOLE. I appreciate your statement, and it will be made a part of the record.

Mr. HAMMER. Thank you, Senator.

[The prepared statement of Mr. Hammer follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, PRESENTED BY THOMAS A. HAMMER, ASSISTANT DIRECTOR, NATIONAL AFFAIRS

We appreciate this opportunity to present Farm Bureau's views on the expansion of U.S. agricultural exports.

Farm Bureau is a voluntary organization of 2,676,259 families in forty-nine states and Puerto Rico and is the largest general farm organization in this country.

U.S. agriculture has a huge stake in an expanding level of international trade. The export market has become vitally important to the U.S. farmer, absorbing the production from more than one-fourth of his cropland. During fiscal year 1976 the U.S. farmer exported almost 60 percent of his wheat crop, about one-half of his soybeans, 40 percent of his cotton crop, nearly one-third of his grain sorghum, and better than one-fourth his corn, rice, and tobacco crops.

The increasing importance of U.S. agricultural trade to the total economy can be demonstrated by comparing international trade statistics over the past few years. U.S. agricultural exports during fiscal year 1976 equalled a record $22.1 billion. This is the sixth consecutive year agricultural exports have reached record high values; and U.S. exports in fiscal '77, based on a strong first half performance may reach $24 billion, or more than $1 billion above the 1975–76 total.

Net U.S. agricultural trade balances have grown from a small surplus of $0.6 billion in 1970 to a huge surplus of $12 billion in 1976 (a twenty-fold increase) while, on the other hand, net nonagricultural trade has declined from a modest surplus in 1970 to consistently large deficits in the past few years.

As these favorable trade statistics indicate, U.S. farmers and ranchers annually produce much more food than is required for domestic consumption. This enormous productive capacity and resulting availability of food for export has contributed greatly to farm income and national strength.

In 1976 overseas markets took better than one-fourth of all commodities harvested on U.S. farms. About $1 in every $5 of gross farm income comes from these exports. Also, for every $1 that is earned by the farm sector from exports, another $1.33 is generated in the rest of the economy for such services as transportation, financing, warehousing, and supplying farmers with machinery, fertilizer, and other goods. Thus farm exports of $22 billion will generate approximately $50 billion worth of total business activity in the United States.

Some 1.2 million jobs, both on and off the farm, are related to exports of farm products. Of these more than 650,000 are nonfarm jobs.

The United States greatly needs a surplus from its agricultural trade in order to pay for imported oil which has quadrupled in price and for other imported raw materials and consumer goods. We will need an even greater agricultural trade surplus in years to come.

The growth of commercial agricultural exports and their contribution to our balance of trade has helped to maintain the value of the dollar in world markets.

In addition to these benefits, U.S. agricultural exports have played a very important role in our relations with other countries. During the past several years, our increasing ability to export agricultural commodities has helped build a firm domestic base for our political and economic foreign policy.

These benefits have been achieved because we have the most efficient and productive agricultural system in the world. However, to ensure this expanding, highly efficient, and profitable production of food and fiber, we need an economic climate which will permit a high and expanding level of mutually advantageous international trade.

Given the proper economic incentive, farmers will continue to expand production not only for our domestic market but for world markets as well. Because U.S. farmers and ranchers are efficient producers, their commodities are generally competitively priced in the international marketplace. To ensure that this condition continues to exist, government farm programs should be designed to create conditions which will permit farmers to operate under the market system. Government support programs must be carefully designed and implemented in order to protect our competitive position in world markets and to avoid undue interference with market directed adjustments in production and marketing. If government price support programs reach levels that are higher than world market prices, U.S. agricultural commodities will lose their competitive advantage in the world market and American farmers will become residual suppliers. Should this condition occur, it would be most difficult to continue to expand agricultural exports as has been done in the 1970's.

U.S. farmers and ranchers have demonstrated that they have the ability to compete for exports markets in spite of the fact that an estimated two-thirds of U.S. agricultural product exports is subject to some form of restriction in foreign markets.

Agricultural trade barriers come in a variety of sizes and shapes. In addition to the more traditional tariff barriers there are literally hundreds of nontariff barriers affecting international agricultural trade. It would be difficult to enumerate all of the trade barriers that tend to distort or impede the normal volume, composition, and direction of agricultural trade; however, some of the more common barriers are variable levies, quotas, import levies, export subsidies, product standards, licensing arrangements, customs valuation methods, nuisance health regulations, and government procurement practices.

American farmers are monitoring with keen interest the development at the Multilateral Trade Negotiations in Geneva, Switzerland. These trade talks provide great opportunities for action to expand mutually advantageous trade through reciprocal agreements to reduce both tariff and nontariff barriers.

American farmers are more dependent upon international trade and export markets than any other segment of the American economy. Our objective at the present trade negotiations in Geneva is to preserve (at a minimum) and to improve (if possible) American agriculture's current competitive position in world trade.

Previous international trade negotiations have been confined largely to the reduction of tariffs. Because the Tokyo Round will also address the problems of nontariff barriers, it promises to be the most far-reaching round of trade talks to date. This is highly significant because what takes place during these trade negotiations may have an impact on international trading rules and patterns for the years to come.

It is imperative that agriculture be allowed to compete in world markets without impairment by international commodity agreements or stockpiling arrangements. Such agreements penalize efficient producers and encourage uneconomic production. They base the opportunity to expand markets on political negotiations rather than on one's economic ability to compete. Such a situation is not in the interest of U.S. farmers and ranchers, would have a tendency to reduce their competitiveness in world markets and, therefore, would lead to a reduction in U.S. agricultural exports rather than an expansion.

If farmers are to keep their hard-won markets and maintain a high volume of exports it is important that our government refrain from taking actions, such as embargoes and moratoriums, which will tarnish our reputation as a reliable source of supply and cause our trading partners to seek alternative sources of supply.

Given the proper climate prospects for future expansion of U.S. agricultural trade looks bright. We shall continue to have strong demand in traditional markets such as Japan and Western Europe. In addition, as the nations of the third world continue to develop and become full partners in the international commercial marketplace, they will demand more of our food and fiber. In recent years, the nonmarket economy or communist bloc nations have been a very important market for U.S. agricultural commodities. Emphasis should be placed on expanding commercial trade relations with the Soviet Union, other Eastern bloc countries, and the People's Republic of China. Farm Bureau firmly believes that the United States should immediately approve nondiscriminatory tariff (most-favored-nation) treatment of goods from these nations.

In conclusion, if U.S. agricultural commodities and products maintain their competitive prices and high quality—and if the government will refrain from imposing export embargoes or moratoriums, or entering into international commodity agreements—there is very little doubt that we shall continue to experience a continuing expansion of agricultural exports.

Senator DOLE. We next have Seymour Johnson, chairman of the American Soybean Association, and John Curry, National Corn Growers Association.

They will be followed by another panel of Joe Halow and Norman Weckerly; and then another panel of Joe Williams, Frank Snodgrass, and G. L. Seitz.

Gentlemen, you may proceed any way you wish. There is considerable interest in this problem, as expressed by the seven or eight Senators who have been here this morning and as indicated by the presence of Mr. Katz and Secretary Bergland. We are pleased to make your statements a part of the record.

You can summarize or comment on what is stated, but I hope specifically you will comment on what we hope to be the thrust of the hearings on extending credit as suggested in the introduction of legislation cosponsored by Senators Talmadge, Curtis, Clark, Humphrey, and myself.

You may proceed.

STATEMENT OF SEYMOUR JOHNSON, CHAIRMAN, AMERICAN SOYBEAN ASSOCIATION

Mr. JOHNSON. I will try to be as brief as possible.

The importance of agricultural exports to our Nation is something we should not take lightly. We all know that without ag exports to offset them, our industrial trade deficits would have destroyed the Nation's economy long ago. Without foreign markets, American farmers would not be able to produce to their full capacity and taxpayers would be still footing the bill for expensive farm programs that pay farmers not to produce. Farm exports provide jobs for over a million American workers, help pay for the items our Nation must import, such as petroleum and coffee, and help keep the American dollar strong.

Farm exports can continue making these important contributions to the Nation's economy—and make even greater ones—only if we keep working to expand the markets for our farm products. We cannot stand still. The markets are up there, but so is the competition. And our competitors are working hard to get every bit of the world market they can get.

The need to seek new markets for American farm products will be especially important this year, if the June acreage reports are any indication.

I might say that we are looking at a record soybean crop. It looks like we will be facing a bumper crop, not only for soybeans, but for most major crops. There has never been a better time to seek out new foreign customers for America's agricultural bounty, and I would like to recommend three steps Congress can take in that direction.

The first would be to beef up the market development activities conducted by the USDA Foreign Agricultural Service in cooperation with producer organizations such as the American Soybean Association.

We commend the Senate for including nearly a $4 million increase in FAS funding in its ag appropriation bill, and we hope that when this bill goes to conference committee, the House conferees can be shown the importance of approving this funding increase.

My second recommendation is for Congress to approve the use of 5 percent of our Public Law 480 proceeds—about $50 million—to help foreign countries finance construction of facilities that will help them better use the agricultural commodities they import from the United States. These would include facilities for unloading, storage, processing, and distribution. Our assistance would be in the form of a loan, so there would be no cost to the U.S. Treasury. Secretary Bergland himself, speaking on the Today show recently, said Public Law 480 funds could be used to good advantage in this type of project.

Again, we commend the Senate for including such a provision in its Public Law 480 legislation, even though the measure was stricken from the bill during conference committee. Within the next few days, we expect a similar provision to be introduced on the floor of the House as an amendment to the House omnibus farm bill. If the House passes this amendment, we hope the farm bill conference committee will retain the provision as part of the final legislation.

My third recommendation is that the Senate and the House approve the bill introduced by Senator Dole to extend CCC credits to some nonmarket economy countries that do not receive most-favored-nation treatment from the United States. As you know, this bill would amend the Trade Act of 1974, which does not allow CCC credit sales to such countries.

Some of these countries—particularly the Soviet Union, People's Republic of China, and several of the Eastern European nations represent very important markets for agricultural commodities. We could be missing the boat by failing to offer them CCC credits, because if we don't, someone else will. Then we will have lost several important long-term customers by default.

First, it should be pointed out that Senator Dole's bill does not extend to these countries any of the benefits of most-favored-nation treatment other than CCC credits. And CCC credit is not an aid program. The only advantage it offers is that the credit can be extended up to 3 years, while regular commercial credit requires the borrowing country to repay the loan within 1 year. The money is repaid with interest at a rate very close to the commercial rate—so no one can construe this to be a handout.

In fact, we are hurting ourselves—not the People's Republic of China or the U.S.S.R.—if we fail to extend CCC credits to these countries. They will undoubtedly find some other country to sell them the commodities they want at more favorable credit terms. We will simply be putting ourselves out of the running.

The purpose of the CCC credit sales program is to expand the market for U.S. agricultural products by offering favorable credit terms. In other words, if credit is the only obstacle keeping certain countries from entering the market, adding them to the eligibility list would result in the development of new markets.

There are several factors that should be considered in deciding to grant CCC credit to nonmarket economy countries.

First, are they a good credit risk? In 1972, before it was prohibited in the 1974 Trade Act, the United States agreed to extend CCC credit to the U.S.S.R. in the amount of $750 million. The Soviets used the credit and repaid the loan over a 3-year period. Other credit history has also shown that the Soviet Union and the other countries involved do repay their loans.

Second, is there a demand for CCC credits in these countries? The answer to this question is also yes. Several Eastern European nations have inquired about the credit, but had to be turned down because of the 1974 Trade Act.

And third, what kind of credit is available in other exporting countries? One example is Canada, where the Government sells all the nation's wheat through a marketing board. This marketing board is able to offer credit for more than one year because of a Government subsidy. When the People's Republic of China recently needed to purchase a large amount of wheat, it did not buy one bushel from the United States, where the commercial credit would have to be repaid in 1 year. Instead, it purchased 6 million tons from Canada under more favorable credit terms.

Some people might argue that we should not use U.S. tax money to grant CCC credit to countries that do not qualify for most-favored-nation treatment. However, we should consider what we lose by letting other exporting countries outbid us with better credit terms. If we do not find more markets for surplus commodities such as wheat, the surplus will lower the price and reduce farm income.

Then we will have to spend our tax dollars for price supports, Government acquisition of stocks and storage. Certainly the benefits of creating new markets through CCC credits would more than offset the cost of extending these favorable credit terms.

Last week President Carter spoke of his efforts to establish a good relationship with the People's Republic of China, and the difficulties involved. I would like to suggest that extending CCC credits would be one way to speed this process along. In fact, improved relations with other nations may be one of the most important benefits to be gained from extending the CCC credits.

Gentlemen, I appreciate the opportunity of presenting the views of the American Soybean Association on a subject of great importance to all Americans. I believe the steps I have outlined will go a long way toward expanding the agricultural export trade which is so vital to American soybean farmers and our Nation's economy.

Senator DOLE. Thank you, Mr. Johnson.

Mr. Curry, I hope that you will be able to summarize.

STATEMENT OF JOHN CURRY, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. CURRY. I am John Curry. I raise corn, wheat, soybeans, hogs, and cattle in Victoria, Ill. I am currently president of the National Corn Growers. I appreciate the opportunity to be here and would like to submit our testimony to be put into the record in toto.

Just a few points in addition to what I have heard today. Our dependence as corngrowers on the export market is well documented.

It is well documented within the statement. Corn production outlook on the farm at this point is quite favorable with some reservations.

The crop is advanced in development. Probably 2 weeks ahead of schedule. The foliage is very abundant; it has a highly abundant photosynthesis. The reservation is in moisture. In the corn belt, moisture is 50 percent of normal in subsoil. We have 15 counties in Iowa that are making application for disaster loans.

So we are dependent on current and timely rainfall, and it is generally true this time of year, but probably a little bit more so this year.

Conceivably, we can have a corn crop in excess of 6.5 billion bushels, or less than 5.8 billion bushels. Either one of them, if coupled with 1 billion bushels of wheat as potential livestock feed spells disaster as it relates to price for the corn farmer. It seems to be a case of a degree of disaster pricewise this year. So we are in strong support of credit terms extended to countries which are emerging as potential dollar long-term buyers. It really makes sense down on the farm.

We are in support of assistance and credit to improve the port storage facilities and transportation to long-term potential buyers of our product. The attitude down on the farm is, we have been asked to produce, we are producing. We have been assured that there is a market available at reasonable prices. We think it is time for accountability.

We have heard the plea for reserves. We are reassured that they will be treated as reserves, not as price depressing surpluses. We are doubtful, but we borrowed the money, we extended the effort, we produced it. Again, it is time for accountability.

As a part of that accountability, we think this committee is to be commended for recognizing the important contribution that the U.S. agriculture performs in the interest of both the American farmer and the U.S. economy. The opportunity to address this agricultural trade problem, and to offer for your consideration our recommendations on trade is most appreciated.

Thank you.

Senator DOLE. Thank you.

I have listened to the testimony and checked to make certain that you do address, on page 6, specifically section 402 of the Trade Act of 1974. You have also commented on the Jackson-Vanik amendment, which I think will be helpful for those who studied the record. It has been indicated already that there is going to be a difference of opinion in this committee. There are going to be some who say well, you represent farmers, you are selfish, you see a chance to improve markets. It is not in the best interests of this country.

That is essentially the argument. Others will want to use trade as leverage to free emigration policies in Russia. I voted for the Jackson-Vanik amendment. It has not loosened up emigration. It may have had just the opposite effect. There may be some of those who supported that act who would not object to extending Commodity Corporation Credit as Mr. Johnson pointed out. It is not aid, it is credit.

Secretary Bergland indicated that the CCC program makes a profit. It does not cost the taxpayers. Countries using it have a good credit record.

I would hope that we can focus on this very quickly and then move it out of here so that we can have some immediate relief. Certainly we are going to need it with a big corn crop. Prices now for soybeans, wheat and corn are on the decline. This will be very helpful.

If there is anything I missed, you may go ahead.

Mr. JOHNSON. I would like to address myself to the question Senator Moynihan raised. We are talking about a device in CCC credit when we have a large surplus of grain. This is a competitive device. He is talking about a shortage. This is an entirely different subject.

Senator DOLE. Right. It just seems to me that it is an alternative to the Government getting back into the agricultural business, which I hope that they do not, or to large export subsidies, which I have doubts about. It is an alternative that we should adopt.

It is not going to cost the American taxpayer. It does not do violence to any agreement or any other concern we have right now with PRC or Russia. In fact, some would argue, as noted in your statement, it does tie in with President Carter's statement last week on the People's Republic of China. As far as Russia is concerned it ties in with détente. It does tie in with the Helsinki Final Act, which will be accomplished in Belgrade in October.

There are considerations on each side. If we do not find some method to expand our exports, the farmer will be the one who suffers. It deserves a serious look. I appreciate your taking the time to come and help us make a record. Thank you.

[The prepared statement of Mr. Curry follows:]

STATEMENT OF JOHN CURRY, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. Chairman and members of the committee, I am John Curry, a corn farmer from Victoria, Illinois and currently President of the National Corn Growers Association. This organization, as its name implies, is a nonprofit association of the corn producers from throughout the United States who are dedicated to improving conditions for the production, processing and marketing of their primary income commodity—corn.

The efficiency and productivity of the American corn grower is well documented through record world yields which are rapidly approaching 100 bushels per acre on a national-average basis, and through the utilization of the largest share of our U.S. cultivated acreage . . . in excess of 80 million acres annually.

These combined capabilities have enabled the American consumer to enjoy the lowest food costs of any country in the world, even at a time when our costs of production—due to the impact of escalating energy and real-estate values—have nearly tripled during this current decade.

Our solution has been the international market-place and a global dependence upon the competitive and consistent U.S. supplies of the basic commodity essential to a growing international demand for high animal protein diets.

The American corn farmers specialized investment in this capital-intensive production commits him to the continued fullest utilization of all of his resources if he is to survive economically. Continued developments in technology indicate the potential of an 8 billion bushel national corn production by the year 1980—with a stabilizing domestic population and demand that is not likely to exceed an annual usage of over 5 billion bushels of that production.

Today, American corn growers represent the largest bulk commodity exporter with only 25 percent of their total production. Currently 1.7 billion bushels of our production flows into the international market and contribute over $6 billion to the total U.S. agricultural export picture which is projected to reach $24 billion in fiscal year 1977.

The rapid turn-around in global supply-demand relationships and the resulting buildup in international stocks of corn and competitive substitutes, linked with the above potential expansion in U.S. productivity necessitates the renewed development and expansion of our competitive access to international markets.

This committee is to be commended for recognizing the important contribution that U.S. agricultural trade performs in the interests of both the American farmer and our U.S. economy. The opportunity to address agricultural trade problems . . . and to offer for your consideration . . . recommendations for further expanding the trade of our most profitable sector, from a balance of payments point of view, is most appreciated.

In 1954, the Congress enacted the Agricultural Trade Development and Assistance Act—more commonly referred to as Public Law 480, or, Food For Peace Program—which continues to effectively serve as one of the finest pieces of legislation in the interests of its original intent to (1) expand and develop markets for U.S. agricultural commodites, and (2) combat hunger, malnutrition and to encourage economic development in the developing world.

Although there has been growing criticism of Public Law 480 in recent years, attributed largely to the judgment of its use during the Vietnam crisis years, it is imperative that the basic intent(s) and Congressional support for this vehicle be maintained in its fullest context; and that modifications be implemented to further strengthen its ability to address the development and expansion of markets, with specific attention being given to:

Consideration and support for and amendment that I understand will be introduced in conjunction with H.R. 7171 (Agricultural Act of 1977) which would authorize the Secretary of Agriculture to specify under Title I sales agreements not less than 5 percent of the proceeds derived from the sale of commodities for all agreements for the implementation of mutually-beneficial projects in those countries which would improve the storage, transport, processing, and distribution facilities in the interests of accommodating greater utilization and importation of our agricultural commodities.

The primary trade expansion opportunities of U.S. agricultural exports today are in the developing nations of the world, who through competitive labor forces and increased purchasing power are demanding better dietary standards. In many cases, these countries lack the essential infrastructure—or the financial ability to develop it—essential, to the efficient and effective use of our commodity imports and the products derived therefrom.

Public Law 480 further provided for the implementation and supplemental funding of a unique government-industry market development program. Since the implementation of this program in 1956, the market development and maintenance activities and projects of some 42 commodity organizations, and trade associations in cooperation with the U.S. Department of Agriculture have contributed substantially to an increase in our total U.S. agricultural exports at that time of less than $3 billion to a projected record $24 billion this current year.

Through the active efforts of the U.S. Feed Grains Council which has served the market development interests of the American corn growers since its inception in 1960, we are today enjoying a record foreign demand for 1.7 billion bushels of our production. Without the development efforts that have taken place abroad and the resultant expansion in demand for our productivity, the corn growers of this country would have faced severe economic price and income depression.

In order to effectively maintain current markets and expand market development efforts in a wide range of emerging commercial markets, it is essential that Congress renew its support and attention for this program so as to enable market development organizations, such as the U.S. Feed Grains Council, to effectively expand their promotional endeavors into the potentially emerging areas of the USSR, Eastern Europe, Middle East, Africa, Latin America and Southeast Asia.

Given the resources to immediately and effectively address these potential demand areas through technical and infrastructural assistance, it is estimated that U.S. corn exports could be increased by an additional 25 percent by 1980.

The global fears of 1973, over world food shortages, are today being expressed in the form of expanded production and stocks in a multitude of countries for the dual purposes of food security and foreign exchange earnings as a result of fluctuating commodity prices in recent years. This build up will serve to create an international marketing environment of far greater competition and internal protectionalistic policies that serve as major obstacles to the continued expansion of U.S. agricultural trade. These obstacles can be effectively addressed in both the ongoing multilateral trade negotiations—and—through a sincere reevaluation of our export credit and finance assistance policies for commercial U.S. agricultural exports.

The U.S. must continue to press for trade liberalization through the GATT negotiations so as to further insure our accessibility to markets and their resultant growth potential without the hindrance of trade barriers. Specifically, negotiations with the European Economic Community (EEC) must continue on a joint agriculture-industry basis to assure no further concessions on the part of U.S. agriculture.

A study last year by USDA's Foreign Agriculture Service for the Agricultural Trade Policy Advisory Committee (APAC) concludes that if certain maximum levels were negotiated with the EEC on their import levies and bound under GATT—with gradual reductions until 1990, that grain exports into the EEC would increase by 2 million metric tons per year . . . or 28 million metric tons by 1990. The study further concludes that with a reversal in protectionistic policy trends, total global grain demand would potentially increase by over 50 million metric tons.

The liberalization and extension of our trade finance and credit policies is of major importance as competitor countries offer incentives in the interest of their own trade growth and foreign currency earnings.

Section 402 of the "Trade Act of 1974" severely restricts the competitive commercial capability of the U.S. to maintain and expand agricultural exports through the restriction of the extension of Government credit program to, nonmarket economies.

Respecting the intent of the Jackson-Vanik Amendment and the posture of this Administration on the issue of human liberties, the importance of maintaining trade relations and the expansion of supply dependence that could be achieved through the liberalization of the Commodity Credit Corporation's credit programs to the USSR, East Germany, People's Republic of China, Hungary, Bulgaria, etc. are vital to the maintenance of valuable trade relationships and the expansion of agricultural markets for U.S. commodities.

The nonmarket economies not only offer major export growth potential for U.S. agricultural commodities, but have exhibited dependable credit responsibility and a strong desire to expand trade with the United States. Their lack of hard currency and increasing foreign currency indebtedness necessitates—however, that they buy under the best available credit terms. Our current policy of excluding them from CCC credit participation has . . . and will continue to result in the loss of markets to our competitor producers.

In summary, the (1) maintenance of the principles of Public Law 480; (2) expansion of market development funding; (3) implementation of provisions for infrastructure development; (4) negotiations toward expanded trade liberalization; and (5) proclusion from the Trade Act of Commodity Credit Corporation restrictions in non-market economics would serve to relieve major problems to be encountered in the expansion of U.S. agricultural exports.

I appreciate the opportunity to express these views and extend the fullest support of our Association toward the resolve of the above addressed problems.

Senator DOLE. Now, Mr. Joe Halow and Norman Weckerley.

STATEMENT OF JOE HALOW, EXECUTIVE DIRECTOR, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.

Mr. HALOW. In the interests of time, I will not even attempt to summarize the statement, but I will address myself, if I may, to the subject of CCC credit, which I think is the main purpose of the hearing. I do want to say, however, that I think if the United States wants to expand its exports, it has got to realize that it depends on them for commercial reasons.

The United States cannot be an on-again/off-again exporter. It cannot really attempt merely to make its export efforts, or strong export efforts, in the years of surplus. I think we have to be in the market all the time; otherwise, the importing countries will really look to someone who is there all the time, if the United States cannot be.

I want to say also I think, unfortunately, this year is not a particularly promising one in terms of any export expansion before the season is over, for reasons already described here today.

With regard to CCC credit, in our statement we would very strongly endorse the extension of CCC credit to the countries listed in the amendment. I disagree with the statements which were made here earlier to the effect that extending CCC credit to the Soviet Union would, in effect, aid and abet our enemies. I think that we have to look at what our own goals are and try to determine whether or not holding back on CCC credit would accomplish any of them. I frankly seriously doubt that it would.

I do not think that we could for example, come to the Soviet Union in a year such as this one and urge them to buy from us without having them possibly consider exacting some concessions from us, if we are going to continue to attempt to obtain some concessions from them whenever they have a serious need.

I also remember very vividly the experience of 2 years ago when the Soviets had a very serious crop shortfall. They had what must have been a shortfall of about 40 million tons of grain even after they had imported grains from the United States. They did not buy the additional 40 million tons of grain, and the Soviets are still there. I have not seen a Soviet who did not look at least adequately fed.

I think that really possibly is the only comment I want to make.

Senator DOLE. Your statement will be made a part of the record.

The point you emphasized is right on target. I think that we look at this from our self-interest, recognizing that they are looking at what they do in their self-interest and having looked around at all the possibilities, you are right. We are in a surplus situation. It is going to be tough this year to find many export outlets. That means more difficulty for the farmer next year in wheat-producing areas. It is going to be even worse since prices have dropped from $4.40 to $1.90 and $1.80.

Mr. HALOW. I would say if we were to actually exclude the Soviet Union from the particular listing of countries and extend CCC credit to the others, I cannot imagine the Soviet Union would consider that as anything but a very serious slight. I do not know what they would then think in considering doing business with the United States in the future, and I frankly would wonder what might happen to the future of the agreement which we have with them at the present time.

Senator DOLE. I think that is the other side of the coin. If you single out everyone, all but Russia, the message is very clear. But I can say, after visiting with some of those Senators who pursue the Jackson-Vanik amendment with diligence, they apparently have to soften their views.

Mr. Weckerly?

STATEMENT OF NORMAN D. WECKERLY, CHAIRMAN, COMMITTEE ON FOREIGN MARKETING AND CHAIRMAN, NORTH DAKOTA WHEAT COMMISSION

Mr. WECKERLY. I am an operating farmer and grain elevator man from North Dakota. I am currently chairman of the Committee on

Foreign Marketing of Great Plains Wheat. I certainly want to express the thanks of the Great Plains Wheat Association for my being able to testify here today.

I am going to try to summarize my statement very briefly, because a lot of the ground has already been covered. It has really been very interesting to me.

I would like to extend some of the concerns of wheat producers, and most of them are repeating other testimony but we certainly are concerned that the leadership of the United States seems to be so strong to reach international commodity agreements. I thought it was very interesting that it came out in the discussion today of how many of these have been successful.

We are concerned that strong feelings exist that trade with the United States must go hand and hand with a foreign country's adoption of domestic social policies in line with U.S. beliefs which, in effect, are closing off some of our good markets.

We are concerned over the protectionist philosophies being advanced by more and more groups in the United States. We understand, as free traders, that if we are going to sell them wheat, we have to accept commodities or other products back, and certainly this is at the heart of international trade policy, freeing up trade rather than restricting it, both from our side and the other.

However, it seems like the current policies of the United States could be aptly compared to the plumber who is so busy fixing other people's leaks that he fails to take notice of his own.

All of these considerations focus on our primary concern; that there appears to be little commitment in some sections of our economy to maintain the United States as the economic pace setter when it comes to world trade.

U.S. agriculture operates on the free market, free enterprise system, and although this at times places us at a disadvantage to major competitors who maintain Government control over such activities, we do not want to see our system changed and believe it would be disastrous to do so.

We certainly have a different set of problems to deal with in this world, different from the EEC or some of the other countries which do maintain a strong control over agriculture.

The policies of the EEC was brought up, and having watched these and been there a couple of times in the last 4 years, I see a completely different need for their system. I see their countries placing emphasis on being self-sufficient in agricultural production which of course, as I see some of our problems in the past with embargoes, it is no wonder that they do not want to be self-sufficient, because they cannot depend on other countries to be dependable suppliers.

When we talk of embargoes here, embargoes when it favors us. We just cannot have this. It has to be a two-way street.

Listening to the testimony this morning, it seems to me as a farmer it is time for us to quit assessing our problems and start doing something about it. It is fine to pin down the problem first, but all of this discussion really does not pay our bills.

We went through a whole year now of low wheat prices and many producers in our Great Plains are in some dire financial straits, and

I think the discussion about the Sugar Act and the sugar, wheat is either alongside it or close behind it when it comes to economic problems, and the trade, the rural trade and rural producers.

Addressing CCC credit, of course, Great Plains Wheat is for any liberalization of extension of CCC credit. I made the observation in Eastern Europe last fall when I was there that I do not believe that it is within our power to change these people from without. We cannot force them to do anything. We may be able to have some open trading with them, to have their people demand that their government change. But we have to trade with them and hopefully make them dependent on our agricultural commodities. This is certainly different from trading in guns or computers or other areas. Food is a basic human need.

In line with export assistance programs, we certainly are in favor of an increased program in market development. We see our findings each year, even though it is not decreased, it is under continual pressure to cut programs. We have a very strong challenge in Eastern Europe but yet we are trying to cover Western and Eastern Europe out of the same fence that we did cover Western Europe.

We see the same demands in South America and Africa and the Mideast where we are working to promote agricultural products. We certainly need the increase that was put in the export program by the Senate, and hopefully the House will also put that in.

We are also strongly in favor of the proposal that at least 5 percent of the proceeds from Public Law 480, title I agreements, be made available to the Secretary of Agriculture to be used as funds for the purpose of implementing storage and distribution facilities. We cannot sell these people commodities when they do not have any place to put them.

I do not believe it is within their means to build these on their own, but if we can help them, we are then helping ourselves.

Great Plains Wheat, in cooperation with other U.S. wheat interests, is also working toward the establishment of a technical assistance and training program in the United States for our foreign customers comparable to the Canadian Grains Institute in Winnipeg.

We are hoping we can achieve this, because, as we see it, promoting the market really is a big effort for technical assistance for them to teach them to use our wheats and change their dietary considerations. We want the United States to be a leader in the world marketplace, not a follower. We want the United States to act, not react. We want the United States to be the supplier of agricultural products, not the residual supplier after all other exporting countries have sold out.

We do not like it when the United States prospers only at the expense of others. We do not feel it is necessary to strive to achieve and maintain 100 percent of all markets. However, we also do not feel we should be forced to accept a position of last resort.

We can respond to and meet increases in demand more rapidly and effectively than any other country, but to do so we must be guaranteed that we will survive when lesser demand conditions prevail. A strong competitive position in the export market so that we can maintain our share of the market at all times can serve as that guarantee.

Senator DOLE. I appreciate your statement very much. It will be made a part of the record. I think you are probably right. What we need is some action. Of course, we hope to have some next week on the farm bill.

Some of us had hoped to have action on sugar before we go through the gyrations of international negotiations which sometimes are never ending.

I think even more important is trying to develop support. That is the purpose of this hearing, to make a record to see whether the farm groups really support such a proposition and then see how quickly we can move in the Congress to develop support.

Otherwise, it is sort of an exercise in futility. We hope, on the basis of the testimony we have had in the final panel, that we can go to our colleagues and say it is supported by this group, this and that group, and then maybe we can make some progress.

Thank you very much.

[The prepared statements of Mr. Halow and Mr. Weckerly follow:]

STATEMENT OF JOSEPH HALOW, EXECUTIVE DIRECTOR, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.

I am Joseph Halow, Executive Director of the North American Export Grain Association. Ours is a group comprised of 22 of the major grain exporting firms, which trade U.S. grains in all parts of the world. One of the principal goals of our members is the promotion of U.S. grain exports, and we, therefore, welcome this opportunity to present our views before you here today.

It has been several years since our grain export outlook has been as lacking in promise as it is this year. Many of the northern hemisphere wheat crops are already "made," and at the present time the corn crops also appear to be in very satisfactory condition. The only areas which appear to have an increased import need are the People's Republic of China and several countries in the Mediterranean basin which appear to have severe problems with crops this year. The United States expects to add greatly to an already large carryover, and, according to all reports, most of the other large grain producing and exporting countries have at least adequate stocks and expect to harvest large crops.

There could still be some surprises, but chances that this might happen continue to decrease as we go further into the season.

Under the circumstances it does not appear likely that there can be any early or easy answer to our current problem. This does not mean, nevertheless, that we should not now exert every effort to expand our exports wherever we can and to the greatest extent possible. We should make sure that conditions are as favorable as possible for expanding exports so that we are in a position to benefit from whatever opportunities develop, either in the near future or in the years ahead.

There are two ways to achieve the proper supply management: one is to cut back production and attempt to supplement farmer income through payments from the treasury; and the other is to continue to produce and export aggressively.

During the past several years agricultural programs have cost the U.S. taxpayer virtually nothing. Agricultural exports not only strengthened and helped finance U.S. agriculture, but they also made a very significant contribution to helping overcome what would have been much greater payment deficits to finance growing U.S. imports, particularly of petroleum. It would, therefore, make no economic sense to settle for the first option rather than for the positive solution offered by the second. The United States must realize, therefore, that it cannot be an on-again, off-again exporter of agricultural products but must gear its agriculutral policies and thinking to being a constant supplier of grains to the world and not merely on a crash basis whenever there is an immediate concern over surpluses.

Frequently in past export efforts the United States has concentrated more greatly on the so-called "traditional markets." It is, of course, extremely important to continue to cultivate these markets, but in most of them we may have already accomplished the major part of what we may hope to achieve there. In order to dispose of the increased grain production levels in the United States it is necessary to find new markets, and it is in this area where we should be expending more of our time and efforts. Some of those in the new market category and with the greatest potential are those in Eastern Europe and particularly the Soviet Union, the Middle East and Africa; and the People's Republic of China. Existing markets which merit a little more attention are those in Latin America. I did not name the European Community, although the Common Agricultural Policy poses one of the most serious impediments to grain imports. This issue has been discussed so much the last several years that its importance to U.S. exports is well understood. Reducing the barriers insulating EC countries from world grain markets would also reduce stress in periods of shortage. More grain would be diverted from animal feeding to human consumption and the degree of price change needed to signal these shifts would be smaller.

There are, however, some impediments to increasing our grain trade in the other areas which I mentioned, and there the United States might be able to act more directly.

1. The United States must be in a position to compete price-wise with other exporters. The U.S. lost a great deal of export business during the past marketing year because it was underbid by other exporters, principally Argentina and Canada. A loan rate for wheat, not in line with world wheat prices and out of line with the loan rate for corn, serves very effectively to price U.S. wheat out of the world markets and also prevents greater use of U.S. wheat for feed both in the United States and abroad. Although avoiding excessively high price floors is the only lasting solution to this problem, the U.S. may need to consider an export subsidy program as an interim device to discipline competitive underbidding.

2. The U.S. must also be able to compete abroad in offering credit for commercial sales. Recent sales by Canada to the People's Republic of China and Brazil were made possible through the extension of government financed credit. Australia has also sold wheat to the People's Republic of China with the help of government credit. We understand this committee is considering the extension of CCC credit to various countries, including the People's Republic of China and the Soviet Union. We would strongly urge the extension of such credit to Eastern European countries, the People's Republic of China and such other countries where it may be helpful in expanding commercial sales. We understand, however, that some objections have been raised to extending credit to the USSR, although there appears to have been no objection to the extension of CCC credit to the PRC. We feel such a slight would be irresponsible and a serious commercial mistake. The United States needs to sell grain to the Soviet Union at least as much as the Soviets need to buy grain from the United States. Unless the United States demonstrates to the Soviet Union that we want to sell grain to them, the Soviets are going to continue to seek alternatives to buying U.S. grains. This means they will either purchase from other sellers who do not attach conditions to their sales or they will increase their efforts to become self-sufficient. We will thus not only not accomplish the goals which we attach as conditions to our sales agreements but we will also lose a very valuable source of foreign exchange. The large Soviet grain crops this past year and again this year are to some extent the result of very favorable weather but they are also the result of an increased Soviet determination to decrease their dependence on grain imports.

I should add that there is no guarantee that the extension of CCC credit to the Soviet Union would be helpful this year, although the USSR has indicated that they might be interested in stockpiling some grain if they were able to purchase it under conditions available to others. It would, nevertheless, be helpful more as an indication of our interest in their purchases from the U.S.

3. Of considerable benefit would be the relaxation of other impediments to our grain trade with the Soviet Union. Such impediments include the U.S. flag shipping requirement. They not only increase the cost of our grain to the USSR, making them less competitive but are highly discriminatory, since the Soviet Union is the only nation to which this restriction effectively applies.

4. Increased support for the export market development efforts of the various commodity groups for good programs in the new and expanding markets. This would include survey trips by responsible officials of the USDA together with members of the cooperator groups, in order to convince foreign buyers of the

USDA interest in exporting. These trips would also provide an opportunity for evaluation of market potential, existing programs and determination of new programs.

5. One of the most important prerequisites is a positive attitude towards exports. Recent negative and unsubstantiated statements by U.S. officials over U.S. grain qualities and export shipments have left many export customers bewildered and with the impression that the United States was now less interested in exporting grains. This impression should be corrected as quickly as possible. U.S. officials who travel abroad and/or who meet export buyers should be positive about U.S. grain exports and the U.S. marketing system. No good salesman ever needlessly runs down his product or his service, no matter what his motivation may be.

In conclusion I should like to point out that our members are intimately familiar with the export markets and the intricacies of foreign marketing. They stand ready to work with the government officials of both the legislative and executive branch, as well as the members of the various grain commodity groups, in a joint effort to expand grain exports.

Statement of Norman D. Weckerly, Chairman, Committee on Foreign Marketing, Great Plains Wheat, Inc.

My name is Norman Weckerly of Hurdsfield, North Dakota. I own and operate a diversified farming operation in central North Dakota and also operate a small country grain elevator. I am currently Chairman of the Committee on Foreign Marketing of Great Plains Wheat, Inc., the international market development and promotion organization representing about 400,000 wheat farmers in the Great Plains states. I want to thank the subcommittee for allowing Great Plains Wheat to be represented here today to express our views and our concerns over the trade of U.S. agricultural products.

I do not believe it is necessary to go into detail about the current supply picture for wheat and the effect that this surplus is having on U.S. wheat producers. This information has been widely publicized for some time. We all are acutely aware that a major problem exists and we appreciate this opportunity provided by the Senate Subcommittee on International Trade of the Committee on Finance to examine the possibilities for putting the U.S. wheat farmer back on his feet again.

The wheat producers in the United States are very concerned. We are concerned that the desire on the part of the U.S. leadership is so strong to reach international cooperation on commodity trading, that an agreement might be reached that is not to the benefit of U.S. producers. We are concerned that strong feelings exist that trade with the United States must go hand in hand with a foreign country's adoption of domestic social policies in line with U.S. beliefs, which, in effect, are closing off some of our good markets. We are concerned over the protectionist philosophies being advanced more and more in the U.S. which can only hinder our access to other markets. We are concerned that the economic growth of the developing world, although very important, is sometimes approached incorrectly and, as a result, that commercial agriculture in the United States, which is the foundation for most U.S. manufacture and commerce, is being put aside. International social consciousness is important and will be increasingly important in the future as we attempt to allocate scarce resources equitably and adequately among all of the world's people. However, the current policies of the United States could be aptly compared to the plumber who is so busy fixing other people's leaks that he fails to take notice of his own. All of these considerations focus on our primary concern; that there appears to be little commitment in some sections of our economy to maintain the United States as the economic pace setter when it comes to world trade.

I believe that a representative of the Soviet Union, addressing a Great Plains Wheat Board Meeting two years ago, stated it best when he said that the Soviet Union does not have to trade with the United States. They can buy all of their needs elsewhere. They want to trade with the U.S. because they realize the long-term benefits that can be derived from it. The same holds true all over the world. The United States does not hold a monopoly on world commodities which forces other countries to come begging to us. We have the greatest capacity to produce, agriculturally, of any nation in the world, and agriculture is one of the few areas where we are in a position to compete effectively. To exercise this potential, however, we have to make a commitment and we must have the mechanisms to achieve and maintain an aggressive stance in the world marketplace.

U.S. agriculture operates on the free market, free enterprise system, and although this at times places us at a disadvantage to major competitors who maintain government control over such activities, we do not want to see our system changed and believe it would be disastrous for us to do so.

Our system has allowed us to produce wheat like no one else can. What we need now is support to allow our system to be more price competitive in international trade where, with the exception of the U.S., the interfering hand of the foreign governments are all too noticeable. The possibility exists that in the not-too-distant future, export subsidies, or the threat of export subsidies, no matter how distasteful, may have to be considered in making us price competitive.

We need open access to all markets, but as the U.S. moves toward greater protectionism, it is difficult to demand others to reduce their barries to trade.

Our export assistance programs for U.S. agricultural products, specifically the CCC credit export financing and the P.L. 480 programs must be beefed up, made more flexible, and equal to or better than terms offered by our competitors. This means making credit provisions available to all countries, including the nonmarket economies which currently show the best growth potential as an outlet for U.S. agricultural production. Senator Dole's proposed Senate Bill 1415, which would allow the People's Republic of China, the U.S.S.R., and other centrally-planned economies to receive CCC export financing, would contribute to this end. The interest rates and repayment provisions would, however, have to be competitive with those offered by our competition to a particular country, and this may differ from what the U.S. and world money markets are willing to offer. These export assitance programs should be considered solely on this basis and should not bemade subject to political considerations as they so often are now. They should be applied as market development tools and marketing aids where necessary, with the flexibility to be modified to meet rapidly changing needs.

In line with these financial export assistance programs, we should also place greater emphasis on market development programs. A recent report by the Department of Commerce indicates that the United States spends, in proportion to the value of manufactured goods exported, almost the smallest amount on promotion of the major exporters in the world. For agriculture, the USDA reports that the U.S. spends one-tenth of one percent of the value of agricultural exports on export promotion, less than any other major agricultural exporter today. Considering the benefits of full production, full employment and a healthy balance of payments situation, we believe that the level of Federal expenditures for the export promotion of agricultural products should be commensurate with our competition. As wheat producers, we are trying to pay our fair share and, with the assistance of the USDA's Foreign Agricultural Service, we feel that we have been successful. Considering, however, the heavy reliance of related industries on a healthy agriculture in the U.S., they too, through greater government assistance, should be willing to pay part of the bill to strengthen the market development effort.

We are strongly in favor of the proposal that at least five percent of the proceeds from all Public Law 480 Title 1 agreements be made available to the Secretary of Agriculture to be used as loans for the purpose of implementing storage, handling, processing and distribution facilities in foreign markets which are essential to the increased flow and usage of U.S. agricultural commodities. This proposal has received the support of the Senate, and an effort is underway to have it introduced in the House this week. Currently, these funds ae quite often used for purposes contrary to the best interest of U.S. agriculture. Five percent of these total funds would amount to about $40 million annually, which could be used in support of our total market development efforts.

Great Plains Wheat, in cooperation with other U.S. wheat interests, is also working toward the establishment of a technical assistance and training program in the United States for our foreign customers comparable to the Canadian Grains Institute in Winnipeg. These in-depth programs on milling, baking, cereal processing and marketing would provide a strong incentive for our overseas customers to look favorably toward the purchase of U.S. wheat. We are lining up seed money at the present time to initiate this comprehensive program of technical service and marketing assistance, but additional funding is needed to guarantee long-term continuity. The majority of the funds for this project would be spent in the U.S. but, with the proper administration and adequate funding, it could have a major impact on wheat purchasing decisionmakers overseas, and the rewards to U.S. agriculture can be great.

We want the United States to be the leader in the world marketplace, not a follower. We want the U.S. to act, nor react. We want the United States to be the supplier of agricultural peoducts, not the residual supplier after all other exporting countries have sold out. We do not like it when the U.S. prospers only at the expense of others. We do not feel it is necessary to strive to achieve and maintain 100 percent of all markets. However, we also to not feel we should be forced to accept a position of last resort. We can respond to and meet increases in demand more rapidly and effectively than any other country, but to do so we must be guaranteed that we will survive when lesser demand conditions prevail. A strong competitive position in the export market so that we can maintain our share of the market at all times can serve as that guarantee. Thank you very much.

Senator DOLE. Messrs. Joe Williams, Frank Snodgrass, and Thomas Smith.

Mr. WILLIAMS. The Council of the Arizona-California Citrus Commission, Mr. Julian Herron, is not on the schedule. Due to the fact that he was in Europe on a marketing mission. I would like to yield half of our time to him.

Senator DOLE. You can proceed any way you wish. I want to apologize for my absent colleagues, but they will be looking at the record. The staff will be looking at the record.

As I indicated, we want to make a good record so we can go to our colleagues with expressions of support by the witnesses.

You heard Secretary Bergland and Mr. Katz, Assistant Secretary of State for Economic and Business Affairs, along with a letter that apparently comes with the approval of someone who talks for the President.

On that basis, you can proceed in any way that you wish. Hopefully, you can summarize your statements. They will be made a part of the record in full.

STATEMENT OF JOE R. WILLIAMS, PRESIDENT, TOBACCO ASSOCIATES INC., ACCOMPANIED BY FRANK B. SNODGRASS, VICE PRESIDENT AND MANAGING DIRECTOR, BURLEY DARK LEAF TOBACCO EXPORTERS ASSOCIATION

Mr. WILLIAMS. I am Joe R. Williams, president of Tobacco Associates. Accompanying me is Frank B. Snodgrass. Together, we represent the 800,000 tobacco producers in the United States.

I would like to say this on behalf of the growers. We would like to express our appreciation to you for the many times you have come to our rescue during periods when we had problems such as you have today. We hope we can reciprocate, both in the House and the Senate to help you during this time.

Senator DOLE. We really need some support in the Congress. I know you will be talking to the Members you know.

Mr. WILLIAMS. I will be brief. The summary is:

No. 1, continuation and expansion of Public Law 480.

No. 2, greatly expanded CCC credit to include all countries with the exception of those specifically excluded by the President of the United States. Dollars and hard currency are available in most areas of the world only at premium rates. The United States must meet the competition of the world not only in credit, but also in hidden or visual subsidies.

No. 3, the United States should take a new hard look at the possibility of barter.

No. 4, increased funds should be voted by the Congress for market development. The greatest export investment that the United States has ever made has been in market promotion.

No. 5, last but not least is multinational trade negotiations.

Senator DOLE. I might just add I think that we did add $3 million to market development in the Senate. We hope it survives the conference. We are working on that.

Mr. WILLIAMS. Senator Dole, I think that is very important. It is one of the most important things that Congress can do.

Senator DOLE. I think those of us who serve on the Agriculture Committee as well as the Finance Committee understand the need for market development. I think frankly we can take a new look at it and pursue it with more vigor, if that is the proper phrase, because we do need to move out some of our supplies into world markets.

[Mr. Williams' prepared statement appears at page 67.]

Mr. WILLIAMS. Mr. Heron?

STATEMENT OF JULIAN B. HERON, CALIFORNIA-ARIZONA CITRUS LEAGUE

Mr. HERON. The citrus industry in California and Arizona appreciates the opportunity to testify today and knows its statement will be put into the record and that you and your associates will look at it, and we will end there.

[Mr. Heron's prepared statement appears at page 68.]

Senator DOLE. Mr. Smith?

STATEMENT OF TOM SMITH, AMCOT

Mr. SMITH. My name is Tom Smith, I live in Bakersfield, Calif. I am here testifying for AMCOT, which is the sales arm of the four major U.S. cotton marketing cooperatives. With me is Mr. Fred Deans, a cotton merchant from Memphis, Tenn. and president of the American Cotton Shippers Association. In the interests of time, I think Mr. Hull has decided to just let the record speak for his part on the program, and Mr. Deans and I will summarize our point of view.

We did want to emphasize that wheat and feedgrains are not the only crops in trouble. Cotton, being a basic commodity, has got problems because of increased acreage coming from the other crops, the same problems of overproduction that wheat and feedgrains have.

Senator DOLE. I did not mean to leave that impression. I tried to point out that the biggest sale of any U.S. farm commodity to the People's Republic of China was cotton. I had a chance to visit some of the cotton people. I am not certain extension of credit would help. Maybe you can comment on that.

Some think it might. That is why we are trying to encourage some of the Senators and House Members now to take a look at this proposal. It is not limited to wheat.

Anything you can do to help would be appreciated.

Mr. SMITH. Thank you, Senator. The cotton industry certainly applauds your efforts in this. We are very much in favor of any program that would increase the credit availability to nontraditional countries. I might say our problems became apparent fairly recently. Since March 21, the price of spot cotton has dropped almost $100 a bale, which is a pretty severe shock to our industry and gives us problems that we think are of great magnitude.

Our demand, while it has been reasonably good, has slacked off in recent weeks. We do have about a 15-percent increase in acreage in this country planted this year, and worldwide we also have an increase in acreage. Fortunately, in one respect, the weather has been good to us. Our crop looks extremely good at this time, but unfortunately it is probably going to give us more cotton than we can have a demand for this fall, unless we can have a substantial increase in the exports of cotton.

Senator DOLE. Are there any pending negotiations with PRC on cotton sales?

Mr. SMITH. Yes, sir. There has been a continuing negotiation with PRC by individual firms in the cotton industry. There has been some sales concluded, and some of these have been registered. I understand there are other sales that will show up on the registration reports very soon.

While it is helpful, it probably is not going to be enough in itself to prevent some pressure on prices this fall.

We appreciate Secretary Bergland's longterm view that the energy cost is going to push the prices of synthetics up and that cotton will have a bright future. We agree with that, but at the moment, it looks as though we have an oversupply situation and I think this emphasizes the urgency of expanded export, and with your permission, Mr. Deans will summarize what we think is an action plan that is essential and urgently needed for cotton.

Mr. DEANS. Thank you, Senator.

I appreciate the privilege of being here this morning to represent the American Cotton Shippers Association. Of course, we are very much in favor of all the work that has been done in market development. We appreciate the statement by the administration to the importance of agriculture and the importance of exports to the balance of payments. We have a real problem and we have some action that would perhaps help.

Certainly we favor the use of all the credit facilities that have been applicable to cotton in the past, such as the ExIm Bank, Disc and the particularly CCC credit.

We would point out that the CCC credit, while appearing as a budget item, is, in reality, not only an excellent tool for moving U.S. commodities in general, and cotton in particular, into, the world markets, but it is also a profitable financial operation for the Treasury.

Historically there has been approximately $1.57 billion allocated to cotton all of which has been repaid on time. It has earned approximately $70 million in interest, which has been a positive contribution to our balance of payments and approximately a $15 million net gain to the CCC.

To summarize our suggested actions, we respectfully request this subcommittee to consider the following recommendations:

That the use of up to 20 percent of CCC's total capital structure of $14 billion should be explored for GSM export credit for all commodities;

For cotton, around $350 million should be made available during fiscal year 1978. Announcement of such a program in August or September, 1977, could help stabilize prices of cotton at harvest time and thus could provide stimulus for additional purchases of U.S. cotton by domestic and foreign customers during the critical transition period from the old to the new crop. It could also aid our customers to blend lower-priced purchases with higher-priced contracts already booked, which would stave off another problem.

As you know, the Export-Import Bank has recently announced it would reconsider its previous decision to terminate direct loans to Japan to buy U.S. cotton.

We would respectfully urge this subcommittee to petition the Eximbank to consider favorably authorization of the $75 million direct loan which Japan has requested for the purchase of U.S. cotton in fiscal 1978. As you know, the Eximbank loan would be self-supportive without any cost to the U.S. taxpayers.

In essence, we are suggesting that all presently available programs be fully utilized, but with particular emphasis on the CCC credits. We believe that the suggestions will help provide orderly movement of cotton into world markets, will be of great benefit to the U.S. producers in assisting them to receive a fair market price for their cotton, and hopefully will prevent the U.S. Government from having once again to acquire what could be burdensome cotton stocks.

I would also like to say, Mr. Chairman, that the American Cotton Shippers Association has always been on record as being in favor of free trade, which I think certainly is in line with your amendment.

Senator DOLE. We had questions on the Export-Import Bank to direct to Secretary Bergland. As he indicated, we probably should reserve those for Mr. Blumenthal. In June Secretary Blumenthal made a statement about expanding Export-Import Bank credits to finance exports, based on our own interests. We can direct a letter to Secretary Blumenthal to complete the record to see what he can do for agricultural commodities, and what he intends to do, as far as expanding funds for export promotion.

I do not have any further questions. All of your statements will be made a part of the record. I would again indicate that we hope to have some action on this proposal very soon. Based on some of the testimony maybe it should be modified.

The problem, of course, is credit to the Soviet Union. That gets into all sorts of issues. Anything you can do that would be of assistance would be appreciated.

[The prepared statements of the preceding panel follow:]

JOINT STATEMENT OF JOE R. WILLIAMS, PRESIDENT, TOBOCCO ASSOCIATES, INC., AND FRANK B. SNODGRASS, VICE PRESIDENT AND MANAGING DIRECTOR, BURLEY & DARK LEAF TOBACCO EXPORT ASSOCIATION

SUMMARY

We recommend the following to reach the objective of increased exports which we deem essential, not only to the welfare of farmers, but to the nation as a whole:

1. Continuation and expansion of Public Law 480.

2. Greatly expanded CCC credit to include all countries with the exception of those specifically excluded by the President of the United States. Dollars and hard currency are available in most areas of the world only at premium rates. The U.S. must meet the competition of the world not only in credit but also in hidden or visual subsidies.

3 The United States should take a hard look at the possibility of barter.

4. Increased funds should be voted by the Congress for Market Development. The greatest export investment that the United States has ever made has been in market promotion.

5. Last, but not last, is "Multinational Trade Negotiations."

Future tobocco exports are more dependent on the outcome of these negotiations than any other U.S. farm commodity. We are thankful for the pledged support of Ambassador Strauss, Secretary Bergland and many Members of this committee.

STATEMENT

I am Joe R. Williams and joining me in this statement is Frank B. Snodgrass. Our two organizations represent the 800,000 tobacco producers of flue-cured, burley, dark air, dark fire and cigar type tobacco in the United States.

Tobacco was the original U.S. commodity export and since Colonial Days exports have played a major role in the tobacco economy ranging from 40 percent in the flue-cured and dark air-cured down to 15 percent in burley. Tobacco today ranks fifth in the U.S. agricultural commodity exports with a net favorable trade balance in 1976 in excess of $1.1 billion. Some raw tobacco or tobacco products go to every country in the world. The future economy of tobacco producing areas is dependent upon at least one-third of production going into export trade.

The tobacco leadership and their representatives in the Congress since 1954 have strongly supported Public Law 480. We consider the program has stabilized domestic farm prices, assisted in feeding a starving world, and at the same time served us well in the implementation of foreign policy.

Of far greater significance than the humanitarian and political aspects of the program has been the outstanding achievement of Market Development. In 1976 the U.S. exported $23 billion in agricultural commodities, a high percentage of which was for dollars. We salute those in the State Department and the U.S. AID for a job well done in the policy making and administrative levels of these programs, but our observation after traveling for the past 24 years over the world convinces me that a large share of the credit must go to the Foreign Agricultural Service of the USDA and the 43 Market Development Cooperators that have carried U.S. farm commodities to the four corners of the world.

We in tobacco can be objective in our recommendations because we have been only a token recipient of Market Development funds. We do appreciate the fact that President Carter, Secretary Bergland, and the Members of Congress still recognize tobacco as a basic agricultural commodity. Although every tobacco exporter in the United States are members of our organizations, Frank Snodgrass and I, as managing directors of our organizations, enjoy a privilege, along with the officers of all Market Development Cooperators, that the private trade does not enjoy. By virtue of being a Cooperator with Foreign Agricultural Service in Market Development we have a direct entree into the policy and decision making levels of most countries of the world to discuss the possibility and opportunities of U.S. exports.

Due to energy imports the United States needs more exports in 1977 and 1978 than in 1976. An analysis clearly indicates agriculture offers by far the greatest opportunity to meet these goals. We have the availability of top quality and sufficient quantities in most commodities that we produce, provided we can meet world competition.

We recommend the following to reach the objective of increased exports which we deem essential, not only to the welfare of farmers, but to the nation as a whole:

1. Continuation and expansion of Public Law 480.

2. Greatly expanded CCC credit to include all countries with the exception of those specifically excluded by the President of the United States. Dollars and hard currency are available in most areas of the world only at premium rates. The United States must meet the competition of the world not only in credit but also in hidden or visual subsidies.

3. The United States should take a new hard look at the possibility of barter.

4. Increased funds should be voted by the Congress for Market Development. The greatest export investment that the United States has ever made has been in market promotion.

5. Last, but not least, is "Multinational Trade Negotiations."

Future tobacco exports are more dependent on the outcome of these negotiations than any other U.S. farm commodity. We are thankful for the pledged support of Ambassador Strauss, Secretary Bergland and many Members of this committee.

I regret to inform you that in 1976 the expanded European Economic Community [Ireland and United Kingdom, Netherlands, Belgium, Luxembourg, France, Italy, West Germany, and Denmark] under a waiver of GATT in the Tokyo Agreement, has granted Generalized Special Preferences on tobacco to 95 developing tobacco producing countries. In addition, the Community under tropical products has granted duty concession on 60,000 tons annually from India. Pakistan, Philippines, Mexico, and Brazil. This quota is unlimited unless bound in negotiations. Europe's cigarette consumption in 1976 was approximately 1 trillion cigarettes. In the expanded community alone consumption was approximately 540 billion cigarettes. Europe has traditionally purchased over 50 percent of all U.S. tobacco exports and our future as the world's largest exporter of tobacco is dependent on our negotiators to maintain access to this all-important market. Some way must be found to eliminate the discrimination against the higher priced and higher quality U.S. tobacco by substituting a specific rate for ad valorem in both import duties and also establish specific element as major in harmonization of prices for the finished product.

In South America, the Far East and many other areas of the world virtual embargoes on U.S. tobacco and tobacco products are maintained through tariff and nontariff barriers.

In conclusion may I say that the surpluses of today in agricultural commodities are temporary. A continental crop failure, which is frequent, could wipe it out in 1 year. Tobacco farmers, along with all other farmers, are deeply in debt for mechanization and the answer lies in increased exports and not in reduced production. Increased market promotion is essential for the needed expansion and will pay dividends for the years that lie ahead. Tobacco and all other commodities are looking objectively at their own domestic programs and needed changes will be made. These recommended changes plus realistic price supports favored both by the administration and this Congress will carry us through this temporary crisis and agriculture will continue to expand in the years that lie ahead.

Statement of the California-Arizona Citrus League

Summary

The California-Arizona Citrus League supports expanded agricultural trade. Removal of barriers to citrus exports will result in increased export sales of citrus from both the United States and other citrus producing countries. The European Economic Community continues to maintain its discriminatory tariff preferences which damaged U.S. exports of citrus in violation of the most-favored-nation provision of the General Agreement on Tariffs and Trade. This is the subject of a pending proceeding filed pursuant to section 301 of the Trade Act. The multilateral trade negotiations provide the best opportunity for removing barriers to agricultural exports.

Statement

This statement is made on behalf of the California-Arizona citrus industry by the California-Arizona Citrus League whose membership represents handlers and growers of more than 90 percent of the California-Arizona citrus fruit produced and marketed in fresh and processed form. It is a pleasure to be before this Committee once again. As will be recalled, the League testified on April 10, 1974, in support of the Trade Act and again on February 5, 1976, during the oversight hearings. It is believed that passage of the Trade Act has been very helpful to the United States as it pursues the removal of export barriers in foreign markets.

The California-Arizona citrus industry over a long period of years has developed a substantial export market for both fresh and processed citrus products. The maintenance of this export market is absolutely essential to a healthy economic situation within this industry. This industry is opposed to the continued imposition by trading partners of the United States of import quotas, the variable levy system and other nontariff barriers as well as unreasonably high tariffs.

The Committee asked in its press release that major foreign barriers to trade affecting U.S. agricultural exports be identified. The two major barriers impeding exports of fresh citrus are the quota maintained on fresh oranges by Japan and the discriminatory tariff preferences of the European Economic Community.

Of particular interest to this Committee may be the status of the discriminatory tariff preferences on fresh citrus which the European Economic Community granted in 1969 to certain Mediterranean countries. The United States has sustained substantial damages in the form of reduced sales to the EEC since the discriminatory preferences began in 1969. Estimates of the damage to U.S. exports of fresh oranges to the EEC during the period 1970–76 are as high as over $74 million.

As this Committee knows, these preferences violate the rules of the General Agreement on Tariffs and Trade and have been an issue between the EEC and the United States for some time. The citrus industry in California and Arizona as well as the industries in Texas and Florida, appreciate very much the unanimous resolution passed by this Committee and later by the full Senate calling for the elimination of these preferences.

The best example of what can happen by the removal of barriers to agricultural trade can be demonstrated by looking at the negotiations resulting from the enlargement of the EEC which resulted in further tariff concessions to the United States on fresh citrus. Reductions were obtained in both the duty on oranges and grapefruit. The reduction in the duty for oranges was significant factor in the increase in U.S. exports of fresh oranges to the EEC in 1975, the first full season the reduction became effective. During the 1974 season, the U.S. exported to the EEC approximately 79 million pounds of fresh oranges valued at about $7.5 million. During the first nine months of 1975, the U.S. exported to the EEC approximately 213 million pounds of fresh oranges valued at over $20 million. Exports of fresh grapefruit to the EEC by the U.S. during the first nine months of 1975 already surpassed the totals for 1974, the respective values are approximately 53 million pounds valued at about $5 million in 1974 as compared to over 64 million pounds valued at about $7.4 million during the first nine months of 1975. Sales continued well in 1976.

Unfortunately, while the EEC appeared to give at that time, it has now taken further discriminatory action against citrus exports. The EEC remains committed to discriminating against the United States.

In 1975, the EEC increased the rate of preference granted Israel from 40 percent to 60 percent. It has now taken similar action for Egypt and Turkey. Tunisia and Morocco continue to enjoy their 80 percent preference. Additionally, the EEC, for the first time, expanded the preference system to cover processed citrus, including citrus juices. It is anticipated that the probable effect of the discriminatory tariff preferences on juices will be the elimination of U.S. exports to the EEC.

As if that were not enough, the EEC began the authorization and payment of export subsidies for Italian lemons when shipped from Italy to other Member States within the EEC. This subsidy is slightly over $1 per carton. The effect of this is being felt and will continue to damage U.S. lemon exports to the EEC.

The California-Arizona Citrus League together with the citrus industry in Texas filed a petition under Section 301 of the Trade Act documenting the damage sustained as a result of the EEC's discriminatory tariff preferences. A hearing was held by the Office of the Special Trade Representative in January of this year. Evidence presented at the hearing showed the damage being sustained by the citrus industries in Arizona, California, Florida and Texas. The discriminatory agreements between the EEC and Spain, Morocco, Tunisia, Algeria, Israel, Egypt, Cyprus and Lebanon have previously been determined by the United States to be inconsistent with GATT. The United States is now proceeding with this case. This Committee will undoubtedly want to be achieved by the Special Trade Representative as to the status of this case. The 301 proceeding and the trade negotiations provide the best opportunity for the United States to obtain equal treatment from the European Economic Community.

There are a number of activities the United States can undertake to assist agricultural exporters identify new markets and trading opportunities. It should be noted that the agricultural attaches stationed in foreign markets are invaluable in their help to private industry. Certainly every effort should be undertaken to see that the agricultural attache service is strengthened and expanded. Market intelligence obtained by agricultural attaches on the spot is often translated into additional exports by private industry. Agricultural attaches have helped identify potential export markets for U.S. citrus in countries such as Indonesia, Republic of China, Soviet Union, South Korea, to give just a few examples. Other potential significant markets for fresh citrus include the eastern European countries, countries in the Middle East, and Mexico.

Additional agricultural exports will be encouraged by the elimination of barriers to trade. Other difficulties affecting agricultural exports include transportation and harbor facilities. For example, great difficulty is experienced in unloading fresh citrus in both Iran and the Soviet Union. Demurrage incurred in the delay in unloading ships in the Soviet Union has run as high as $88,000 per ship. This has a great tendancy to discourage exports of perishable commodities.

Support by the United States for the foreign market development program administered by the Foreign Agricultural Service of the Department of Agriculture is essential for obtaining and increasing agricultural exports. The funds provided by this service assist agricultural exports to enter and maintain markets that might not otherwise be developed. For example, Japan restricted the use of fungicides on fresh lemons and grapefruit. This resulted in a significant deterioration of the market in Japan. Japan has now permitted the use of one fungicide called ortho phenylphenol. Funds from the Foreign Agricultural Service are being used in connection with private funds to rebuild the market for fresh lemons and grapefruit in Japan. Every consideration should be given to expanding this program.

Citrus is currently sent to the eastern European countries and the Soviet Union. Several eastern European countries have indicated that the availability of government-sponsored financing would encourage those countries to increase purchases of United States citrus. It is hoped that this type program can be expanded.

It does not seem appropriate for the citrus industry to comment upon the question concerning higher support levels since no support is provided for the citrus industry. Therefore, no comment will be made.

In 1975, the California-Arizona Citrus League, together with the citrus industry in Texas, participated in a Section 301 proceeding initiated by the National Canners Association. Also participating in that proceeding were representatives from California producers of peaches, pears, fruit cocktail, prunes, and walnuts. Those proceedings resulted from the imposition by the EEC of minimum import prices, import licensing and import surveillance on processed fruit and vegetable products. These regulations became effective October 1, 1975. They have already had serious impact on prunes and canned peaches. It is hoped that the U.S. will be able to cause the EEC to rescind these regulations before these trade barriers have a damaging effect on citrus juices imported into the EEC. The United States has asked a panel assembled by GATT to give an opinion on the legality of the EEC action. Undoubtedly, this Committee will wish to inquire as to the status of this case.

The opportunity to appear before this Committee today is greatly appreciated. If the Committee would like additional information on any of the topics mentioned, it will be happily furnished.

Statement of Mr. Tom Smith, Mr. Fred Deans, Mr. David Hull on Behalf of the U.S. Cotton Industry

Mr. Chairman, my name is Tom Smith. I live in Bakersfield and appear for AMCOT which is the sales arm of four major U.S. cotton marketing cooperatives. The future of the U.S. cotton industry, of U.S. agriculture, and the economic well-being of this nation is vitually linked to cotton exports and my colleagues and I are privileged to discuss that subject with you. Joining me today are Mr. Fred Deans, a cotton merchant from Memphis, Tennessee and President of the American Cotton Shippers Association; and, Mr. David Hull, Executive Director of Cotton Council International which is the overseas operations service of the National Cotton Council. With your permission Mr. Chairman, both of these gentlemen will also present brief testimony.

SUMMARY

Recent sharp declines in U.S. cotton prices have created strong waves of uncertainty and apprehension among all segments of the raw cotton industry concerning the prospects for orderly marketing of the 1977 crop. Continuation of the price declines would spell disaster for many members of all segments of the industry, particularly farmers when harvest time for the 1977 crop approaches.

Textile demand in many areas outside the U.S. has been slack in recent months. This has reduced purchases of raw cotton. U.S. export sales of cotton for 1976–77 delivery were virtually halted in early May, resulting in additional downward pressure on U.S. prices. Inability of the mills to book an adequate volume of orders affects not only current purchases of raw cotton, but will also disrupt the orderly purchasing of cotton in the months ahead. Prospects are for mill consumption of cotton to continue no higher than the 6.7 million bale annual rate. The rate in May was 6.5 million bales.

USDA estimates that 13.4 million acres have been planted to cotton in the U.S. Based on average yields of the past five years, 13.4 million planted acres would produce a crop of nearly 12.5 million bales. Preliminary indications of the world crop in 1977–78 suggest a level of 63–64 million bales. A U.S. crop of 12.5 million bales would exceed expected demand for U.S. cotton in 1977–78 by approximately 1 million bales. USDA's preliminary estimate of the cost of producing the 1977 crop ranges from 54.5¢ to 61.4¢ per pound of lint[1].

The loan for the 1977 crop is 44.63 cents for strict low middling 1$\frac{1}{16}$". Because of high production costs, the loan will provide limited support for farmers to market this crop in orderly fashion under the conditions which appears to be developing; i.e., the loan may not be sufficient to pay off production credit, forcing cotton directly on the market rather than temporarily into the loan waiting for a better time to market. Farmers increased their cotton plantings in 1977 in response to favorable prices at planting time. If prices actually offered for the crop at harvest time do not cover production costs plus a reasonable return on investment, farmers will have difficulty in paying off the higher production loans made on the expanded cotton acreage. Furthermore, unremunerative prices for the 1977 crop would discourage cotton plantings in 1978, leading to a potential supply shortage and severe price fluctuations in 1978–79. Lower cotton acreage in 1978 could have significant price implications for other farm commodities, since acreage will be shifted to other crops.

The problems facing U.S. cotton require immediate action. To summarize our suggested actions, we respectfully request this subcommittee to consider the following recommendations:

- That the use of up to 20 percent of CCC's total capital structure of $14 billion should be explored for GSM export credit for all commodities;
- For cotton, around $350 million should be made available during fiscal year 1978. Announcement of such a program in August or September 1977 would help stabilize prices of cotton at harvest time and thus would provide stimulus for additional purchases of U.S. cotton by domestic and foreign customers during the critical transition period from the old to the new crop. It would also aid our customers to blend lower priced purchases with higher priced contracts already booked.
- The Export-Import Bank has recently announced it would reconsider its previous decision to terminate direct loans to Japan to buy U.S. cotton. We would respectfully urge the subcommittee to petition the Eximbank to consider favorably authorization of the $75 million direct loan which Japan has requested for the purchase of U.S. cotton in fiscal year 1978. The Eximbank loan would be self-supportive without any cost to U.S. taxpayers;

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[1] *Costs of Producing Selected Crops in the United States—1975–76 and Projections for 1977*, prepared by ERS, USDA for the Committee on Agriculture and Forestry, United States Senate.

- The Public Law 480 Program should be revised to modify present restrictions which have presented administrative difficulties;
- The DISC Program, the barter programs, and the programs of the Foreign Credit Insurance Association should be reactivated and updated wherever these programs can contribute more to the expansion of U.S. agricultural exports.

We believe these suggestions will help provide orderly movement of cotton into world markets, will be of great benefit to U.S. producers in assisting them to receive a fair market price for this cotton, and hopefully will prevent the U.S. Government from having once again to acquire what could be burdensome stocks of cotton.

The decision now to grant export credit in the form of repayable loans would likely prevent the need for future outlays in the form of deficiency payments.

If the sagging cotton market continues, the large crop coming on stream this fall, plus increased production prospects worldwide, will without the action recommended continue to depress prices on into 1978. It seems likely, therefore, that the Administration would be faced with increased CCC loan activity and with making deficiency payments in 1978 and probably on the current crop as well.

STATEMENT

Mr. Chairman, recent sharp declines in U.S. cotton prices have created strong waves of uncertainty and apprehension among all segments of the raw cotton industry concerning the prospects for orderly marketing of the 1977 crop. Continuation of the price declines would spell disaster for many members of all segments of the industry, particularly farmers when harvest time for the 1977 crop approaches. The magnitude of the recent price changes are highlighted by the fact that on March 21, 1977, the 10 spot Market average for strict low middling 1$\frac{1}{16}$" was 78.26 cents per lb.; as of July 11, the price had dropped to 59.04 cents. December 1977 Futures, as of March 21 were 72.01 cents per lb. compared with 59.48 cents on July 11.

Current developments in the textile industries in the United States and abroad further emphasize the gravity of the U.S. cotton price situation. Textile demand in many areas outside the U.S. has been slack in recent months. This has reduced purchases of raw cotton. U.S. export sales of cotton for 1976–77 delivery were virtually halted in early May, resulting in additional downward pressure on U.S. prices. Textile mills at home and abroad have found it increasingly difficult in recent months to obtain reasonable prices on forward sales of yarn and cloth because of the declining cotton prices. Inability of the mills to book an adequate volume of orders affects not only current purchases of raw cotton, but will also disrupt the orderly purchasing of cotton in the months ahead. The general economic situation suggests that domestic textile mills may be confronted with a stagnant market in the immediate future. Prospects are for mill consumption of cotton to continue no higher than the 6.7 million bale annual rate. The rate in May was 6.5 million bales.

A number of facts already in hand concerning the 1977 cotton crop also tend to emphasize the gravity of the price situation. USDA estimates that 13.4 million acres have been planted to cotton in the U.S. Based on average yields of the past five years, 13.4 million planted acres would produce a crop of nearly 12.5 million bales. Preliminary indications of the world crop in 1977–78 suggest a level of 63–64 million bales. A U.S. crop of 12.5 million bales would exceed expected demand for U.S. cotton in 1977–78 by approximately 1 million bales. USDA has estimated that growers had forward contracted only 19 percent of the 1977 crop by July 1. Contracting has been extremely slow over the past two months. USDA's preliminary estimate of the cost of producing 1977 crop ranges from 54.5 cents to 61.4 cents per pound of lint.[1]

The December 1977 futures price, which is considered the best current indicator of new crop price expectations, closed at 59.48 cent on Monday. This would translate into a price of about 55.5 cent for strict low middling 1$\frac{1}{16}$" in the average spot market. The loan for the 1977 crop is 44.63 cent for strict low middling 1$\frac{1}{16}$". because of high production costs, the loan will provide limited support for farmers to market this crop in orderly fashion under the conditions which appear to be developing; i.e., the loan may not be sufficient to pay off pro-

[1] *Costs of Producing Selected Crops in the United States—1975–76 and Projections for 1977*, prepared by ERS, USDA for the Committee on Agriculture and Forestry, United States Senate.

duction credit, forcing cotton directly on the market rather than temporarily into the loan waiting for a better time to market. Farmers increased their cotton plantings in 1977 in response to favorable prices at planting time. If prices actually offered for the crop at harvest time do not cover production costs plus a reasonable return on investment, farmers will have difficulty in paying off the higher production loans made on the expanded cotton acreage. Furthermore, unremunerative prices for the 1977 crop would discourage cotton plantings in 1978, leading to a potential supply shortage and severe price fluctuations in 1978–79. Perhaps more important, lower cotton acreage in 1978 could have significant price implications for other farm commodities, since acreage will be shifted to other crops.

This emphasizes the urgency of expanded exports, and with your permission Mr. Chairman, I will ask Mr. Fred Deans to briefly summarize an action plan which we believe is essential and urgently needed.

Mr. Chairman, in discussing opportunities to increase U.S. agricultural exports I want to emphasize that the U.S. cotton industry fully supports the market development programs which Cotton Council International and other trade associations conduct in cooperation with USDA's Foreign Agricultural Service to expand our markets abroad. Because of the long term effectiveness of these programs, they must be maintained and strengthened. But, the problems facing the U.S. cotton industry as outlined by Mr. Smith require immediate action in our opinion and I will present suggestions which we believe would help solve some of the problems. We are submitting for your review and the record, pertinent background information including "Incentives & Other Programs of Foreign Cotton Producing Countries to Stimulate Exports", and, data relative to the CCC Exports Sales Program and the Eximbank Program.

We fully support and agree with statements by President Carter that agriculture is one of this nation's most valuable assets, and we are confident it will prove to be increasingly so in the future. Our industry also supports statements by the Secretary of Treasury that the United States cannot continue to underwrite huge trade deficits and must therefore remain very alert and aggressive as possible, in looking for opportunities to expand exports. We believe the United States must take a more aggressive posture with regard to export programs through increased availability of credit funds to assist important customers of U.S. cotton and make these funds readily available on a consistent basis so that U.S. exporters and foreign importers can more orderly plan their operations.

The extension of export credit financing has helped to maintain and expand sales in established markets and to increase demand for U.S. agricultural commodities sometimes offsetting transportation advantages of competing countries, subsidized prices, credit facilities and other incentives offered by our competitors.

We would point out that CCC credit, while appearing as a budget item, is in realty not only an excellent tool for moving U.S. commodities in general, and cotton in particular, into world markets, but it is also a profitable financial operation for the U.S. Treasury. The history of GSM credits for cotton has been one of timely repayments without a single default. Over $1.057 billion has been provided to export customers to buy our cotton over the twenty-one year life of the CCC export credit sales program. This principal has been repaid with between $63 and $74 million in interest (a positive contribution to our balance of payments) with between $10 and $20 million net gain to the Commodity Credit Corporation.

To summarize our suggested actions, we respectfully request this subcommittee to consider the following recommendations:

- That the use of up to 20 percent of CCC's total capital structure of $14 billion should be explored for GSM export credit for all commodities;
- For cotton, around $350 million should be made available during fiscal year 1978. Announcement of such a program in August or September 1977 would help stabilize prices of cotton at harvest time and thus would provide stimulus for additional purchases of U.S. cotton by domestic and foreign customers during the critical transition period from the old to the new crop. It would also aid our customers to blend lower priced purchases with higher priced contracts already booked.
- As you know the Export-Import Bank has recently announced it would reconsider its previous decision to terminate direct loans to Japan to buy U.S. cotton. We would respectfully urge this subcommittee to petition the Eximbank to consider favorably authorization of the $75 million direct loan which Japan

has requested for the purchase of U.S. cotton in fiscal year 1978. As you know, the Eximbank loan would be self-supportive without any cost to U.S. taxpayers.

- The Public Law 480 Program should be revised to modify present restrictions which have presented administrative difficulties;
- The Disc Program, the barter programs, and the programs of the Foreign Credit Insurance Association should be reactivated and updated wherever these programs can contribute more to the expansion of U.S. agricultural exports.

We believe these suggestions will hep to provide orderly movement of cotton into world markets, will be of great benefit to the U.S. producers in assisting them to receive a fair market price for this cotton, and hopefully will prevent the U.S. Government from having once again to acquire what could be burdensome stocks of cotton.

Now, Mr. Chairman, I will ask Mr. David Hull to comment briefly on the current situation as it could relate to cost exposure to the U.S. Government.

Mr. Chairman, the decision now to grant export credit in the form of repayable loans would likely prevent the need for future outlays in the form of deficiency payments.

If the sagging cotton market reviewed in the foregoing testimony continues, the large crop coming on stream this fall, plus increased production prospects worldwide, will without the action Mr. Deans recommend continue to depress prices on into 1978. Under conditions of depressed prices the Administration would be faced with increased CCC loan activity and making deficiency payments in 1978 and possibly on the current crop as well.

Another important factor in government cost exposure is the number of Farmers Home Administration loans outstanding. The severe crop conditions in recent years in important areas of the Cotton Belt, have pushed crop financing institutions beyond normal limits. Consequently, the reliance on FmHA production loans has been unusually heavy in these areas. The depressed cotton market will further aggravate these conditions and impair severely the repayment ability of these borrowers.

In light of these conditions, it would seem prudent for government to expand export credits for cotton now with the objective of preventing a situation that otherwise would be much more costly. In considering this decision, it should be remembered that while export credits are a budget outlay, they are temporary because such loans are repayable. The alternative lies in the area of payments, which truly represent a permanent cost to the taxpayer.

Mr. Chairman, on behalf of the U.S. cotton industry, we appreciate the opportunity to appear before this Subcommittee and we are particularly appreciative of this Subcommittee's recognition of the need to increase U.S. agricultural exports. We will be pleased to try to answer any questions the Subcommittee may have. Thank you, Mr. Chairman.

Incentives and Other Programs of Foreign Cotton Producing Countries to Stimulate Exports

According to the Cotton Division of the Foreign Agricultural Service, USDA,[1] a large number of countries have state-owned monopoly selling organizations that are able to sell at less than cost if this is needed to export cotton. These countries often export cotton by concluding bilateral trade agreemens under which they buy back other commodities and goods from the country to which they are selling.

Export taxes, which can act as a disincentive to export, are imposed by a number of countries, but these are often reduced or eliminated if they stand in the way of exports. Of course, whether taxes put the foreign producer or exporter at a disadvantage compared to his American counterpart, depends on the entire tax structure and not export taxes alone.

Some countries promote cotton exports by subsidies, tax incentives, and credit on advantageous terms, or by selling in the currency of the purchasing country, thus eliminating the risk of changes in the value of the currency.

Cotton export operations of many countries are supported by the assistance given their cotton growers. Such assistance takes the form of subsidies on fertilizer, pest control, seed, agricultural credit, and guaranteed prices.

[1] The information contained herein compiled by Cotton Division, Foreign Commodity Analysis, Foreign Agricultural Service, USDA, April 1976.

Highly important is the fact that many developing countries are replacing their raw cotton exports by exports of cotton yarn, cloth, and textiles. The volume of cotton moving in manufactured form in international trade is rapidly increasing. Such exports from other cotton producing countries can be just as much a competitior of U.S. cotton as their raw cotton exports. Typically, cotton producing countries provide substantial tax rebates and subsidies on exports of cotton manufacturers.

Some country-by-country notes follow:

Brazil.—The Government encourages cotton production and exports in several ways. First minimum prices are provided to producers by means of a legal requirement that cotton cannot be sold below the stated level and by a loan program supporting this price level.

The minimum price for the 1974/75 crop was the equivalent of 43.2 U.S. cents per pound in the fall of 1974, but by July the equivalent was down to 38.8 cents because of the devaluation of the cruzeiro. The 1975/76 support level was equivalent to 45.7 U.S. cents when announced in February 1976.

Interest rates on agricultural loans are generally lower than the increase in the cost of living which means a negative real interest rate and subsidized agricultural credit. Normally the loans are for 180 days but the period can be extended.

The Government of Brazil announced a 40 percent subsidy on the cost of fertilizer retroactive to January 1, 1975. The subsidy was intended to roll back fertilizer costs to the early 1973 level in lieu of raising support prices for cotton and other agricultural commodities which, it was feared, would price Brazil out of world markets.

Value-added taxes of up to 18 percent are imposed on cotton by the various states. The tax rate may be varied and exports taxed at a lower rate or exempted altogether, depending on revenue needs and whether it is desired to stimulate or restrict exports.

In 1973–74, the value-added tax on cotton exports was 7 percent. Exports virtually stopped, however, when world prices fell below the Brazilian support level. To stimulate them, the 7 percent tax was eliminated on April 15, 1975. Also, exporters were allowed to apply a 7 percent credit on the value of exports against income and certain other federal taxes levied on ginners.

With the rapid rise in world cotton prices late in 1975, a value-added tax on cotton exports was reimposed on January 1, 1976, but at a higher rate of 13 percent. At the same time, former tax credit was eliminated.

Exports may be encouraged by frequent devaluations of the cruziero. Even if prices on the world market remain the same in U.S. cents, they are constantly rising in terms of cruzeiros. The cruzeiro was devalued 22 percent in dollar terms in 1975 and 20 percent in 1974.

Exports of cotton may be indirectly stimulated by high domestic taxes on clothing and other cotton products that discourage their use in Brazil and thus make more cotton available for export.

From May 1973 to June 1974, the Government of Brazil controlled exports of cotton and at times restricted them in order to insure supplies of raw cotton for the domestic textile industry. Export sales still are subject to government control, because prior registration with the Bank of Brazil is required, but quantitative restrictions have been removed.

Brazil has a program for encouraging the export of textiles instead of raw cotton that is said to make possible reductions of up to 45 percent under Brazilian prices for textiles when quoting for export. Exporting firms are able to import textile machinery and needed materials duty free instead of having to pay a high tariff. They also receive exemptions from sales taxes and value-added taxes and are able to finance exports 100 percent at low interest rates. In addition, they receive direct subsidies.

Under this program, exports from Brazil of raw cotton in the form of textiles increased from 83,000 bales in 1970 to nearly 400,000 bales in 1975. Of the latter, over 100,000 bales were to the Federal Republic of Germany, an important market for U.S. cotton. In March 1976, 20s Brazilian cotton yarn was selling delivered in Western Europe for 98 cents compared to $1.18 for U.S. cotton yarn at U.S. southern mill locations.

Colombia.—The export subsidy of 15 percent was lowered to 7 percent as of January 1, 1975. Of the 7 percent, 5 percent goes to the exporter and 2 percent to the ICA (Cotton Federation).

There have been no price supports since the fall of 1974. Prices paid to farmers at the gin are fixed monthly on the basis of the CIF Liverpool price minimum 6½ U.S. cents per pound.

The Government makes credit available for about half of the growing cost. Loans are made at an annual interest rate of 15 percent while the annual increase in the cost of living is about 25 percent. In other words, farmers pay back money that is worth less than they borrowed.

Egypt.—Five government owned firms monopolize exports. Trading has at times resulted in losses which are, in fact, export subsidies.

The State bears half the cost of disease and insect control. It also has cancelled some of the farmers' debts when it was apparent that higher costs and debts were driving farmers away from growing cotton. The Egyptian cotton organization stands ready to bear any losses involved in world price declines. It determines separately prices for buying from producers, in which it takes account of production costs, sales prices to local spinners, and export prices.

El Salvador.—The Central Bank was to make credit available to farmers for the 1975–76 crop in the amount of 48.4 U.S. cents per pound compared to 45.4 cents in 1974–75. All cotton is marketed through the Cotton Cooperative.

Guatemala.—Cotton exports are taxed according to the f.o.b. price. If under 50 U.S. cents, the rate is 0.74 cents per pound. If 54 to 59 U.S. cents, 0.87 cents; 65 and over, 1.07 cents. Exporters formerly were required to sell 15 percent of their intended exports to local mills at 39.5 cents but this indirect subsidy to local industry was discontinued during 1974–75 when market prices fell.

India.—There is an export tax of 1 rupee per kilogram (5.1 U.S. cents per pound) on staple cotton and 0.70 rupees per kilogram (3.6 U.S. cents) on short staple Bengal Deshi Cotton. All exports must be licensed. In 1975–76, for the first time in many years, India exported medium and longer staple cotton. The Maharashtra State Cooperative Marketing Federation is, by enactment, the only legal buyer of raw cotton in this leading state. This Federation had accumulated substantial stocks which it had been unable to sell to the depressed local textile industry. It was decided to sell some of these stocks for export at a loss, and through February 1976, 175,000 bales had been sold at prices below the prevailing world market.

India traditionally has subsidized the export of cotton textiles by giving export mills import privileges and making incentive payments. Exports of cotton in the form of yarn and cloth totaled 518,000 bales in 1973 and 385,000 in 1974.

India provides minimum support prices and provides assistance for plant protection and to establish new gins.

Iran.—Special export credit facilities are provided by the Central Bank of Iran through commercial banks at an interest rate of 4 percent. Ministry of Economy approval is required for cotton exports. The Government provides a 25 percent discount on the price of seed and a 20 percent discount on the price of fertilizer and sprays with airplanes at a low cost. Cotton gins are tax exempt for five years. Credit is provided to growers at 6 percent interest.

Israel.—The Government pays a premium equivalent to 18.3 U.S. cents for each dollar value of cotton and other items exported.

Kenya.—The Cotton Lint and Seed Marketing Board is responsible for all export sales. The Government fixes prices paid to farmers.

Mali.—Somiex, a state organization, has an export sales monopoly. Seed is distributed free to growers and subsidies of 14 percent on equipment, 31 percent on fertilizer, and 34 percent on insecticides are given to farmers. Credit facilities also are given to farmers.

Morocco.—Price supports and credit facilities are provided for farmers.

Mexico.—Production of cotton currently is adversely affected by high support prices, water allocations, financing and crop insurance for food crops. There is no support price for cotton but there was one temporarily for cottonseed in 1974. In 1974, when world cotton prices dropped sharply, the Government purchased about one million bales at about 40 U.S. cents per pound but with a later turnaround in world prices, was able to sell at little loss. At times in the past, though not recently, Mexico required proof of cotton export in order to obtain a license to import certain goods, which acted as a subsidy on the export of cotton.

Credit is provided by the Government at negative or subsidized real interest rates: an actual rate of 12 percent when the cost of living was rising 20 percent.

Venezuela.—Exports of cotton are taxed at the rate of 4.10 cordobas per quintal or 0.58 U.S. cents per pound. Production credits are extended farmers up to stated limits per unit of land.

Pakistan.—The Government policy of procuring cotton not otherwise sold by ginners at Rs 200 per pound (24.6 U.S. cents per pound) for best quality AC 134 variety provided very considerable relief to the depressed market in 1974–75. For 1975–76, the corresponding support level is Rs 215 or 26.3 U.S. cents. Pesticides are provided at a discount of 25 percent in the Punjab and 50 percent in Sindh. A premium is paid for planting seed.

Pakistan has an export levy of 35 percent ad valorem on staple cotton and 20 percent on short staple Desi cotton. The export duty on cotton yarn of 21s–24s is 40 percent but there is no export tax on cloth. In this way the government penalizes the export of raw cotton and subsidizes the export of cloth. In 1973, Pakistan exported 1.2 million bales (480 lbs.) in the form of yarn and cloth but the quantity declined in 1974 to 650,000 bales because of the depressed world market.

Exports of raw cotton have been nationalized since October 1973. Exports increased from 197,000 bales in 1973–74 to 1,060,000 bales in 1974–75, despite falling world prices, because of aggressive salesmanship by the Cotton Export Corporation, particularly to Japan, Hong Kong, and the People's Republic of China, combined with flexible pricing. The average export price for 1974–75 was 35 U.S. cents per pound and it was believed that the Corporation had unannounced discretion to reduce the export tax.

Peru.—Peru has a 10 percent tax on cotton exports. On the other hand, state or state-financed trading has at times resulted in losses which are, in fact, export subsidies.

At the beginning of 1975, the Central Government took over marketing of all cotton for export. A program of subsidizing fertilizer prices began in June 1975. The Government fixed basic prices to producers for 1976 at from 58 U.S. cents per pound for Tanguis Grade 3 to 68 cents for Supima Grade 1, which prices are to be readjusted at the end of the season in accordance with the average weighed prices obtained in the export market.

Sudan.—All cotton must be sold to the Cotton Public Corporation which takes care of its distribution and disposal for local use and export. All export sales are made by the Cotton Public Corporation through four exporting companies.

Syria.—The Syrian cotton industry is government controlled at all stages. The Cotton Marketing Organization, a government entity, is the sole buyer from farmers, sole ginner, and sole exporter. The basic price to farmers for 1975–76 crop seed cotton was 17 U.S. cents, which would work out to around 47 U.S. cents per pound on a lint basis. Credit facilities are provided for farmers.

Syria had an export tax on raw cotton of 12.5 percent of the f.o.b. value on January 1, 1976. The Cotton Marketing Organization, as a monopoly seller, is able to sell to the various importing countries at whatever the market will offer. Nearly two-thirds of the exports are to Communist countries under trade agreements.

Togo.—Fertilizer is subsidized to extent of 85 percent of cost, and insecticides 50 percent. Seed is provided free.

Turkey.—Because the support price remained higher than world export prices in 1975, the Government of Turkey decided to grant export subsidies. A 15 percent export rebate on raw cotton, however, was withdrawn on January 5, 1976, following a marked increase in world prices.

Although export prices are given in dollars, actual payments are usually in other convertible currencies. Thus, exchange rate differences enable foreign buyers to purchase cotton at a discount. It was reported in March that the Government was to guarantee the exchange rate for negotiation of currency receipts against registered export sales. It was thought that this would enable exporters to sell cotton a year forward with confidence.

The export subsidy on cotton yarn recently was increased from 25 to 35 percent. On garments, the subsidy is now 40 to 45 percent. Turkish exports of cotton yarn are expected to rise from 30,000 metric tons in 1975 to 70,000 in 1976, equal to 162,000 and 378,000 bales of raw cotton, respectively.

USSR.—The Soviet Union has had the most rapid expansion in cotton exports of any country in recent years. USSR exports rose from an average of 2.3 million bales in 1965–69 to 3.6 million bales in 1974/75. For this reason USSR's trade policies are of more than usual interest.

All Soviet Union cotton exports are handled by the USSR monopoly export agency, Exportljon. This organization can and does quote prices on a highly competitive basis according to market or customer.

The USSR may be selling cotton for export below cost, but complete subtantiating information is not available. In 1974, state farms were paid approximately 1,570 rubles per metric ton for cotton, lint basis, while Soviet cotton exports were reported in Soviet statistics as having an average value of 872 rubles per ton.

The USSR sometimes gains an advantage because it sells to the Western European countries and Japan in their own currencies. A contract is made say in francs per kilogram, to be paid when the cotton is delivered. A French mill can then be certain that it will pay no more than the contract price in francs. On the other hand, if the mill had purchased U.S. cotton for dollars and the exchange rate for francs against dollars declined by the time delivery was made, the mill would have to pay more for its cotton.

The USSR benefits from trade agreements with cotton importing countries. A trade agreement signed in November 1975 provides that Japan will purchase 550,000 bales of cotton annually during the next five years. Depending on prices paid by the USSR for Japanese goods, the agreement could provide advantageous prices for Japanese purchasers. At least the offer to purchase Japanese goods provides an incentive for Japan to buy USSR cotton.

Export Credit Programs

The programs made available by the U.S. Government play an important role in the export of U.S. cotton. The principal programs are Commodity Credit Corporation's Export Credit Sales Program, Export-Import Bank Credit, and other programs including FCIA. To effectively market U.S. cotton in competition with 50 foreign producing countries and with man-made fiber manufacturers, U.S. exporters must be in a position to offer credit, insurance, and other facilities, in addition to supplying cotton which is satisfactory in quantity, quality and availability. A review of the available programs follows:

CCC'S EXPORT CREDIT SALES PROGRAM

The Export Credit Sales Program is a commercial export program operated by the U.S. Department of Agriculture's Commodit Credit Corporation (CCC). U.S. exporters may apply for export financing of upland and extra-long-staple cotton purchased either from privately owned stocks or CCC inventories.

The CCC program is separate and distinct from the Agricultural Trade Development and Assistance Act (P.L. 480); however, cotton exports under the 480 agreements between the United States and other countries. Exports of cotton pursuant to any CCC barter contract or arrangement are not eligible for such financing.

The financing period for cotton under this program is usually limited to 12 months. However, a period in excess of 12 months but not more than 36 months may be granted by the Office of the General Sales Manager, U.S. Department of Agriculture, Washington, D.C., in cases where such longer periods will achieve one or more of the following results:

- Permit U.S. exporters to meet credit terms offered by competitors from other countries.
- Prevent a loss or decline in established U.S. commercial export sales caused by noncommercial factors.
- Allow U.S. exporters to establish or retain U.S. markets in the face of penetration by Communist suppliers.
- Substitute commercial dollar sales for sales for local currencies and sales on long-term credits.
- Result in a new use for cotton in the importing country.
- Permit expanded consumption of agricultural commodities in an importing country and thereby increase total commercial sales of agricultural commodities to the importing country.

EXPORT-IMPORT BANK OF THE UNITED STATES (EXIMBANK)

Eximbank is an independent corporate agency of the U.S. Government. It was established in 1934 and operates under the provisions of the Export-Import Bank Act 1945, as amended. Eximbank's purpose is to facilitate and finance U.S. international trade in cooperation with private enterprise. Eximbank assistance is limited to repayment in dollars and is used only for purchases of U.S. goods and services. Its assistance generally must also have "reasonable assurance of repayment," although a recent amendment to the Bank's Act, on March 13, 1968, permits some assistance on the basis of "sufficient likelihood of repayment." The Bank, now assisting some 10 percent of all U.S. exports, is directed by statute to encourage use of private capital, not compete with it.

Eximbank assists and facilitates U.S. cotton exports under three principal programs, listed below in the order of their relative importance:

- Arranges for the extension of direct loans to foreign banks to allow buyers to purchase all or a portion of their cotton needs for a crop year (August 1 through July 31).
- Extends to U.S. commercial banks both political and commercial risk guarantees of foreign obligations, relating to cotton export sales, acquired from U.S. cotton exporters without recourse to the exporter.
- Extends export credit insurance to the exporter, who arranges for private financing or sells cotton on deferred payment terms. (This insurance is provided through the facilities of the Foreign Credit Insurance Association).

ATTACHMENT NO. 1

CCC EXPORT CREDIT SALES PROGRAM TERMS OF CREDIT

Year	Country—		
	12 mo	24 mo	36 mo
1967	Belgium		
1964 to 1969			Taiwan.
1970 to 1976			Do.
1975			Egypt.
1966 to 1967	France		
1972 to 1973	Ghana		
1972	Guatemala		
1963, 1964, and 1965	Hong Kong		
1970			
1964 to 1968	Italy		
1965			Italy.
1966 to 1968	Italy		
1956 to 1973	Japan		
1969 to 1970		Korea	
1971 to 1976			Korea.
1966			Lebanon.
1965 to 1966	Malaysia		
1970 to 1972			Morocco.
1967	Netherlands		
1963 to 1964			Philippines.
1965 to 1967	Philippines		
1968			Do.
1969 to 1970	Philippines		
1971 to 1976			Do.
1966 to 1976			Poland.
1970, 1971, 1972, 1973, and 1975			Romania.
1967	Switzerland		
1963 to 1976	Thailand		
1968			Tunisia.
1967, 1968, and 1969			Yugoslavia.
1976			Republic of China.
1976			Indonesia.
1976			Portugal.

ATTACHMENT 2

COTTON—QUANTITIES AND AMOUNTS FINANCED UNDER THE CCC EXPORT CREDIT SALES PROGRAM BY DESTINATION, FISCAL YEARS 1972-76

[Dollar amounts in millions]

Destination	1972 1,000 bales	1972 Amount	1973 1,000 bales	1973 Amount	1974 1,000 bales	1974 Amount	1975 1,000 bales	1975 Amount	1976 [1] 1,000 bales	1976 [1] Amount
Romania	68	$11	67	$11	0	0	44	$12	0	0
Morocco	10	2	0	0	0	0	0	0	0	0
Japan	23	3	152	25	13	$2	0	0	0	0
Korea	246	40	293	47	270	48	200	60	808	$249
Philippines	35	6	84	13	32	5	35	10	53	16
Thailand	58	9	62	10	56	8	21	6	25	8
Guatemala	4	1	0	0	0	0	0	0	0	0
Malta	5	1	1	([2])	1	([2])	0	0	0	0
Poland	38	7	55	9	2	([2])	24	5	32	10
Ghana	2	([2])	19	3	([3])	([2])	0	0	0	0
Egypt	0	0	0	0	0	0	20	4	0	0
Republic of China	0	0	0	0	0	0	0	0	[4] 140	16
Indonesia	0	0	0	0	0	0	0	0	82	25
Portugal	0	0	0	0	0	0	0	0	2	1
Total	489	80	733	118	374	63	344	97	1,142	325

[1] Fiscal year 1976 equals 15-mo period to adjust to new fiscal year, period covered July 1, 1975-Sept. 30, 1976.
[2] Less than $500,000.
[3] Less than 500 bales.
[4] 140,000 bales shipped, but Republic of China buyers were required to finance 1st $0.40 per pound, which meant actual CCC credit equivalent of 53,000 bales.

ATTACHMENT 3

EXIMBANK FINANCED RAW COTTON—EXPORTS TO JAPAN, 1970/71 TO 1974/75

Year [1]	1,000 running bales	Value (millions)
1970-71	552	$65
1971-72	461	72
1972-73	424	66
1973-74	305	75
1974-75	312	81
1975-76	197	[2] 55

[1] Year beginning July 1.
[2] $50,000,000 approved June 10, 1976, to be available Aug. 1, 1976-July 31, 1977; the previous $75,000,000 loan had an expiration date of July 31, 1976, as of that date $20,300,000 was not disbursed and the availability was extended through Oct. 31, 1976.

Source: Foreign Agricultural Service, USDA.

ATTACHMENT 4

UNITED STATES: EXPORTS OF COTTON BY COUNTRY OF DESTINATION, AVERAGE 1966-70, ANNUAL 1971-75

[In 1,000 bales of 480 lb net]

Country of destination	Year beginning Aug. 1: Average, 1966-70	1971	1972	1973	1974	1975
Asia and Oceania:						
Australia	9	5	0	18	5	1
Bangladesh	0	(1)	122	98	51	142
China, People's Republic of	0	0	585	898	307	9
China, Republic of	329	299	372	570	396	522
Hong Kong	194	50	207	384	77	132
India	262	103	(1)	0	0	0
Indonesia	161	237	216	236	75	244
Japan	914	761	1,095	1,383	998	672
Khmer, Republic of	1	13	24	0	0	0
Korea, Republic of	437	514	609	772	662	939
Malaysia	6	9	20	45	21	19
Pakistan	9	3	(1)	(1)	1	2
Philippines	143	132	163	166	118	110
Singapore	6	6	17	41	26	16
Thailand	88	115	198	230	111	74
Vietnam, South	75	113	129	68	30	(1)
Other Asia and Oceania	0	0	17	1	4	0
Total	2,634	2,360	3,774	4,910	2,882	2,882
Europe:						
Belgium	39	44	75	31	42	12
France	102	37	150	85	68	23
Germany, Federal Republic of	79	81	187	107	54	11
Italy	143	128	183	132	102	54
Netherlands	29	31	49	19	20	3
United Kingdom	95	66	92	63	40	11
Other EC	9	8	5	2	5	1
Finland	8	3	7	12	23	4
Greece	8	6	21	20	46	7
Norway	5	3	8	12	7	6
Poland	65	40	63	33	24	24
Portugal	5	18	28	21	62	5
Romania	21	47	75	95	47	0
Spain	13	40	111	36	60	18
Sweden	55	12	35	43	36	21
Switzerland	46	33	91	83	61	30
Other Europe	50	5	3	1	4	2
Total	772	602	1,183	795	701	242
Western Hemisphere:						
Canada	216	331	262	270	195	135
Chile	1	1	0	12	1	(1)
Colombia	(1)	0	0	14	(1)	(1)
Other Western Hemisphere	13	23	6	11	11	8
Total	230	355	268	307	207	143
Africa and Middle East:						
Algeria	17	14	6	4	5	0
Ethiopia	9	0	2	0	(1)	0
Ghana	24	20	38	22	40	28
Morocco	25	24	22	28	21	4
Nigeria	0	0	0	18	42	5
South Africa, Republic of	19	9	18	30	5	6
Other Africa and Middle East	29	1	0	9	23	1
Total	123	68	86	111	136	44
Grand total (480-lb bales)	3,759	3,385	5,311	6,123	3,926	3,311
Total running bales	3,622	3,229	5,007	5,746	3,746	3,178

[1] Less than 500 bales.

Source: From official records of the Bureau of the Census.

Senator DOLE. Without objection, I will include a study entitled "Medium-term Outlook for U.S. Agricultural Exports to Centrally Planned Countries," as a part of the record.

[The material referred to follows:]

MEDIUM-TERM OUTLOOK FOR U.S. AGRICULTURAL EXPORTS TO CENTRALLY PLANNED COUNTRIES*

Centrally planned countries increased their purchases of U.S. agricultural products from $112 million in 1969 to nearly $3 billion in 1976—from less than 2 to about 18 percent of total U.S. agricultural exports. Grains accounted for almost four-fifths of the total in 1976. U.S. agricultural exports to Eastern Europe uptrended steadily to $1.3 billion. Exports to the USSR rose sharply in 1972, but fluctuated from a low of $324 million in 1974 to $1.6 billion in 1976. Shipments to the PRC jumped from zero in 1971 to $664 million in 1974, but fell to a negligible level in 1976.

The 1976–1980 plans both in the Soviet Union and Eastern Europe generally indicate policies to bring feed and livestock production back into balance. Ambitious livestock production goals and weather-related feed shortfalls during the first half of the 1970's led to massive imports of grain. These imports, in turn, worsened negative hard currency trade balances and boosted growing external indebtedness.

Despite policies to return to more balanced growth of livestock and feed production, agricultural imports by the USSR and Eastern Europe likely will continue strong over the next 4–5 years. The Grain Agreement with the USSR and grain understandings with Poland and the German Democratic Republic are expected to help maintain U.S. grain exports. The USSR and Eastern Europe will increase soybean and soybean meal imports to better satisfy feed protein needs.

Given a continuation of the current state of U.S.–PRC relations, the U.S. likely will remain a residual supplier, although substantial sales may be made to the PRC in some years.

USSR

Soviet grain imports have jumped sharply since 1971, as the result of a program to expand livestock production rapidly, but imports have fluctuated substantially owing to the impact of weather variability on Soviet harvests. The U.S. typically has supplied 55 to 80 percent of Soviet grain imports in the 1970's. Soviet imports of U.S. agricultural products—primarily grain—reached $1.6 billion—a calendar year record—in 1976. Owing to the record USSR grain crop in 1976, some decline in imports is expected in 1977.

Soviet plans for 1976–80 call for less rapid increases in livestock production, but strong growth in grain production, suggesting that the government is attempting to bring into balance the growth in livestock and feed production. Barring an unusual sequence of years of unfavorable weather, the Soviet grain production target for 1976–80 seems attainable. Soviet grain imports of 8 to 10 million tons annually in years of average harvests, though, appear likely over the next several years. The Grain Agreement with the U.S. requires Soviet purchases of at least 6 million tons of wheat and corn annually beginning October 1976. In addition, the Soviets are likely to maintain some regular purchases from other suppliers, such as Canada and Australia.

Soviet grain stocks apparently have been low during the first half of the 1970's. The record 1976 crop probably permitted a substantial stocks buildup, but still inadequate to cover sharp swings in production. Plans to increase grain elevator capacity should permit some additional holdings of carryover stocks. During the next several years, however, Soviet grain trade will be strongly susceptible to the effects of weather. A severe drought or several mediocre crops in a row could force the Soviets to reenter world markets for 20 to 25 million tons of grain. The USSR likely would turn to the U.S. for a large share of this, although the Grain Agreement requires bilateral consultations before the Soviets exceed purchases of 8 million tons of wheat and corn.

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*Prepared by Centrally-Planned Countries Area, FDCD, ERS, U.S. Department of Agriculture, July 7, 1977.

Soviet demand for oilseeds and products during the next several years is expected to exceed the internal supply. Soviet feed supplies have been chronically deficient in protein. Planned expansion of the USSR mixed feed industry could nearly double protein requirements just to maintain current deficit levels. The USSR apparently has undertaken to import soybeans to offset part of this deficit; however, it still is uncertain whether there has been a fundamental shift in trade policy as oilseed import needs in the past two years have been increased greatly by extremely poor sunflower crops.

The USSR likely will remain a major exporter of cotton in the years ahead. Purchases of a number of other agricultural commodities—for example, tropical products, sugar, citrus and other fruits, and tobacco—however, are likely to continue.

Severe hard currency balance of trade deficits during the past two years have caused the Soviets to greatly step-up borrowings. The Soviets, most likely, still could finance major cash purchases of agricultural commodities, but the availability and terms of credit probably have become important criteria in their decisionmaking.

USSR AGRICULTURAL IMPORTS: OVERVIEW

Import Increases

Soviet imports of grain and oilseeds expanded sharply in the wake of the poor grain and sunflowerseed harvests of 1972. Grain and oilseed imports peaked temporarily in 1973, at 24 million and 800,000 metric tons, respectively—22 million and 1 million for the 1972/73 marketing year—dropping sharply in 1974 as domestically-produced grain and sunflowerseeds from the record 1973 harvests became available. Imports expanded again beginning in mid-1975, when it became apparent that the Soviets were facing disastrously poor grain and sunflowerseed harvests. Imports remained high in 1976, but dropped somewhat in 1977 following the record 1976 grain harvest. A sharp increase occurred in meat imports in 1974 and 1975, but this was apparently as much the result of the continuing EC ban on East European meat (the Soviets became a major purchaser) and of the availability of bargain-priced meat as of shortfalls in domestic meat production.

Since 1972, the United States, Canada, and Australia have become the most important source of grain, with the U.S. typically supplying 55–60 percent. The United States and Brazil supply the bulk of oilseeds—in the form of soybeans. Some vegetable oils—such as coconut oil—and butter (from the EC) also have been imported in volume. Eastern Europe remains the major supplier of meat, although France, Argentina, Australia, New Zealand, and other countries have also supplied quantities in recent years.

U.S. Agricultural Exports to USSR

U.S. agricultural exports to the USSR increased sharply beginning in 1972 and reached a recent record (calendar year basis) of $1.6 billion—largely for grain—in 1976. In terms of share of trade, the Soviets now occupy a very important place in U.S. agricultural exports. The Soviets accounted for only 0.6 percent of total U.S. agricultural exports in 1971, but this increased to 7 percent in 1976. Although some decline is expected in the volume and value of U.S. agricultural exports to the USSR in 1977, the totals will remain substantial owing partly to continuing grain purchases under the terms of the U.S.-USSR Grain Agreement, and partly to Soviet purchases of soybeans in mid-1976, the bulk of which were shipped after January 1, 1977.

Soviet Use of CCC Credits

All USSR purchases of U.S. agricultural products are made on a cash basis. The Soviets are not eligible for consideration for U.S. government-financed or guaranteed credits due to restrictions in the Trade Act of 1974. Prior to the implementation of the Act, however, the Soviets did make use of Commodity Credit Corporation credits following the July 1972 signing of an agreement between the governments of the U.S. and USSR with respect to U.S. credit extension for Soviet grain purchases (but not for soybeans). The Agreement provided for the Commodity Credit Corporation to make available a total of $750 million for financing the sale of U.S.-grown grains during August 1, 1972 through July 31, 1975. The Soviets agreed to buy a minimum of $200 million worth of grain for delivery during the first year of the Agreement. Actual purchases for credit are shown in table 1.

TABLE 1.—U.S. EXPORTS OF GRAIN TO U.S.S.R. UNDER CCC CREDIT, 1972-74

[In thousands]

Year	Commodity		
	Wheat	Corn	Total
1972	$68,768	$49,393	$118,161
1973	326,725	84,807	411,532
1974	5,000	15,000	20,000
Total	400,493	149,200	549,693

MEDIUM-TERM AGRICULTURAL SUPPLY/DEMAND OUTLOOK

Grains

The Tenth 5-Year Plan (1976–80) goals suggest that the USSR has lowered its planned rate of expansion in livestock output so that grain production can catch up with demand. Grain production during 1976–80 is to average 215 to 220 million tons. This target is only 20 to 25 million tons above the 1971–75 goal of a 195-million-ton average, but is almost 35 to 40 million tons above the average of 182 ~~million~~ tons of grain actually harvested in the five years. This average was greatly reduced by the extreme harvest shortfall in 1975. The 1976–80 grain production target seems attainable given a planned grain area of 128 million hectares and a continuation of the trend in grain yields established over the past 20 years. The 1976 grain crop was a record 224 million tons and early season prospects point to another relatively good crop in 1977.

The increases planned for livestock products are modest compared to that for grain production. In fact, the 1976–80 average goals for livestock products, except eggs, are only slightly higher than the original goals for the preceding 5-year plan (1971–75). Compared with actual accomplishments during 1971–75, planned increases for meat and milk are only 7–11 percent but for grain about 20 percent. Feed use of grain during 1976–80 is expected to be close to a fourth larger than the 1971–75 average. Thus, barring a series of reduced grain harvests as a result of some unusual sequence of unfavorable weather, it would seem that internal grain supplies could permit the Soviet leadership to increase livestock product output faster than planned. Sizable increases in incomes likely will evoke demand pressures for greater-than-planned levels of livestock product consumption.

Soviet grain production, however, fluctuates sharply owing to weather variability. Production swings of 50 million tons or more between consecutive years are not uncommon. Grain stocks apparently were low during the first half of the 1970's and storage capacity was inadequate to handle peak crops. The Soviets have announced a plan to increase off-farm grain storage capacity in elevators by 30 million tons during 1976–80. This is more than the planned increase in the internal grain purchases by the government and should permit some stocks buildup—but still less than enough to cover severe swings in production.

Oilseeds and Products

The oilseed situation is much tighter than that for grain, but the Soviets have traditionally not imported to cover the chronic Soviet processing limitations apparently have restricted soybean imports to periods of sharply reduced oilseed supplies. Vegetable oil has been in relatively short supply since products from the record 1973 sunflowerseed harvest were exhausted in late 1974, although exports have been maintained at reduced levels. In comparison with the record 1973 sunflowerseed crop of 7.4 million tons, the 1974 crop of 6.8 million tons was disappointing while the 1975 and 1976 crops at 5.0 and 5.2 million tons, respectively, were disastrous.

Soviet potential for increasing domestic oilseed output is sharply limited by weather and other considerations. Output of sunflowerseeds, planned to average 7.6 million tons during 1976–80, is limited by the amount of suitable land available for sunflower cultivation, rotational requirements, and some potentially serious disease and pest problems. Increases of cottonseed output will be limited by the extent to which newly-irrigated lands become available for cultivation (cotton is grown exclusively on irrigated land in Soviet Central Asia.) Domestic soybean production is limited by weather factors in the Soviet Far East (the current soybean center) and by competition from other crops on irrigated lands of Southern European USSR.

Because of limits on increased production, total demand for oilseeds and products is expected to outrun internal supply, particularly for oilcake and meal. The Soviets have a very ambitious plan for expanding mixed feed production. Industrial output of mixed feed is to reach 77 million tons in 1980, almost double the 41 million produced in 1975. In addition to oilmeal and cake from domestically produced cotton seed, sunflowerseeds, and soybeans, it has been estimated that the meal from 4–5 million tons of imported soybeans would be needed simply to maintain the protein content in the mixed feed by 1980. Imports of this magnitude, however, would require a very significant expansion of the oil seed processing industry—well beyond the current rate and the announced plans. Thus, soybean meal imports, as meal, may be initiated to meet feed production goals. The Soviets have been seeking to boost alternative protein sources, such as single-cell protein feed yeasts and urea, but these still account for a relatively small share of the protein supply.

Cotton

Increased domestic production of cotton in the USSR has been ample not only to satisfy total Soviet demand, but to permit the Soviet Union to become a major competitor of the United States in the world cotton market. Expected increases in cotton production in the years ahead should allow the Soviets to continue as an important cotton exporter. Raw (seed) cotton production in 1980 is planned at 9 million tons (about 13 million bales of lint), an increase of a sixth over the 1971–75 average production of 7.7 million tons (11.3 million bales). Actual production has exceeded plans by an average of 11 percent during the past 6 years, however, so that a planned 9 million tons by 1980 could result in actual production of 10 million (almost 15 million bales). If current plans for expansion of cotton production are met, the Soviets may have as much as 900,000 tons (more than 4 million bales) of lint cotton available for export in 1980. The Soviets import some lint cotton, principally long staple varieties, from Egypt and Syria.

Other Products

The Soviets are also purchasers of several other agricultural products. Many of these—including tropical products, sugar, citrus and other fruits, and tobacco—are produced in insufficient quantities in the USSR. These purchases will continue.

USSR AGRICULTURAL IMPORT OUTLOOK

Import Forecasts

Most of the increase in Soviet requirements for agricultural products over the next five years will be met through an expansion in domestic output. However, the USSR is expected to remain an important net importer of agricultural products. Grains and soybeans are expected to be major agricultural imports which are of interest to the United States as a supplier. On the other hand, Soviet cotton is expected to continue to be an important competitor of U.S. cotton in the world market.

Soviet purchases of 8–10 million tons of grain annually when the USSR has an average grain harvest seem reasonable. The USSR is obligated to purchase a minimum of 6 million tons of U.S. wheat and corn in approximately equal quantities each year for 5 years, beginning October 1976, under the U.S.-USSR grain purchase agreement signed in October 1975. In addition, the USSR can be expected to purchase several million tons of grain from Canada and Australia in order to maintain these countries as suppliers, particularly to meet commitments to such Soviet customers as Cuba, Vietnam, and North Korea.

Soviet grain imports under the U.S.-USSR grain purchases agreement should reduce the extreme fluctuations which have characterized Soviet grain imports during the past five years. Imports under the agreement as well as the record 1976 Soviet grain crop will permit a substantial rebuilding of carry-over grain stocks in the USSR. These stocks can be used to help offset shortfalls in future Soviet grain crops. However, another very severe drought, such as in 1975, or several rather poor harvests in succession, would likely cause the Soviets to again reenter the world grain market to purchase grain on the 1972 and 1975 scale of 20–25 million tons.

The Soviet Union could import some 2–3 million tons of soybeans annually—even with an average sunflower crop—by 1980. The USSR purchased 2 million tons of soybeans in early July 1976 (before the relatively poor 1976 sunflower crop was apparently in prospect), suggesting that Soviet officials have decided to maintain, or perhaps raise, the protein content of their mixed feeds even though oilseed or meal imports are required. Given relatively high soybean: grain price ratios, however, the Soviets could elect to hold down soybean imports and feed more grain.

Financial Constraints

The USSR faces significant financial restraints on its imports of agricultural products from the "hard currency" countries—those with which the USSR has agreed to settle trade imbalances in freely convertible currencies (the ruble is nonconvertible). The Soviet balance of trade deficit with the hard currency countries totaled $5 billion in 1976. Although the Soviets earn substantial amounts of hard currency from the sale of raw and semi-finished products—including petroleum and petroleum products, diamonds, platinum and platinum group metals, and some other products—their purchases greatly exceed earnings. The deficits are made up by borrowings—which have gone up sharply in the past two years—and by gold sales. Soviet agricultural imports from the U.S. in the wake of the disastrous crop in 1975 indicate that when necessary the Soviets can arrange to pay for large amounts of cash or normal commercial credit purchases. The availability and terms of credit, however, likely have become more important criteria in Soviet purchase decisions.

EASTERN EUROPE [1]

Social and political considerations have forced virtually all East European governments to improve their population's living standard with relatively low retail prices for meats, bread, and sugar. In support of this policy, investment allocations to agriculture and the food industry are receiving high priority. Scarce foreign exchange and use of credits have been approved for increasing food and feed imports.

The United States has participated with increased feed exports to fill the East European need and attained in 1976 a record $1.3 billion agricultural exports to the region.

The domestic policy of stimulating feed production faster than livestock production may lead to reduced grain imports; however, the growing demand for protein feed cannot be covered through domestic sources in the foreseeable future.

The United States, with competitive prices and credit conditions, is likely to maintain or increase its share of grain imports—even if total imports are reduced—and to participate in the growing protein feed imports.

RECENT AGRICULTURAL IMPORT PATTERN

Food and agricultural raw materials play a sizable part in total East European imports. Agricultural imports account for about one-fifth of total imports in the region; one-fourth in the German Democratic Republic (GDR); and more than one-fifth in Czechoslovakia.

In terms of value, the GDR, Czechoslovakia, and Poland are the leading agricultural importers, in this order.

Between 1970 and 1975, the region annually imported 8 to 11 million tons of grain, principally for feed, about a half million tons of oilseeds, and 300,000 to 400,000 tons of vegetable oils. Oilseed meal imports grew from 1.5 million tons in 1968 to more than 3.5 million by 1975 (table 4). Cotton imports increased about 2 percent annually since 1968 to slightly over 700,000 tons (3.2 million bales) in 1975. Other important East European agricultural imports of U.S. interest are tobacco, rice, cattle hides, cattle for breeding, and citrus fruits.

U.S. agricultural exports to the region registered significant growth from just $100,000 in 1969 to $1.3 billion in 1976 (table 5). The United States, having been a residual source of grain supplies to the region until 1974, captured about half of the region's total grain imports in 1975 and 1976.

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[1] North: Czechoslovakia, GDR, and Poland; South: Bulgaria, Hungary, Romania, and Yugoslavia.

Grain and soybean products have accounted for 80–90 percent of U.S. agricultural exports to Eastern Europe in recent years. Since 1972, U.S. oilmeal exports increased markedly; but, because of East European shortfalls in grain output in 1975 and 1976, grain accounted for two-thirds of U.S. agricultural exports.

Poland, the GDR, and Romania have been the leading East European importers of U.S. agricultural products in the last 3 years. Czechoslovakia became a close fourth in 1976 as a consequence of two consecutive years of below trend grain production.

An important vehicle for facilitating U.S. sales to East Europe is the CCC export credit sales program. CCC credit financing to this area was begun in 1962 with a modest $5 million to Poland, and peaked in 1976 with $205 million. The values of Eastern Europe's imports on CCC credit from 1966 to 1976 are shown in table 2. The use of credit has been limited by budget restrictions on the amount of credit granted and by commodity eligibility depending on the U.S. supply situation. Throughout the past 10 years, Poland, Yugoslavia, and Romania have been the principal users; Czchoslovakia and Hungary used it sparingly; Bulgaria and the GDR have not used it. Only Poland, Romania, and Yugoslavia remained eligible under the 1974 Trade Act. In the case of Romania, continued eligibility depends on annual Congressional extension of a waiver of the freedom of emigration requirement of Title IV of the 1974 Trade Act.

Grains were included most often on the CCC eligibility list and accounted for the largest share of credit purchases. Following grains, vegetable oil, cotton, and tallow were next in importance. CCC credit exports in 1976 with record authorizations accounted for 16 percent of total agricultural exports to the region though they reached 42 percent of the total to Poland. The CCC credit share was larger in 1971 and 1972 when total U.S. agricultural exports were lower.

AGRICULTURAL SUPPLY AND DEMAND OUTLOOK

Plans for 1976–80 emphasize faster growth in crop than in livestock sectors. Attainment of plan goals should narrow the gap between feed requirements and domestic availabilities in the northern grain importing countries—Czechoslovakia, the GDR, and Poland—and permit self-sufficiency or increased grain exports from the southern countries.

TABLE 2.—U.S. EXPORTS TO EASTERN EUROPE FINANCED UNDER THE CCC EXPORT CREDIT SALES PROGRAM, VALUE BY COUNTRY, CALENDAR YEARS 1966–76

[In millions of U.S. dollars]

Country	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Bulgaria	0	0	0	0	0	0	0	0	0	0	0
Czechoslovakia	6.32	2.61	0	0	0	0	0	0	0	0	0
GDR	0	0	0	0	0	0	0	0	0	0	0
Hungary	3.39	0	1.06	0	0	0	0	1.38	0	0	0
Poland	23.43	25.28	18.80	10.67	21.22	34.36	32.04	57.36	3.00	31.00	168.30
Romania	0	0	0	0	26.16	28.87	8.38	15.38	15.91	26.70	36.80
Yugoslavia	0	27.19	5.19	7.18	4.34	44.78	74.81	6.72	0	0	0
Total	33.14	55.08	25.05	17.85	51.72	108.01	115.23	80.84	18.91	57.70	205.10

Average levels of East European grain production probably will reach about 100 million tons by 1980, compared with 87 million during 1971–75. The rate of growth in total internal demand for grain likely will decline from the rapid increase during the first half of the 1970's. The southern countries may gradually increase their level of net exports. Imports by the northern countries, especially Czechoslovakia, probably will decline from recent high levels. Poland and the GDR, however, will remain major importers of grain.

The 1976–80 official plans call for average grain output of 106 to 110 million tons. Possibly as much as half of the likely grain production shortfall from plans is in Romania, but the shortfall there, if it occurs, probably will be absorbed through less-than-planned consumption and exports. Any production shortfalls in the other southern countries likely would also be absorbed in the same fashion.

Levels of both consumption and trade, therefore, are expected to depend on the level of production. On the other hand, a reopening of the EC market to beef exports by these countries could result in some reversal of the present grain export trend. Shortfalls in the northern countries most likely will be offset by imports if financial resources of the countries permit.

The situation is less satisfactory concerning the East European domestic protein meal balance. The projected increase in protein meal consumption will surpass the expected increase in domestic production. Uptrends in oilseed meal (or oilseed) imports are expected in all countries. Import needs will grow even in Romania where the planned oilseed production increase is the largest; however, protein requirements are likely to expand more rapidly since the present consumption level is very low. The rate of increase in oilseed meal imports by Eastern Europe during the next 5 years, however, likely will be less rapid than during the past 5 to 10 years.

Domestic cotton production is only 1 to 2 percent of consumption. Imports are likely to continue to increase 1 to 2 percent annually during the next 5 years. Romania may account for most of the growth as it has in recent years. With fairly steady rice production and consumption, the regional rice imports of about 250,000 tons will remain stationary. Growth of disposable incomes will generate increased demand for complementary products like citrus fruits. A slightly increasing demand for cattle hides is also anticipated.

DOMESTIC POLICIES RELATED TO IMPORTS

In the 1970's, the East European governments placed higher priority on satisfying consumer demands. Both political and social considerations compelled the leadership to keep retail prices on staple foods at relatively low levels. Increased per capita disposable income and low regulated food prices involved considerable government subsidies and strain on state budgets. The economically unjustified policy led to accelerated demand for meat and meat products, which in 1976 was not met with adequate market supply, particularly in Poland. The unsatisfied consumer demand forced the northern countries to step up feed and meat imports and reduce meat exports.

This policy of subsidizing food prices contributed to a further deterioration in the balance of trade which was hurt since 1974 by worsening trade terms first toward the West and since 1975 towards the USSR. Accepting heavy indebtedness seemed to be the only short term alternative to a decline in living standards and eventual unrest. In the longer term, policies of self-sufficiency in temperate zone food products and increased exports of finished industrial goods promise better financial positions and fewer demand imbalances.

OUTLOOK FOR AGRICULTURAL IMPORTS FROM THE UNITED STATES

The United States benefited in the last few years from crop shortfalls in Eastern Europe and from a shift in East European grain imports away from the USSR and of soybean meal imports away from Western Europe. The latter was offset by increased competition from Brazil. Feed grains and soybean and soybean products will remain the bulk of imports from the U.S. also in the next five years. The U.S. level of grain exports to Eastern Europe will be maintained by understandings with Poland—2 to 3 million tons annually. The United States has a good chance at least to maintain its one-third share of the region's imports of oilseed meal (including meal equivalent of oilseeds). The United States has upped its share of East European cattle hide imports to about a fifth of the total—about $50 million annually.

Several U.S. firms are involved in promoting sales of grains, soybeans, feed additives, and U.S. breeds of cattle to Eastern Europe. The U.S. companies provide licenses on feed formulas and technical advice on production to further sales of their products.

PEOPLE'S REPUBLIC OF CHINA

Production, consumption, and trade relationships in PRC agriculture are only poorly understood at present. Moreover, economic policy debates currently underway could have important implications for consumption policies and hence trade. But given no dramatic changes from past practices, it appears that agricultural trade during the next five years will show:

(1) Grain imports fluctuating between 3 and 7 million tons per year—possibly higher in 1978 as a result of record purchases for 1977/1978 delivery. Most imports will be wheat.

(2) A continued downward trend in soybean exports and a rising trend for imports, but with substantial year-to-year fluctuation in import levels. China may be a net importer of soybeans by the end of the period.

(3) Cotton imports averaging over 200,000 tons (900,000 bales) per year—well above the depressed levels of the 1975–76 period. Yearly import levels will vary with the textile export potential, world market prices, and domestic production.

Given a continuation of the current state of U.S.-PRC relations, the U.S. will remain a residual supplier, although substantial sales, especially of cotton, may be made in some years.

PRC AGRICULTURAL IMPORTS: OVERVIEW

Agricultural products constitute on the average over one-fourth of total value of Chinese imports; however, because of the low level of total Chinese trade, China is a relatively small trader by world standards. Agricultural imports are limited to a small range of commodities: grains (mainly wheat), cotton, and sugar predominate although soybeans and vegetable oils have been important in some years. Imports of major items during 1971–76 are shown in table 3.

TABLE 3.—AGRICULTURAL IMPORTS BY THE PEOPLE'S REPUBLIC OF CHINA, 1971–76

[In thousands of tons]

Commodity	1971–76 average	1971–76 range	U.S. peak
All grains	4,632	2,140 (1976) to 7,645 (1973)	4,315 (1973).
Wheat	3,990	2,000 (1976) to 5,987 (1973)	2,815 (1973).
Cotton [1]	252	144 (1974/5) to 425 (1972/3)	196 (1973/4).
Soybeans [2]	156	0 (1971) to 619 (1974)	619 (1974).

[1] Based on marketing year data (year beginning Aug. 1)—average based on 1971/72–1975/76 period.
[2] China was net exporter in all years except 1974. The only significant imports were in 1973 and 1974.

As can be seen from the table, there has been considerable year-to-year variation during the 1970's. Trade in 1977 is again on the upswing, at least for grains and soybeans. Soybean imports during calendar year 1977 will be nearly 400,000 tons. Grain imports will total about 6.5–7.0 million tons. This entire amount is wheat, a record level of wheat imports. But caution is in order in making any attempt to infer trends from the upswing in trade this year.

Trade between China and the U.S. resumed in 1972. There has been no involvement of CCC credit in U.S. agricultural exports to China.

AGRICULTURAL TRADE PROSPECTS, 1978–82

In examining the future prospects for Chinese agricultural imports, two aspects of the question must be distinguished. The first set of questions deals with the probable level of PRC total imports of various agricultural commodities. This section examines the medium-term prospects for major commodities which are prospective U.S. exports—grains, cotton, and soybeans. The second set of questions deals with the U.S. share of PRC imports of these commodities. The U.S. share will be influenced by an additional set of factors, which are examined separately.

The following general considerations and qualifications should be borne in mind in attempting to forecast China's future trade in these commodities.

1. The underlying production data are weak, especially for soybeans. Moreover, there is little understanding of the underlying production functions and, therefore, great uncertainty in attempting to project production of these crops.

2. Consumption, stock, and state procurement data are unavailable and, as a result, it is difficult to satisfactorily explain past trade behavior and the relationship between production and trade. There is, therefore, only a very limited and rough basis for projecting future trade levels, even assuming that production can be projected with some certainty.

3. Trade in agricultural products is effected by the growth of China's exports and changes in terms of trade and the resulting ability to generate foreign exchange, and by import priorities and financial policy as well. The conservative nature of financial policy to date has resulted in sensitivity of all imports, including agricultural imports, to balance of payments pressures. The sharp drop in imports in 1975 and 1976 is a dramatic example of this. If conservative financial policies continue, agricultural imports can be expected to fluctuate with China's overall payments position.

4. The new Chinese leadership is currently in the process of reassessing economic policies and priorities, including, most likely, the possibility of upgrading the role of material incentives. The outcome of these policy debates on consumption policy are difficult to predict. But even a limited relaxation of consumption curbs could have a substantial impact on the import demand for all agricultural products considered here.

With these considerations and limitations in mind, prospects for major agricultural import commodities can be examined briefly.

Grain Imports: All Grains[a]

China's grain imports are used primarily for human consumption in and around the major urban centers from Shanghai northward. Imported grain is used mainly to fill the gap between consumption requirements in these areas and available state supplies (procurements plus stocks). Although some imported grain may be used for building state stocks, it is doubtful that this is the major use of imported grain in most years.

Consumption requirements in these areas can be expected to increase at about the same rate as they have in past years. The state's ability and willingness to sharply restrict consumption in these areas in the event of a shortfall in domestic supplies appears limited.

State stocks available for use in these areas going into the 1978–82 period are probably quite limited. Therefore, given a continued growth of demand, difficulties in restricting per capita consumption of grains in the urban areas, and limited stocks, import requirements should fluctuate with the size of grain procurements. Since China is not a truly national grain market, mainly due to transportation barriers, it appears that grain procurements in North and Northeast China are more important than those from the rest of China.

The determinants of grain procurements are not clearly understood, nor are the determinants of the share of total procurements going to the central government and hence available for transfer between provinces and for supplying urban areas. No significant procurement data have been released since the 1950's. But it does seem clear that procurements fluctuate with the size of the harvest—the rural sector cannot be squeezed at will by the central government, although pressure may be effective in achieving limited and temporary increases in procurements.

The gap between available supply and demand, and consequently import demand, thus tends to fluctuate in a rough way with grain production, particularly per capita production in North and Northeast China. Production of all grains in these areas appears to be most important; wheat production *per se* seems to have little direct relation to imports of grain (mainly wheat). Higher wheat imports in some years have occurred following high wheat production, but poor performance in production of other grains.

With no changes in national consumption or procurement policies, and with political stability, grain imports during the 1978–82 period are generally expected to fluctuate in a range from three to seven million tons per year. However, imports at the beginning of the 1978–82 period may be temporarily somewhat above the upper end of the range, reflecting the unusual events of 1975–77. Considerable year-to-year fluctuations can be expected because of low stocks and fluctuations in production and procurements. Changes in world market grain prices should also influence year-to-year grain purchases, although no consistent price-quantity relationship can be discerned from historical data.

The average level of imports for the period as a whole will reflect both the growth of production and population and the level of per capita consumption. In

[a] The arguments in this section are mainly a summary of what is little better than conventional wisdom. We are currently attempting to test and, in so far as possible, quantify these relationships as part of a study of China's grain trade.

light of (1) the prospect for substantial increases in fertilizer supply expected as the imported plants come on stream, (2) the continuing program of capital investment in rural areas, (3) the strong commitment to expanding multiple cropping, and (4) increased mechanization, some increase in the rate of growth of production over the 1970–76 trend rate of about 2 percent per year seems likely. However, the favorable effects of this on trade could be offset by small changes in per capita grain consumption. Therefore, although imports are expected to remain in the 3 to 7 million ton range, no firm conclusion about average level or trends within this range seems possible.

Grain Imports: Wheat vs. Other Grains

Wheat has been the predominant import grain, although substantial quantities of other grains, mainly corn, were imported in the early 1960's and again in 1973 and 1974. Other grains are apparently viewed as inferior substitutes for wheat. As such, they appear to be imported only when some combination of the following exists:

(1) high level of grain imports,
(2) balance of payments constraints coupled with a significant wheat/corn price differential, and
(3) inability to secure required quantities of wheat at desired delivery periods.

Unless these conditions develop during the 1978–82 period, corn imports are expected to remain low. A substantial rise in coarse grain imports in the absence of these conditions would be a possible indication of a shift in policy in favor of increased livestock production.

Soybean Imports

China's position as a net exporter of soybeans has gradually deteriorated over time as soybean production has stagnated; in both 1974 and 1977, China has been a net importer. This trend is expected to continue into the future; production is not expected to rise appreciably, exports will decline, and imports should gradually trend upwards. Gradually rising imports of soybean oil and other vegetable oils during the period also seem likely. Edible oils are in very tight supply in China today; per capita rations are estimated to be among the lowest in the world. Attempts to bring about some marginal improvements in this during the forecast period seem likely.

Cotton

The relatively low level of PRC cotton imports in the past several years despite declining production since the peak year of 1973 seems to result from a combination of circumstances. These include depressed markets for textile exports, initially high cotton stocks, severe balance of payments problems, and recent high world cotton prices.

However, the prospects for the 1978–82 period, at least in the early part of the period, are for a rise in the level of cotton imports. The PRC appears to have been drawing down stocks for the past several years; it is unlikely that they have much room for further drawdowns—in fact, stocks may already be uncomfortably low. It is unlikely that domestic production of textiles will be significantly restricted. Moreover, there will be pressure to expand exports of cotton and cotton blend textiles—these have been one of China's major export items.

Given what appears to be a strong prospect for rising domestic demand for cotton, the growth of production that can be expected is critical. An increase in cotton production in 1977 was planned. However, the poor spring weather makes it doubtful weather planned increases will be realized. Imports should, therefore, rise in 1978. Over the longer term, propsects for increased cottton imports also appear favorable. Significant expansion of area will be difficult because of strong competition from other crops. Cotton has already been a priority recipient of inputs and, although yields will trend upwards, an increase of the magnitude experienced during the 1965–73 period seems unlikely. Imports averaging over 200,000 tons per year during the 1978–82 period seem possible although these will vary from year to year.

One uncertainty in the picture is the growth of PRC production of synthetic fibers. The rapid development of the petrochemical industry and the purchase of foreign plants for synthetic fiber production suggests that synthetic fiber production in China will grow substantially in coming years. This should over the time be a factor holding down the import of cotton.

Prospects for U.S. Agricultural Exports to the PRC

The U.S. has shipped no significant amounts of agricultural products to China since 1975. No major contracts for U.S. agricultural products have been signed since 1974. In part, this reflects the low level of China's agricultural imports in 1975 and 1976. But the rise in imports in 1977, with expanded grain purchases from all major exporters except the U.S., makes clear our present role as supplier of last resort. The major reason for this is the unresolved nature of U.S.-P.R.C. political relations and the host of associated issues, including the claims-assets issue and the question of MFN. Until such time as these issues are resolved, it seems most likely that no sustained rise in U.S. agriculture exports to China can be expected. Even so, because of the U.S. position as a major world supplier, PRC purchases of some commodities seem likely even under current conditions. Occasional, although at times substantial, sales could be made in situations where China is unable to obtain desired products from other suppliers or where there is a markedly lower price on U.S. products. Most likely commodities include cotton and possibly also soybeans and soybean oil. Grains could also be purchased in the case of high PRC import demand and tight supplies in other countries. But these purchases would most likely be irregular, difficult to predict, and at a fairly low average level unless total PRC agricultural imports rise significantly above the levels projected above.

Although resolution of the diplomatic questions should provide the U.S. access to the China market on more equal terms than in the past, the U.S. still faces problems in expanding exports of agricultural products. Canada and Australia have been China's major suppliers of grains, and China has had a long-standing trading relationship with those countries which would still remain important in purchasing decisions. Additionally, there was a considerable amount of mutual ill-will generated by the disputes over the quality of U.S. grain shipments and the question of TCK smut. China also experienced quality problems with the U.S. soybeans purchased in 1973 and 1974. No resumption of agricultural trade at 1973 and 1974 levels seems likely, given the probable trade levels presented above. However, bearing these qualifications in mind, China is still a potentially significant market for some U.S. agricultural products.

TABLE 4.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, CENTRALLY-PLANNED COUNTRIES[1] 1968–75

[In thousand metric tons]

Commodity and country	Imports							
	1968	1969	1970	1971	1972	1973	1974	1975
Total grains:[2]								
U.S.S.R	1,606	639	2,200	3,500	15,500	23,900	7,191	15,909
Eastern Europe	6,378	6,382	8,223	10,378	10,312	8,696	10,700	9,568
PRC	4,363	3,929	4,963	3,128	4,642	7,645	6,790	3,446
Total	12,347	10,950	15,386	17,006	16,504	40,241	24,621	28,923
Wheat:								
U.S.S.R	1,340	38	1,800	2,300	8,100	15,200	2,707	9,146
Eastern Europe	4,173	4,420	4,569	6,413	4,920	4,573	4,867	3,343
PRC	4,340	3,928	4,950	3,021	4,252	3,987	5,346	3,339
Total	9,853	8,386	11,319	11,734	17,272	25,760	12,920	15,858
Barley:								
U.S.S.R					2,600	1,900	284	1,001
Eastern Europe	968	891	2,607	1,310	2,733	1,480	1,889	2,242
PRC								
Total	968	891	2,607	1,310	5,333	3,380	2,173	3,243
Corn:								
U.S.S.R	264	499			4,100	5,400	3,440	5,548
Eastern Europe	1,049	843	730	1,906	2,204	2,359	3,329	3,366
PRC	20		13	107	390	1,626	1,444	107
Total	1,333	1,342	743	2,013	6,694	9,385	8,213	9,021

See notes at end of table.

TABLE 4.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, CENTRALLY-PLANNED COUNTRIES [1] 1968–75—Continued

[In thousand metric tons]

Commodity and country	Imports							
	1968	1969	1970	1971	1972	1973	1974	1975
Oilseeds:								
U.S.S.R.	56	58	43	45	379	768	70	424
Eastern Europe	478	574	536	569	464	475	540	404
PRC [3]					2	255	619	36
Total	534	632	579	614	845	1,478	1,229	864
Vegetable oil:								
U.S.S.R.	41	24	65	64	60	58	29	61
Eastern Europe	312	260	269	385	424	274	325	361
PRC					10	58		11
Total	353	284	334	449	494	390	354	433
Oilseed meal:								
U.S.S.R.								
Eastern Europe	1,506	1,699	1,932	2,096	2,703	3,088	3,595	3,548
PRC								
Total	1,506	1,699	1,932	2,096	2,703	3,088	3,595	3,548
Cotton:								
U.S.S.R.	137	170	258	243	167	131	140	137
Eastern Europe	631	614	682	640	662	671	715	716
PRC [4]	65	76	98	151	425	386	144	153
Total	833	860	1,038	1,034	1,254	1,188	999	1,006
Cattle hides: [5]								
U.S.S.R.	2,700	2,200	3,000	2,573	1,965	316	1,168	1,120
Eastern Europe	12,457	11,136	17,299	14,651	16,897	19,319	15,952	15,104
PRC								
Total	15,157	13,336	20,299	17,224	18,862	19,635	17,120	16,224
Meat and meat products: [6]								
U.S.S.R.	60	76	165	225	131	128	515	515
Eastern Europe	280	257	349	367	236	216	160	114
PRC								
Total	340	333	514	592	367	344	675	629
Sugar: [7]								
U.S.S.R.	1,755	1,335	3,005	1,536	1,924	2,631	1,856	3,237
Eastern Europe	1,041	938	1,309	1,450	1,172	1,300	1,049	934
PRC	432	445	530	464	749	736	411	235
Total	3,228	2,718	4,844	3,450	3,845	4,667	3,316	4,405
Tobacco:								
U.S.S.R.	62	55	70	72	90	92	79	88
Eastern Europe	72	55	54	63	76	61	65	66
PRC [8]	2	2	6	6	6	10	18	11
Total	136	112	130	141	172	163	162	165

Commodity and country	Exports							
	1968	1969	1970	1971	1972	1973	1974	1975
Total grains: [8]								
U.S.S.R.	5,406	7,205	5,698	8,640	4,560	4,853	7,030	3,578
Eastern Europe	3,054	3,155	2,629	1,978	2,828	4,409	3,429	3,266
PRC [9]	60	11	8	99	104	161	84	118
Total	8,520	10,371	8,335	10,717	7,492	9,423	10,543	6,962
Wheat:								
U.S.S.R.	4,355	5,949	4,733	7,617	3,890	4,193	5,262	2,665
Eastern Europe	1,682	1,099	943	805	1,415	1,919	1,485	1,843
PRC [8]	9	10	6	4	4	11	4	3
Total	6,046	7,058	5,682	8,326	5,309	6,123	6,751	4,511

See footnotes at end of table.

TABLE 4.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, CENTRALLY-PLANNED COUNTRIES[1] 1968–75—Continued

[In thousand metric tons]

Commodity and country	Exports							
	1968	1969	1970	1971	1972	1973	1974	1975
Barley:								
U.S.S.R.	614	748	503	688	298	276	924	818
Eastern Europe	175	195	427	276	493	456	300	150
PRC								
Total	789	943	930	964	791	732	1,224	968
Corn:								
U.S.S.R.	156	116	281	118	249	365	782	86
Eastern Europe	888	1,583	1,085	785	681	1,450	1,114	879
PRC[4]	51	1	2	95	100	150	80	115
Total	1,095	1,700	1,368	998	1,030	1,965	1,976	1,080
Oilseeds:								
U.S.S.R.[10]	361	345	143	84	74	73	63	61
Eastern Europe	345	331	397	297	241	179	96	135
PRC[3]	571	488	424	460	370	310	340	330
Total	1,277	1,164	964	841	685	562	499	526
Vegetable oil:								
U.S.S.R.	770	696	372	408	423	371	512	416
Eastern Europe	276	298	238	227	260	253	282	258
PRC	3	3	2	2				
Total	1,049	997	612	637	683	624	794	674
Oilseed meal:								
U.S.S.R.	325	319	54	44	52	26		
Eastern Europe	13	31	129	186	152	186	204	202
PRC[3]							18	12
Total	338	350	183	230	204	212	222	214
Cotton:								
U.S.S.R.	554	452	516	547	652	728	739	800
Eastern Europe	20	11	12	25	10	6	2	5
PRC[4]								32
Total	574	463	528	572	662	734	741	837
Cattle hides:[8]								
U.S.S.R.	434	604	546	253	129	38	53	145
Eastern Europe	165	253	342	467	332	220	220	308
PRC								
Total	649	857	888	710	461	258	273	453
Meat and meat products:[9]								
U.S.S.R.	131	98	55	35	60	75	56	44
Eastern Europe	668	640	572	630	683	702	734	892
PRC[11]								
Total	799	738	627	685	743	777	790	936
Sugar:[7]								
U.S.S.R.	1,461	1,388	1,517	1,402	64	46	117	59
Eastern Europe	1,298	1,203	1,032	643	889	872	616	476
PRC	244	167	88	117	156	155	51	53
Total	3,003	2,578	2,637	2,162	1,109	1,073	784	588
Tobacco:								
U.S.S.R.	4	4	4	2	2	1	1	2
Eastern Europe	114	101	103	103	100	110	112	117
PRC[4]	26	30	16	14	18	20	24	27
Total	144	135	123	119	120	131	137	146

[1] U.S.S.R., Eastern Europe, and PRC.
[2] Excluding rice.
[3] Sum of specified estimates.
[4] FAO estimates.
[5] Sunflowerseed only.
[6] Soybeans only.
[7] Marketing year.
[8] Thousand pieces.
[9] Includes poultry meat.
[10] Substantial quantities probably were exported, but data are not available.
[11] Raw value.

TABLE 5.—VOLUME AND VALUE OF U.S. AGRICULTURAL EXPORTS TO THE CENTRALLY-PLANNED COUNTRIES, INCLUDING TRANSSHIPMENTS[3], 1969-76

Commodity and country	1,000 metric tons							
	1969	1970	1971	1972	1973	1974	1975	1967[8]
Wheat:								
U.S.S.R.			3	2,733	8,727	1,063	4,119	1,800
Eastern Europe		168	716	713	1,571	356	932	1,991
PRC				565	2,815	1,905		
Total		168	719	4,011	13,113	3,324	5,051	3,791
Feed grains:[4]								
U.S.S.R.			497	4,558	5,605	2,316	3,514	9,718
Eastern Europe	797	921	1,469	409	1,901	2,641	3,743	5,453
PRC				376	1,500	854		
Total	797	921	1,966	5,343	8,906	5,811	7,257	15,171
Total grains:[5]								
U.S.S.R.			500	7,291	14,332	3,379	7,598	11,518
Eastern Europe	797	1,089	2,185	1,122	3,372	2,997	4,673	7,444
PRC				941	4,415	2,759		
Total	797	1,089	2,685	9,354	22,019	9,135	12,271	18,962
Oilseeds:[6]								
U.S.S.R.				400	549	4	15	579
Eastern Europe	123	138	149	200	184	290	198	285
PRC					251	619		
Total	123	138	149	600	984	913	213	864
Vegetable oil:								
U.S.S.R.								
Eastern Europe	2	73	114	143	74	49	61	10
PRC				10	58			
Total	2	73	114	153	132	49	61	10
Oilcake and meal:								
U.S.S.R.								
Eastern Europe	304	555	467	475	1,072	1,107	1,392	1,236
PRC								
Total	304	555	467	475	1,072	1,0107	1,392	1,236
Cotton, excluding linters:								
U.S.S.R.								
Eastern Europe	81	93	59	91	123	120	54	32
PRC					138	178	60	
Total	81	93	59	91	261	298	124	32
Cattle hides:[7]								
U.S.S.R.	1,225	1,492	1,251	518	48	447	660	143
Eastern Europe	1,269	1,593	2,120	2,968	2,900	3,600	3,200	3,298
PRC					35	20		
Total	2,494	3,035	3,371	3,486	2,983	4,057	3,860	3,441

	1,000 U.S. dollars							
	1969	1970	1971	1972	1973	1974	1975	1976
Wheat:								
U.S.S.R.			724	160,020	556,639	124,130	672,717	264,235
Eastern Europe		10,180	43,114	41,269	154,594	45,229	151,739	270,520
PRC				32,293	307,508	234,015		
Total		10,180	43,838	201,299	1,018,741	403,374	824,456	534,755

See notes at end of table.

TABLE 5.—VOLUME AND VALUE OF U.S. AGRICULTURAL EXPORTS TO THE CENTRALLY-PLANNED COUNTRIES, INCLUDING TRANSSHIPMENTS [2], 1969-76—Continued

Commodity and ountry	1,000 metric tons							
	1969	1970	1971	1972	1973	1974	1975	1967 [3]
Feed grains: [4]								
U.S.S.R.			26,303	232,551	360,796	177,601	457,837	1,175,953
Eastern Europe	29,924	39,875	82,454	83,952	154,325	323,782	495,737	616,265
PRC				23,792	141,175	95,671		
Total	29,924	39,875	108,757	340,295	656,296	597,054	953,574	1,792,218
Total grains: [5]								
U.S.S.R.			27,027	392,571	917,435	301,731	1,130,554	1,440,188
Eastern Europe	29,924	50,055	125,568	125,194	308,919	369,011	674,476	886,785
PRC				56,085	448,683	329,686		
Total	29,924	50,055	152,595	573,850	1,226,354	1,000,428	1,178,030	2,326,973
Oilseeds: [6]								
U.S.S.R.				53,563	87,164		2,913	126,445
Eastern Europe	10,991	17,139	17,247	26,419	56,931	77,032	58,362	67,424
PRC					55,396	138,242	9	
Total	10,991	17,139	17,247	157,014	199,491	215,274	61,284	193,869
Vegetable oil:								
U.S.S.R.								
Eastern Europe	749	22,374	32,444	35,963	21,782	32,336	45,696	4,725
PRC				2,200	17,863			
Total	749	22,374	32,444	38,163	39,645	32,336	45,696	4,725
Oilcake and meal:								
U.S.S.R.								
Eastern Europe	27,352	58,581	46,937	55,692	206,199	245,267	211,085	217,547
PRC								
Total	27,352	58,581	46,937	55,962	206,199	245,267	211,085	217,547
Cotton, excluding linters:								
U.S.S.R.								
Eastern Europe	10,335	12,465	8,346	15,124	20,052	48,080	16,337	9,842
PRC					100,527	185,934	79,658	
Total	10,335	12,465	8,346	15,124	120,579	234,014	95,995	9,842
Cattle hides:								
U.S.S.R.	11,529	14,064	10,876	9,557	1,108	7,877	5,182	2,470
Eastern Europe	11,419	13,761	16,664	46,356	56,147	52,590	28,602	53,395
PRC								
Total	22,948	27,825	27,540	55,913	57,646	60,588	33,784	55,865
Other:								
U.S.S.R.	73	1,820	6,650	2,345	11,368	14,132	31,524	31,183
Eastern Europe	10,273	20,057	21,786	25,562	37,594	55,952	38,438	65,475
PRC				2,999	2,745	10,299	22	44
Total	10,346	21,877	28,436	30,906	51,707	80,383	69,984	96,702
Total agricultural exports:								
U.S.S.R.	11,612	15,884	44,553	459,236	1,017,075	323,740	1,170,173	1,600,286
Eastern Europe	101,043	194,433	267,922	330,343	707,624	881,278	1,024,265	1,305,193
PRC				61,284	625,605	664,282	79,689	44
Total	112,655	210,317	312,475	850,863	2,350,304	1,869,300	2,274,127	2,905,523

[1] U.S.S.R., Eastern Europe, and PRC.
[2] Including transshipments through Canada, Netherlands, and West Germany.
[3] Preliminary.
[4] Including rye.
[5] Excluding rice.
[6] Soybeans only.
[7] 1,000 pieces.

TABLE 6.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, EASTERN EUROPE, 1968–75

Commodity and country	Imports (1,000 metric tons)							
	1968	1969	1970	1971	1972	1973	1974	1975
Total grain:								
Bulgaria	365	508	158	195	...	136	637	653
Czechoslovakia	1,879	1,727	1,367	2,033	1,550	1,552	1,088	885
GDR	1,628	1,865	3,424	3,066	3,845	2,990	2,770	3,360
Hungary	455	356	181	808	788	265	390	172
Poland	1,972	1,875	2,484	2,904	3,108	3,263	4,091	3,963
Romania [1]	...	...	484	366	39	212	784	518
Yugoslavia	79	52	125	1,006	982	278	940	17
Total	6,378	6,382	8,223	10,378	10,312	8,696	10,700	9,568
Wheat:								
Bulgaria	273	401	52	150	...	...	77	105
Czechoslovakia	1,371	1,226	1,026	1,204	1,094	950	664	515
GDR	1,075	1,311	2,084	1,867	2,040	1,594	1,219	1,130
Hungary	307	301	156	401	35	...	2	30
Poland	1,068	1,181	1,099	1,910	1,274	1,620	1,758	1,477
Romania [1]	...	...	152	334	29	184	302	86
Yugoslavia	79	...	...	547	448	225	845	...
Total	4,173	4,420	4,569	6,413	4,920	4,573	4,867	3,343
Barley:								
Bulgaria	54	22	106	8	...	53	201	278
Czechoslovakia	125	197	139	133	112	133	90	82
GDR	170	218	799	187	675	298	104	390
Hungary	74	45	23	209	548	199	333	101
Poland	545	375	1,093	616	1,332	780	1,135	1,376
Romania [1]	...	...	332	32	...	7	21	...
Yugoslavia	...	34	115	125	66	10	5	15
Total	968	891	2,607	1,310	2,733	1,480	1,889	2,242
Corn:								
Bulgaria	39	83	...	33	...	68	359	222
Czechoslovakia	263	217	122	480	302	469	332	283
GDR	378	289	376	656	1,031	1,086	1,328	1,795
Hungary	74	...	...	162	107	...	3	...
Poland	295	247	231	267	337	684	765	634
Romania [1]	...	...	...	...	10	10	461	432
Yugoslavia	...	7	1	308	417	42	81	...
Total	1,049	843	730	1,906	2,204	2,359	3,329	3,366
Oilseeds:								
Bulgaria	31	41	21	6	5	2	5	3
Czechoslovakia	209	181	188	132	120	140	129	114
GDR	132	130	203	208	197	133	129	124
Hungary	23	75	38	64	6	5	5	2
Poland	52	132	82	88	108	163	206	134
Romania [3]	...	...	...	20	19	20	20	15
Yugoslavia	31	15	4	51	9	12	46	12
Total	478	574	536	569	464	475	540	404
Vegetable oil, edible:								
Bulgaria	25	19	5	1	...	...	...	2
Czechoslovakia	47	50	50	55	58	40	46	49
GDR	112	104	117	99	161	98	127	95
Hungary	29	29	12	30	7	21	20	17
Poland	47	41	42	65	69	66	68	61
Romania	5	8	7	1	1	1	5	7
Yugoslavia	47	10	36	134	128	48	59	130
Total	312	260	269	385	424	274	325	361
Oilseed meal: [4]								
Bulgaria	53	81	91	137	179	170	302	218
Czechoslovakia	342	455	428	365	501	630	591	652
GDR	379	456	522	637	834	769	829	875
Hungary	270	260	341	401	377	380	580	505
Poland	299	278	313	317	545	724	794	948
Romania [2]	41	30	41	51	117	215	227	200
Yugoslavia	122	139	196	188	150	200	272	150
Total	1,506	1,699	1,932	2,096	2,703	3,088	3,595	3,548

See footnotes at end of table.

TABLE 6.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, EASTERN EUROPE, 1968-75—Continued

Commodity and country	Imports (1,000 metric tons) 1968	1969	1970	1971	1972	1973	1974	1975
Cotton:								
Bulgaria	58	62	61	62	56	61	68	51
Czechoslovakia	107	82	114	106	108	104	119	116
GDR	87	79	106	91	91	86	99	100
Hungary	75	64	98	66	67	73	74	93
Poland	156	132	150	145	157	145	152	160
Romania	76	84	83	91	97	108	104	111
Yugoslavia	72	111	70	79	86	94	109	85
Total	631	614	682	640	662	671	715	716
Hides, cattle: [6]								
Bulgaria	690	570	465	486	384	366	443	377
Czechoslovakia	2,050	1,800	2,141	2,443	2,451	2,452	2,122	2,147
GDR [6]			1,764	1,775	1,841	2,557	1,532	1,565
Hungary	1,653	1,200	1,635	1,063	1,476	1,716	1,852	1,648
Poland [6]	4,541	3,869	4,630	4,960	5,842	6,724	5,677	5,181
Romania	1,153	1,470	2,663	1,675	2,335	3,244	1,769	1,761
Yugoslavia [6]	2,370	2,227	4,001	2,249	2,568	2,260	2,557	2,425
Total	12,457	11,136	17,299	14,651	16,897	19,319	15,952	15,104
Meat and meat products: [7]								
Bulgaria	14	11	16	15	10	15	39	19
Czechoslovakia	83	110	121	76	46	22	41	32
GDR	68	66	85	56	47	43	25	24
Hungary	24	27	61	16	14	27	19	12
Poland	79	36	44	153	65	55	6	16
Romania	6	5	8	46	43	8	10	3
Yugoslavia	6	2	14	5	11	46	20	8
Total	280	257	349	367	236	216	160	114
Sugar: [8]								
Bulgaria	364	358	403	305	160	232	212	295
Czechoslovakia	200	206	234	197	143	148	165	48
GDR	313	223	514	433	331	260	285	166
Hungary	14	16	37	198	145	174	200	198
Poland	21	30	12	43	22	28	28	43
Romania	55	68	98	119	76	78	90	48
Yugoslavia	74	37	11	155	295	380	69	136
Total	1,041	938	1,309	1,450	1,172	1,300	1,049	934
Tobacco:								
Bulgaria	2	1	5	6	12	5	7	9
Czechoslovakia	22	19	16	17	21	18	16	14
GDR	21	17	16	19	23	18	20	17
Hungary	12	10	8	8	9	9	9	8
Poland	5	4	3	3	3	7	4	10
Romania	1	1	2	5	2	2	7	2
Yugoslavia	9	3	4	5	6	2	2	6
Total	72	55	54	63	76	61	65	66

	Exports (1,000 metric tons) 1968	1969	1970	1971	1972	1973	1974	1975
Total grain:								
Bulgaria	489	536	462	558	833	367	149	195
Czechoslovakia	27	54	62	35	35	33	207	73
GDR [1]	290	231	420	390	325	343	312	410
Hungary	141	460	810	112	505	1,732	1,472	1,285
Poland	119	183	200	111	208	410	262	104
Romania	1,555	1,368	371	702	900	1,126	712	1,163
Yugoslavia	433	323	304	70	22	398	315	36
Total	3,054	3,155	2,629	1,978	2,828	4,409	3,429	3,266

See footnotes at end of table.

TABLE 6.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, EASTERN EUROPE, 1968-75—Continued

Commodity and country	Imports (1,000 metric tons)							
	1968	1969	1970	1971	1972	1973	1974	1975
Wheat:								
Bulgaria	365	238	211	324	509	220	139	113
Czechoslovakia		14						
GDR [1]	23		143	160			68	73
Hungary	115	367	571	83	363	923	633	952
Poland								
Romania	1,176	480	14	236	543	776	641	705
Yugoslavia	3		4	2			4	
Total	1,682	1,099	943	805	1,415	1,919	1,485	1,843
Barley:								
Bulgaria					40	16		
Czechoslovakia	27	40	54	33	35	33	33	48
GDR [1]	95	102	210	164	167	173	152	62
Hungary [2]		1	19		122	88	14	
Poland	32	51	144	78	129	43	68	29
Romania								
Yugoslavia	21	1		1		103	33	11
Total	175	195	427	276	493	456	300	150
Corn:								
Bulgaria	124	298	250	230	285	130	10	82
Czechoslovakia								
GDR								
Hungary		79	180	26	19	693	770	319
Poland								
Romania	375	888	357	466	357	350	71	458
Yugoslavia	389	318	298	63	20	277	263	20
Total	888	1,583	1,085	785	681	1,450	1,114	879
Oilseeds:								
Bulgaria	50	134	117	95	95	35	2	7
Czechoslovakia	2	4	3	4	2	3	2	1
GDR								
Hungary	18	36	42	80	36	27	30	45
Poland	175	85	46	61	10	57	3	76
Romania [3]	75	49	54	25	78	42	29	
Yugoslavia	25	23	135	33	20	15	30	6
Total	345	331	397	297	241	179	96	135
Vegetable oil, edible:								
Bulgaria	46	60	47	20	26	19	23	21
Czechoslovakia	6	3		8	1	1	1	1
GDR								
Hungary	42	56	30	44	41	41	39	38
Poland	55	35	38	17	62	47	47	57
Romania	116	144	119	132	129	142	165	141
Yugoslavia	11		4	6	1	3	7	
Total	276	298	238	227	260	253	282	258
Oilseed meal: [4]								
Bulgaria			7	36	40	42		
Czechoslovakia			13	14	29	27	27	35
GDR								
Hungary			41	98	60	117	171	163
Poland			16	30	14		6	4
Romania								
Yugoslavia	13	31	52	8	9			
Total	13	31	129	186	152	186	204	202
Cotton:								
Bulgaria	16	11	12	9	10	6	2	1
Czechoslovakia	4			16				
GDR								
Hungary								
Poland								4
Romania								
Yugoslavia								
Total	20	11	12	25	10	6	2	5

See footnotes at end of table.

TABLE 6.—TRADE IN SELECTED AGRICULTURAL COMMODITIES, EASTERN EUROPE, 1968–75—Continued

Commodity and country	Imports (1,000 metric tons)							
	1968	1969	1970	1971	1972	1973	1974	1975
Hides, cattle:[5]								
Bulgaria			44	137	2			
Czechoslovakia								
GDR								
Hungary								
Poland[6]	165	253	298	330	330	220	220	308
Romania								
Yugoslavia								
Total	165	253	342	467	332	220	220	308
Meat and meat products:								
Bulgaria	84	74	65	67	74	65	61	99
Czechoslovakia	31	37	19	30	25	50	9	16
GDR[2 3]	47	54	54	60	71	68	39	69
Hungary	120	107	123	162	163	134	201	249
Poland	176	176	157	174	173	194	234	209
Romania	92	80	55	55	69	100	133	165
Yugoslavia	118	112	99	102	108	91	57	85
Total	668	640	572	650	683	702	734	892
Sugar:[8]								
Bulgaria	13		20	36				
Czechoslovakia	312	300	350	320	229	225	189	227
GDR	169	190	212	144	158	120	186	64
Hungary	18	51	23	2			10	7
Poland	703	322	323	88	332	422	183	150
Romania	69	113	43	11	170	105	48	28
Yugoslavia	14	47	61	42				
Total	1,298	1,023	1,032	643	889	872	616	476
Tobacco:								
Bulgaria	69	60	58	62	63	69	69	71
Czechoslovakia	1	2	1		3	1	2	
GDR	2	3	2	2	2	2	2	2
Hungary	7	7	9	6	3	2	1	1
Poland	8	9	10	12	9	12	13	10
Romania	11	6	4	1	3	6	6	9
Yugoslavia	16	14	19	20	17	18	19	24
Total	114	101	103	103	100	110	112	117

[1] As reported by trading partners.
[2] As reported by FAO.
[3] Soybeans only as reported by trading partners.
[4] Includes millfeed.
[5] Thousand pieces.
[6] Converted from metric tons to pieces at 20 kilograms per piece.
[7] Includes poultry meat.
[8] Raw value. From the International Sugar Organization.

TABLE 7.—VOLUME AND VALUE OF U.S. AGRICULTURAL EXPORTS TO EASTERN EUROPE, INCLUDING TRANSSHIPMENTS, 1969-76[1]

Commodity and country	1,000 metric tons							
	1969	1970	1971	1972	1973	1974	1975	1976[2]
Wheat:								
Bulgaria								
Czechoslovakia					74		9	143
GDR		6		146	418	11	335	778
Hungary		5						
Poland				142	837	199	502	736
Romania		157	334	29			86	334
Yugoslavia			382	396	242	146		
Total		168	716	713	1,571	356	932	1,991

See footnotes at end of table.

TABLE 7.—VOLUME AND VALUE OF U.S. AGRICULTURAL EXPORTS TO EASTERN EUROPE, INCLUDING TRANSSHIPMENTS, 1969-76 [1]—Continued

Commodity and country	1,000 metric tons							
	1969	1970	1971	1972	1973	1974	1975	1976 [2]
Feed grains:								
Bulgaria						64	115	299
Czechoslovakia		27	259		46	5		772
GDR		228	403	409	738	1,165	1,590	2,119
Hungary	639	1			24	1		
Poland	158	101	459		872	696	1,504	2,155
Romania		453	32		121	512	534	108
Yugoslavia		111	316			198		
Total	797	921	1,469	409	1,801	2,641	3,743	5,453
Total grains:								
Bulgaria						64	115	299
Czechoslovakia		27	259		120	5	9	915
GDR		234	403	555	1,156	1,176	1,925	2,897
Hungary	639	6			24	1		
Poland	158	101	459	142	1,709	895	2,006	2,891
Romania		610	366	29	121	512	620	442
Yugoslavia		111	698	396	242	344		
Total	797	1,089	2,185	1,122	3,372	2,997	4,675	7,444
Oilseeds:								
Bulgaria								
Czechoslovakia	11	8	9	72	16	106	62	1
GDR			15			58		20
Hungary	5	34	12		148			
Poland	107	96	68	128		126	120	15
Romania					20		16	249
Yugoslavia			45					
Total	123	138	149	200	184	290	198	285
Vegetable oil:								
Bulgaria								
Czechoslovakia								
GDR								
Hungary								
Poland	2	26	25	37	42	9	12	10
Romania								
Yugoslavia		47	89	106	32	40	49	
Total	2	73	114	143	74	49	61	10
Oilcake and meal:								
Bulgaria	30	56	10			16	24	
Czechoslovakia		44	79	124	179	164	305	202
GDR	40	5	23		109	216	298	278
Hungary		164	147	57	86	120	196	105
Poland	89	101	91	109	366	268	228	431
Romania	10			51	166	103	13	94
Yugoslavia	135	185	117	134	166	220	328	126
Total	304	555	467	475	1,072	1,107	1,392	1,236
Cotton, excluding linters [3]:								
Bulgaria								
Czechoslovakia								
GDR								
Hungary								
Poland	27	47		47	51	31	20	32
Romania		46	57	44	72	89	44	
Yugoslavia	54		2					
Total	81	93	59	91	123	120	64	32
Cattle hides: [4]								
Bulgaria			5	71	5	42	26	49
Czechoslovakia	312	499	692	852	804	635	877	678
GDR	6	4	20		20	2	15	9
Hungary	5	37	130	93	113	286	158	270
Poland	279	152	474	545	719	638	788	389
Romania	379	449	571	1,200	1,006	1,777	1,226	1,651
Yugoslavia	288	452	228	207	233	220	110	252
Total	1,269	1,593	2,120	2,968	2,900	3,600	3,200	3,298

See footnotes at end of table.

TABLE 7.—VOLUME AND VALUE OF U.S. AGRICULTURAL EXPORTS TO EASTERN EUROPE, INCLUDING TRANSSHIPMENTS, 1969-76 [1]—Continued

Commodity and country	1969	1970	1971	1972	1973	3974	1975	1976 [3]
	1,000 metric tons							
Wheat:								
Bulgaria								
Czechoslovakia					4,958		1,576	20,875
GDR		347	19	8,829	33,760	2,244	58,074	107,297
Hungary		269						
Poland		377		8,493	66,319	18,589	80,296	93,895
Romania		9,143	19,539	1,440			11,793	48,453
Yugoslavia		44	23,556	22,517	49,557	24,396		
Total		10,180	43,114	41,279	154,594	45,229	151,739	270,520
Feed grains:								
Bulgaria			1			9,964	14,780	34,204
Czechoslovakia		1,564	15,840	4,963	3,066	672	39	91,570
GDR	21,794	13,558	22,302	30,500	68,188	149,918	229,950	211,415
Hungary		69			2,498		24	411
Poland	8,130	5,450	25,277	16,331	71,962	86,652	181,359	252,940
Romania		15,738	1,569	9,621	8,611	70,351	69,585	25,586
Yugoslavia		3,496	17,465	22,537		6,225		139
Total	22,924	39,875	82,454	83,952	154,325	323,782	495,737	616,265
Total grain:								
Bulgaria			1			9,964	14,780	34,204
Czechoslovakia		1,564	15,840	4,963	8,024	672	1,615	112,445
GDR	21,794	13,905	22,321	39,329	101,948	152,162	288,024	318,712
Hungary		338			2,498		24	411
Poland	8,130	5,827	25,277	24,824	138,281	105,241	261,655	346,835
Romania		24,881	21,108	11,061	8,611	70,351	81,378	74,039
Yugoslavia		3,540	41,021	45,054	49,577	30,621		139
Total	29,924	50,055	125,568	125,194	308,919	369,011	647,476	886,785
Oilseeds:								
Bulgaria		76				69		2
Czechoslovakia	1,058	1,609	1,153	13,120	6,400	22,872	18,039	7,114
GDR	961	920	1,697		16,160	11,382		840
Hungary		3,966	1,487	157		96	27	
Poland	8,972	10,544	7,665	12,924	28,626	42,611	35,082	12,581
Romania				1	5,745		3,506	46,887
Yugoslavia		24	5,245	217		2	1,708	
Total	10,991	17,139	17,247	26,419	56,931	77,032	58,362	67,424
Vegetable oil:								
Bulgaria								
Czechoslovakia	1			155				
GDR								
Hungary		107						
Poland	747	7,536	5,701	7,287	13,192	7,373	11,126	4,725
Romania								
Yugoslavia	1	14,731	26,743	28,521	8,590	24,963	44,570	
Total	749	22,374	32,444	35,963	21,782	32,336	45,696	4,725
Oilcake and meal:								
Bulgaria	2,313	5,293	1,033			3,181	3,544	1,590
Czechoslovakia	9	5,665	7,230	14,634	38,465	33,290	50,824	33,139
GDR		5,155	2,151		10,765	45,966	51,964	36,607
Hungary	3,498	15,107	15,093	6,619	14,721	26,226	34,908	20,610
Poland	8,537	9,179	9,490	12,987	78,577	62,994	65,632	80,842
Romania	787			5,513	28,449	25,455	1,886	17,702
Yugoslavia	12,209	18,182	11,940	15,939	35,222	48,155	2,327	27,057
Total	27,353	58,581	46,937	55,692	206,199	245,267	211,085	217,547
Cotton, excluding linters:[4]								
Bulgaria				1				
Czechoslovakia								
GDR								
Hungary								
Poland	3,548	5,733		7,736	8,448	9,262	4,131	9,842
Romania		6,732	8,060	7,387	11,604	38,818	12,206	
Yugoslavia	6,787		286					
Total	10,335	12,465	8,346	15,124	20,052	48,080	16,337	9,842

See footnotes at end of table.

TABLE 7.—VOLUME AND VALUE OF U.S. AGRICULTURAL EXPORTS TO EASTERN EUROPE, INCLUDING TRANSSHIPMENTS, 1969-76[1]—Continued

	1,000 U.S. dollars							
	1969	1970	1971	1972	1973	1974	1975	1976[2]
Cattle hides:								
Bulgaria			50	911	98	622	275	746
Czechoslovakia	2,805	4,020	5,412	13,022	15,904	9,678	8,034	11,115
GDR	40	125	228		274	45	195	159
Hungary	11	298	906	1,154	1,686	4,213	1,432	3,486
Poland	2,574	1,321	3,767	8,580	15,641	9,739	7,425	6,292
Romania	3,091	3,664	4,389	19,617	18,103	24,081	9,693	26,517
Yugoslavia	2,898	4,333	1,912	3,072	4,441	4,212	1,548	5,080
Total	11,419	13,761	16,664	46,356	56,147	52,590	28,602	53,395
Other:								
Bulgaria	35	52	27	841	1,855	1,911	1,011	765
Czechoslovakia	632	343	910	3,936	2,361	3,567	6,226	8,488
GDR	1,902	1,671	1,834	1,666	3,267	5,485	3,545	8,533
Hungary	296	820	1,481	2,527	2,641	7,213	4,096	4,024
Poland	6,023	10,745	12,278	10,849	19,035	29,822	20,243	30,399
Romania	493	2,442	22	1,244	3,134	378	46	8,044
Yugoslavia	992	3,984	5,234	4,499	5,281	7,576	3,271	5,222
Total	10,273	20,057	21,786	25,562	37,594	55,952	38,438	65,475
Total agricultural exports:								
Bulgaria	2,348	5,421	1,111	1,753	1,953	15,747	19,610	37,307
Czechoslovakia	4,505	13,201	30,545	49,830	71,154	70,079	84,735	172,301
GDR	24,597	21,776	28,196	40,995	132,414	215,040	343,728	364,851
Hungary	3,805	20,636	18,932	10,453	21,546	37,748	40,487	28,531
Poland	38,531	50,885	63,178	85,187	301,800	268,042	383,566	491,516
Romania	4,371	37,719	33,579	44,823	75,646	159,083	108,715	173,189
Yugoslavia	22,886	44,795	92,381	97,302	103,111	115,539	43,424	37,498
Total	101,043	194,433	267,922	330,343	707,624	881,278	1,024,265	1,305,193

[1] Including transshipments through Canada, Netherlands, and West Germany.
[2] Preliminary.
[3] Running bales.
[4] Thousand pieces.

Senator DOLE. If there are no other statements, the committee will be in recess until the call of the Chair.

[Thereupon, at 12:40 p.m. the subcommittee recessed, to reconvene at the call of the Chair.]

[By the direction of the chairman the following communications were made a part of the record:]

STATEMENT OF GRAIN SORGHUM PRODUCERS ASSOCIATION

Mr. Chairman and Members of the Committee, I am Elbert Harp, Executive Director of Grain Sorghum Producers Association, whose national headquarters are located in Lubbock, Texas. Our Association represents the grain sorghum farmers of the United States, and our membership is scattered throughout the major sorghum belt of this country. We appreciate the opportunity to express our views concerning the credit limitations of the Commodity Credit Corporation as imposed by the Jackson-Vanik Amendment of Section 401 of the Trade Act of 1974.

The grain sorghum farmers of the United States produce one and one-half times the grain sorghum consumed in this country. Consequently, just as wheat, corn and other grains, grain sorghum is now in a surplus situation. To relieve the surplus, we depend upon the export market for ⅓ of our total sales. Although our exports have been expanding each year, we still desparately need additional markets in order for us to produce at top efficiency and at full capacity.

Since the Trade Act of 1974 was passed, several of the countries that were exempted from Commodity Credit Corporation's credit programs have become major buyers of U.S. grains. They also have expressed interest in even larger purchases if credit were granted to them as it is to other countries. Rather than lose export sales to our competitor countries (such as Australia and Canada), we believe if credit arrangements were made available to many of these communist block countries, our export sales could expand considerably over the next few years.

The Grain Sorghum Producers Association is not interested in extending credit to countries who are high credit risks, but we are interested in gaining maximum sales to those countries that have high credit ratings and who are proving to be eager buyers of U.S. agricultural products. We believe such countries would want to maintain a high credit rating for future purchases. For our benefit, the additional sales of grain and other agricultural products to these countries would improve our balance of payments situation and would help the depressed price situation that American farmers are facing at this time.

Grain Sorghum Producers Association wants to add its support to the removal of the Commodity Credit restrictions in the Trade Act of 1974 towards such countries as the USSR, East Germany, PRC, Hungary, Bulgaria, Albania, Laos, Cambodia, North Korea, Vietnam and Cuba. There may be reasons for the U.S. not trading with some of these countries, but those should be dealt with in other ways rather than through the credit program, which so vitally affects the total exports of U.S. agricultural products. The credit rating and risk that are involved in trading with any given country under such credit arrangements should be the only restrictions imposed by the Commodity Credit Corporation Credit Program.

We appreciate the opportunity of expressing Grain Sorghum Producers Association's views to you. Please let us know if we can assist with any questions.

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, D.C., July 20, 1977.

Hon. ABRAHAM A. RIBICOFF,
Chairman, Subcommittee on International Trade, Finance Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The Subcommittee is to be commended for holding hearings on problems in international agricultural trade, with particular emphasis on means by which agricultural exports might be increased. The Chamber of Commerce of the United States shares in this concern. The current supply/demand situation for agricultural products, particularly grain, brings into sharp focus the relationship between domestic farm income and international market conditions.

The strength of America's economy and its contributions to increased world food security and trade liberalization are greatly influenced by U.S. policies for agriculture and international trade decisions affecting agricultural products. There is need for increased emphasis on the development and maintenance of export markets for U.S. farm products, a fourth of which are exported (much higher for wheat, soybeans, cotton and several other commodities). American agriculture has a tremendous stake in U.S. farm programs and international trade policies.

Trade negotiations should move toward an international exchange of all products on the basis of comparative advantage. Export subsidies and import restrictions should be reduced to the maximum extent possible through multilateral negotiations, which are currently in progress under the Tokyo Round of the GATT. When other nations unfairly restrict the importation of American agricultural products, retaliatory measures should be invoked as provided by law. By the same token, it behooves the United States to avoid initiating unnecessarily restrictive measures which would impede movement toward freer trade practices.

More specifically, witnesses were asked during the Subcommittee hearings July 13, what can be done to increase grain exports, particularly wheat which is at near record levels of supply in the U.S., the U.S.S.R. and other major wheat producing countries. In reply, one Administration spokesman said there were principally two alternatives neither of which he recommended: (1) lower U.S. price support loan rates, and (2) export subsidies. The National Chamber agrees with his position on the second alternative. We should have learned from experience that the use of export subsidies is counterproductive in the long run. They invite retaliatory measures from trading partners and can result in price wars and further trade restrictions. They are contrary to the trade liberalization objectives which this country supports at the current GATT negotiations.

We do not agree with the government spokesman's judgment on the first alternative. We recognize the need to protect U.S. producers against disastrous losses from seasonal price declines, but supporting domestic prices above market levels will reduce exports and result in an excessive and costly accumulation of government-owned surplus stocks. This, in effect, puts an umbrella over the entire world's production at the expense of U.S. producers and taxpayers.

The Chamber recommends that the Secretary of Agriculture be given discretionary authority to adjust price support loan levels to insure that our grain and other products can enter world markets at competitive prices. The Secretary should not only have the authority, but should be required to exercise this authority whenever necessary to retain our access to world markets.

When world grain prices were unusually high three and four years ago, the most needy developing countries were under great stress to acquire enough grain to meet their needs. They should not be denied the opportunity to take advantage of the most favorable prices when supplies are plentiful. Likewise, the developed and developing countries should have access to world supplies at prices reflecting the total supply/demand situation. Sustained government-imposed price supports at above market levels tend to distort the efficient allocation of productive resources, price our products out of world markets, encourage the accumulation of unneeded stocks and ultimately limit farm income opportunties. They are counterproductive and should be avoided.

The strength of American agriculture in the long run depends on a continuous market for its output. As Representative Tom Foley, Chairman of the House Committee on Agriculture, stated on the National Chamber's weekly radio program "What's The Issue", ". . . the capacity of our country to produce grains is far, far above our domestic consumption, and the difference between a healthy agriculture and one that's very sick is how much our export market can continue to sustain and grow."

The target price mechanism, which is in the present farm program and is being considered by Congress for extension, is a better method for protecting farm income when prices are depressed than interfering with market prices. It provides protection against disastrous losses resulting from severe price declines without impairing our ability to compete in world markets. However, the target price levels should not be so high that they provide an incentive for producers to increase production beyond anticipated demand and reserve supply goals. The more depressed the market prices, the more costly the target price program. Of course, the decision on target price levels must also take into consideration the impact on the federal budget.

Another proposal for increasing agricultural exports is an amendment to Title IV of the Trade Act of 1974 to enable the Commodity Credit Corporation (CCC) to extend credit sales to nonmarket economy countries. The National Chamber recommends that the authority to extend credit to nonmarket countries should be granted and should be on a nondiscriminatory basis. Commercial credit sales to nonmarket countries is a common practice among many of our foreign competitors and could contribute substantially to expanded markets for U.S. agricultural products.

Based on the discussion during the committee hearings, there are some valid questions as to which countries should be eligible for credit sales. We support the view that credit should be extended to include countries with which the U.S. may already have a bilateral agreement (such as the U.S./U.S.S.R. grain agreement) and should not be extended to countries which fall under restrictions imposed by the Trading With The Enemy Act. We continue to oppose Title IV of the Trade Act of 1974 pertaining to compliance with U.S. human rights objectives.

America's best weapon for expanding agricultural exports is through strengthening our comparative advantage. Renewed emphasis on agricultural research, improved technology, reliable quality, more efficient distribution systems, more effective market promotion techniques and competitive pricing will enable American agriculture to maintain that advantage. We urge U.S. representatives at the GATT negotiations to apply maximum effort to reduce the tariff and non-tariff barriers to freer world trade through multilateral agreements.

I respectfully request the inclusion of this letter in the Subcommittee's hearing record on international agricultural trade for July 13, 1977.

Cordially,

HILTON DAVIS,
Vice President, Legislative Action.

Statement of Don Woodward, National Association of Wheat Growers

Mr. Chairman and members of the Subcommittee, the National Association of Wheat Growers appreciates this opportunity to present its views on the current U.S. agricultural trade situation and the potential and means for encouraging increased exports. I am Don Woodward, International Trade Affairs Representative for the NAWG, and wheat producer from Pendleton, Oregon.

U.S. wheat growers have a profound interest in U.S. agricultural trade policy, and, being the most market-oriented of the world's producers, they likewise have a major stake in the development, maintenance and growth of our export markets.

Domestic utilization of U.S. wheat accounts for only 35% of the nation's annual production, and the wheat producer is heavily dependent on a high level of exports to maintain adequate price levels and prevent the accumulation of price-depressing surplus stocks. This reliance on exports increased significantly with the Government's request for all-out wheat production in 1974 and the three successive crops in excess of 2 billion bushels which followed. Increased production, however, has not been matched by higher export demand, and the 1975 Soviet sales embargoes together with reduced wheat trade in 1976/77 have led to a severe build-up in U.S. wheat stocks.

The reduction in U.S. wheat trade has been disastrous to the nation's wheat economy. Prices are averaging only $2.00 per bushel nationally, surplus stocks have grown to the largest level since 1963, and producers have become unable to recover their production costs which USDA has estimated at $3.40–$3.71 for 1977. The loss of wheat's strength in the export market, however, goes far beyond individual producers and their local economies. The reduction in the volume and value of wheat exports seriously cuts the nation's export earnings, and maximized sales are the key to restoring the record level of earnings derived from export wheat sales.

The NAWG encourages the Congress and the Administration to give desperately needed attention to developing export markets for U.S. wheat and modifying trade and credit policy to enable the U.S. to participate in all potential foreign sales opportunties. In this regard, S. 1415, introduced by Senator Robert Dole, targets one area which we believe can result in expanded export sales.

Senator Dole's proposal would amend Section 402 of the Trade Act of 1974 to permit the extension of Commodity Credit Corporation (CCC) credits to non-market economy countries. The People's Republic of China is one of several nations that fall into this category.

The U.S. has not made a wheat sale to the People's Republic of China since 1974/75 when contracts were concluded for approximately 55 million bushels. Eight confirmed wheat sales have been made to the People's Republic of China this year, and the U.S. market has been ignored each time. These sales have gone instead to Canada, to Australia and to Argentina. The inability of the U.S. to provide credits in competition with these other exporters have been a significant factor in our failure to capture any of this trade.

We urge the Congress to enact S. 1415.

In addition, there are a number of other steps that we feel can be taken to boost U.S. wheat trade. These include expanded funding for overseas market development such as that carried out by Western Wheat Associates in Asian markets and Great Plains Wheat in European, African, Middle Eastern and Latin American markets; utilization of existing authority by the Secretary of Agriculture to set aside funds generated by PL 480 Title I sales for the purpose of increasing foreign consumption of U.S. agricultural commodities; and aggressive efforts on the part of the Secretary of Agriculture, the Secretary of State and the Special Trade Representative to remove barriers to expanded U.S. wheat trade and enhance our overseas sales opportunities.

Great Plains and Western Wheat have performed admirably over the years as the "point men" of the nation's wheat sales efforts overseas. Their work has notably increased exports of U.S. wheat and they have assisted in the emergence of new cash markets abroad. In recent years, however, the programs carried-out by these organizations, in cooperation with USDA's Foreign Agriculture Service, have been hard-hit by inflation. Funding for USDA/FAS market development activities must be increased to meet the challenge of expanding sales for the record supply of wheat and other grains now on-hand.

Another important market development tool is currently available to the Secretary of Agriculture, but it is not being utilized. Congress has recognized that existing authorities of the Agricultural Trade Development and Assistance Act of 1954 (PL 480) and the Foreign Assistance Act of 1961 enable the Secretary of Agriculture to set-aside funds generated from PL 480 Title I sales for financing projects aiding the utilization, distribution, storage, transportation or otherwise increasing foreign consumption of and markets for U.S. agricultural commodities. The efficient flow of U.S. farm exports to developing countries continues to be hampered by a lack of basic infrastructure to accommodate their imports, and improvement of such facilities could serve to enhance U.S. export markets as well as benefit the recipient country. This market development approach has received little positive attention by the Administration. We feel that it would substantially benefit U.S. farm exports and should be implemented by the Secretary as soon as possible.

The U.S. is currently participating in multi-lateral trade negotiations within the General Agreement on Tariffs and Trade (GATT), and work will begin soon within the structure of the International Wheat Council to negotiate an arrangement to replace the International Wheat Agreement of 1971. The U.S. must take the lead in these arenas and aggressively seek agreements which will reduce existing tariff and non-tariff barriers to our nation's farm trade. Executive Branch agencies (Department of Agriculture, State Department, Office of the Special Trade Representative and the Treasury Department) which have roles in these negotiations should be strong advocates of American agriculture and undertake hard bargaining to advance U.S. agricultural exports.

Mr. Chairman, if the U.S. is to maintain current levels of agricultural export sales and expand markets for the growing supply of U.S. wheat and other grains, then greater attention must be given to our agricultural trade policy and foreign marketing. We must move in the direction of new markets and maximize the potential for export sales growth. The actions we have outlined would greatly improve our ability to foster and respond to increased foreign demand for U.S. wheat and other agricultural exports, and we urge their active consideration.

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