SUGAR STABILIZATION ACT OF 1978

HEARING

BEFORE THE

SUBCOMMITTEE ON TOURISM AND SUGAR

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 2990

A BILL TO IMPLEMENT THE INTERNATIONAL SUGAR AGREEMENT BETWEEN THE UNITED STATES AND FOREIGN COUNTRIES; TO PROTECT THE WELFARE OF CONSUMERS OF SUGAR AND OF THOSE ENGAGED IN THE DOMESTIC SUGAR-PRODUCING INDUSTRY; TO PROMOTE THE EXPORT TRADE OF THE UNITED STATES; AND FOR OTHER PURPOSES

MAY 11, 1978

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

30-306 O WASHINGTON : 1978

S361-43

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

HERMAN E. TALMADGE, Georgia
ABRAHAM RIBICOFF, Connecticut
HARRY F. BYRD, Jr., Virginia
GAYLORD NELSON, Wisconsin
MIKE GRAVEL, Alaska
LLOYD BENTSEN, Texas
WILLIAM D. HATHAWAY, Maine
FLOYD K. HASKELL, Colorado
SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York

CARL T. CURTIS, Nebraska
CLIFFORD P. HANSEN, Wyoming
ROBERT DOLE, Kansas
BOB PACKWOOD, Oregon
WILLIAM V. ROTH, Jr., Delaware
PAUL LAXALT, Nevada
JOHN C. DANFORTH, Missouri

MICHAEL STERN, *Staff Director*
GEORGE W. PRITTS, Jr., *Minority Counsel*

SUBCOMMITTEE ON TOURISM AND SUGAR

SPARK M. MATSUNAGA, Hawaii, *Chairman*

RUSSELL B. LONG, Louisiana
CARL T. CURTIS, Nebraska

CONTENTS

ADMINISTRATION WITNESSES

	Page
Hjort, Howard, Director of Economics, Policy Analysis and Budget, U.S. Department of Agriculture	41
Prepared statement of	59
Katz, Hon. Julius, Assistant Secretary of State for Economic and Business Affairs	35
Response to questions submitted by Senator Long	58

PUBLIC WITNESSES

A. E. Staley Manufacturing Co., Donald E. Nordlund, chairman, prepared statement of	146
Amalgamated Meat Cutters and Butcher Workmen of North America, Arnold Mayer, legislative representative	230
American Sugarbeet Growers Association, Kish Otsuka, president	110
Associations affiliated with the American Sugarbeet Growers Association	114
American Sugar Cane League, Gilbert J. Durbin, vice president and general manager	75
American Farm Bureau Federation, James Graugnard, president	85
Berg, Karl H., president, Hawaiian Sugar Planters' Association	69
Prepared statement of	70
Bobs Candies, Inc., Albany, Ga., Bee McCormack, vice president	203
California Beet Growers Association, Hoxsie Y. Smith, president	127
Cannon, Rowland M., president and chief executive officer, U and I, Inc.; accompanied by David C. Carter, president, U.S. Beet Sugar Association	115
Prepared statement of	116
Carter, David C., president, U.S. Beet Sugar Association	115
Church, Hon. Frank, U.S. Senator from the State of Idaho	28
Cleavinger, Bill J., president, Texas-New Mexico Sugar Beet Growers Association	120
Prepared statement of	122
Collins, Frank, consultant to the president, Oil, Chemical and Atomic Workers International Union	206
Commanus, Nick; accompanying Gregg R. Potvin	138
Consumer Federation of America, Kathleen D. Sheekey, legislative director	199
Corn Refiners Association, Inc., Robert C. Liebenow, president, prepared statement of	146
Davan, Clarence F., Jr., vice president for corporate services and international business development, Great Western Sugar Co	160
Devoy, Bob, of Regan & Mason	90
Durbin, Gilbert J., vice president and general manager, American Sugar Cane League	75
Prepared statement of	76
Florida Sugar Cane League, George Wedgworth	62
Graugnard, James, president, Louisiana Farm Bureau; and member, American Farm Bureau Federation Board of Directors	85
Great Western Sugar Co., prepared statement:	
Summary of testimony	168
Proposal—National Sweetener Program	178
Appendixes and charts	187
Hawaiian Sugar Planters' Association, Karl H. Berg, president	69
Hawaii County Sugar Steering Committee, Francis Pacheco, chairman	78

	Page
International Longshoremen's and Warehousemen's Union, Patrick F. Tobin, representative	210
Johnson, Reuben L., director of legislative services, National Farmers Union	214
King, Carl, president, National Corn Growers Association	150
Prepared statement of	156
Liebenow, Robert C., president, Corn Refiners Association, Inc., prepared statement of	146
Mark, James, president, Great Western Sugar Co	160
Mayer, Arnold, legislative representative, Amalgamated Meat Cutters and Butcher Workmen of North America	230
Statement before the Committee on Agriculture, U.S. House of Representatives, February 21, 1974	230
Statement before the Committee on Agriculture, U.S. House of Representatives, July 22, 1975	233
Prepared statement of	239
McCormack, Bee, vice president, Bobs Candies, Inc., Albany, Ga	203
Moore, L. Calvin, citizenship-legislative director, Oil, Chemical and Atomic Workers International Union, statement of	209
National Corn Growers Association, Carl King, president	150
National Farmers Union, Reuben L. Johnson, director of legislative services	214
Prepared statement of	218
Nordlund, Donald E., chairman, A. E. Staley Manufacturing Co., prepared statement of	146
Oil, Chemical and Atomic Workers International Union, statement of L. Calvin Moore, citizenship-legislative director	209
Otsuka, Kish, president, American Sugarbeet Growers Association	110
Prepared statement of	112
Pacheco, Francis, chairman, County Suger Steering Committee, County of Hawaii	78
Peterson, Dean, director of economics, Nabisco	90
Potvin, Gregg R., president, U.S. Cane Sugar Refiners' Association; accomnesota	31
panied by Nick Commanus	138
Prepared statement of	143
Powell, Jack B., chairman of the board, Great Western Sugar Co.; accompanied by Clarence F. Davan, Jr., vice president for corporate services and international business development, and James Mark, president	160
Red River Valley Sugarbeet Growers Association, George Sinner, president	132
Rio Grande Valley Sugar Cane Cooperative, George Wedgworth	62
Schlichte, Donald J., executive vice president, National Corn Growers Association	151
Sheekey, Kathleen D., legislative director, Consumer Federation of America	199
Sinner, George, president, Red River Valley Sugarbeet Growers Association	132
Prepared statement of	133
Smith, Hoxsie Y., president, California Beet Growers Association; accompanied by Malcolm Young, executive manager	127
Prepared statement of	128
Stangeland, Hon. Arlan, a U.S. Representative from the State of Minnesota	31
Sugar Users Group, Linwood Tipton, vice president	105
Texas-New Mexico Sugar Beet Growers Association, Bill J. Cleavinger, president	120
Tipton, Linwood, vice chairman, Sugar Users Group and economist and executive assistant, International Association of Ice Cream Manufacturers; accompanied by Dean Peterson, director of economics, Nabisco, and Bob Devoy, of Ragan & Mason	90
Beef, Sugar Bills Before Congress Called Inflationary, April 27, 1978 (from the Executive Office of the President, Council on Wage and Price Stability)	93

	Page
Tobin, Patrick F., representative, International Longshoremen's and Warehousemen's Union	210
Prepared statement of	212
U and I, Inc., Rowland M. Cannon, president	115
U.S. Beet Sugar Association, David C. Carter, president	115
U.S. Sugar Cane Refiners' Association, Gregg R. Potvin, president	188
Wedgworth, George, on behalf of the Florida Sugar Cane League and Rio Grande Valley Sugar Cane Cooperative	62
Prepared statement of	64
Young, Malcolm, executive manager, California Beet Growers Association	127

COMMUNICATIONS

Bentsen, Senator Lloyd	245
Burdick, Senator Quentin N	244
Central American Sugar Council, presented by Patton, Boggs & Blow	251
Dole, Hon. Robert, a U.S. Senator from the State of Kansas	271
Esteves, Guillermo, executive director, Sugar Corp. of Puerto Rico	268
Hickman, Bert I. Jr., on behalf of the Swaziland Sugar Association	254
Inouye, Senator Daniel K	244
Malawi, Jerry C. Trippe on behalf of the Government of	269
Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture, prepared by John H. Sharon	249
Migrant Legal Action Program, Inc	267
New York Coffee and Sugar Exchange, Inc	268
Orfila, Alejandro, Organization of American States	248
Organization of American States, by Alejandro Orfila	248
Patton, Boggs & Blow, on behalf of the Central American Sugar Council	251
Quinn, Arthur Lee, counsel:	
Sugar Association of the Caribbean	256
Redpath Sugars, Ltd	259
Redpath Sugars, Ltd., Arthur Lee Quinn, counsel	259
Sharon, John H., on behalf of the Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture	249
Steinberg, David J., president, U.S. Council for an Open World Economy, Inc	254
Sugar Association of the Caribbean, Arthur Lee Quinn, counsel	256
Sugar Corporation of Puerto Rico, Guillermo Esteves, executive director	268
Swaziland Sugar Association, prepared by Bert I. Hickman, Jr	254
Thailand, by Scott C. Whitney on behalf of the Government of	246
Trippe, Jerry C., on behalf of the Government of Malawi	269
U.S. Council for an Open World Economy, Inc., David J. Steinberg, president	254
Whitney, Scott C., on behalf of the Government of Thailand	246

ADDITIONAL INFORMATION

Press release announcing this hearing	1
Text of bill S. 2990	3
AFL-CIO, letter of May 8, 1978, to Senator Spark M. Matsunaga from Andrew J. Biemiller, director, department of legislation	237
Beet, Sugar Bills Before Congress Called Inflationary, April 27, 1978 (from the Executive Office of the President, Council on Wage and Price Stability) submitted by Linwood Tipton	93
Corn Sweetener Outlook, submitted by Donald J. Schlichte, executive vice president, National Corn Growers Association	158
List of U.S. Confectionary Manufacturing Companies, represented by Bee McCormack, Bobs Candies, Albany, Ga	205
Resolution on imported sugar, by the Oil, Chemical and Atomic Workers International Union	207
Response to questions submitted by Senator Long by Julius Katz, Assistant Secretary of State	58
United Automobile, Aerospace & Agricultural Implement Workers of America, UAW, letter of May 8, 1978, to Senator Spark M. Matsunaga from Howard G. Paster, legislative director	237

SUGAR STABILIZATION ACT OF 1978

THURSDAY, MAY 11, 1978

U.S. SENATE,
SUBCOMMITTEE ON TOURISM AND SUGAR OF THE
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room 2221, Dirksen Senate Office Building, Hon. Spark M. Matsunaga, chairman of the subcommittee, presiding.

Present: Senators Matsunaga, Long and Dole.

[The committee press release announcing this hearing, the bill S. 2990 and the opening statement of Senator Matsunaga follow:]

[Press Release: For Immediate Release, April 26, 1978, P.R. #29]

FINANCE SUBCOMMITTEE ON TOURISM AND SUGAR TO HOLD HEARINGS ON THE SUGAR STABILIZATION ACT OF 1978 (S. 2990)

The Honorable Spark M. Matsunaga (D., Ha.), Chairman of the Subcommittee on Tourism and Sugar of the Committee on Finance, today announced the Subcommittee will hold a hearing on the Sugar Stabilization Act of 1978 (S. 2990). The bill is intended to implement the International Sugar Agreement for the United States and to insure stable domestic sugar prices for the benefit of consumers, producers and processors of sugar. The International Sugar Agreement has been referred to the Senate Committee on Foreign Relations.

Senator Matsunaga noted that "because unemployment is still a crucial issue facing the Nation and because the domestic sugar industry is labor intensive employing directly and indirectly in excess of 100,000 workers, the enactment of a Sugar Act pursuant to the International Sugar Agreement is an urgent and imperative matter."

"I am hopeful that we will succeed in enacting legislation which will be beneficial to the consumer, to the industry, and labor by reestablishing stability to the industry and reasonableness in the price of sugar."

The hearing will begin at 10:00 A.M., Thursday, May 11, 1978, in Room 2221 of the Dirksen Senate Office Building.

Requests to testify.—Chairman Matsunaga stated that witnesses desiring to testify during these hearings must make their requests to testify to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than the close of business on Thursday, May 4, 1978.

Witnesses will be notified as soon as possible after this date as to when they are scheduled to appear. If for some reason the witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance.

Consolidated testimony.—Chairman Matsunaga also stated that the Subcommittee strongly urges all witnesses who have a common position or the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Subcommittee. This procedure will enable the Subcommittee to receive a wider expression of views than it might otherwise obtain. Chairman Matsunaga further urged very strongly that all witnesses exert a maximum effort to coordinate their statements.

Legislative Reorganization Act.—Chairman Matsunaga stated that the Legislative Reorganization Act of 1946 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." Senator Matsunaga stated that, in light of this statute, the number of witnesses who desire to appear before the Subcommittee, and the limited time available for the hearings, all witnesses who are scheduled to testify must comply with the following rules:

1. A copy of the written statement must be filed by noon the day before the witness is scheduled to testify.
2. All witnesses must include with their written statements a summary of the principal points included in the statement.
3. The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted before the beginning of the hearing.
4. Witnesses are not to read their written statements to the Subcommittee, but are to confine their 10-minute oral presentations to a summary of the points included in the statement.
5. No more than 10 minutes will be allowed for the oral summary.

Witnesses who fail to comply with these rules will forfeit their privilege to testify.

Written statements.—Persons not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to 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, Senate Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than Monday, May 22, 1978.

95TH CONGRESS
2D SESSION

S. 2990

IN THE SENATE OF THE UNITED STATES

APRIL 25 (legislative day, APRIL 24), 1978

Mr. CHURCH (for himself, Mr. STONE, Mr. LONG, Mr. DOLE, Mr. CURTIS, Mr. MATSUNAGA, Mr. YOUNG, Mr. HANSEN, Mr. HAYAKAWA, Mr. WALLOP, Mr. ANDERSON, Mr. MELCHER, Mr. INOUYE, Mr. JOHNSTON, Mr. CHILES, Mrs. HUMPHREY, Mr. BAYH, Mr. MARK O. HATFIELD, Mr. MCCLURE, Mr. TOWER, Mr. ZORINSKY, Mr. RIEGLE, Mr. BURDICK, Mr. BENTSEN, Mr. DECONCINI, Mr. DOMENICI, Mr. GRIFFIN, and Mr. SCHMITT) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To implement the International Sugar Agreement between the United States and foreign countries; to protect the welfare of consumers of sugar and of those engaged in the domestic sugar-producing industry; to promote the export trade of the United States; and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Sugar Stabilization Act
4 of 1978".

5 DECLARATION OF POLICY

6 SEC. 2. It is hereby declared to be the policy of
7 Congress—

1 (a) to maintain a viable domestic sugar producing
2 industry capable of continuing to provide the larger part
3 of the sugar consumed in the United States;
4 (b) to protect the welfare of consumers and pro-
5 ducers by providing such supplies of sugar as will be con-
6 sumed at fair prices in the United States and in the world
7 market;
8 (c) to achieve these prices and supply objectives
9 through cooperation with sugar producing and consum-
10 ing countries under the export quota system of the Inter-
11 national Sugar Agreement and the operation of a com-
12 plementary import management program for the United
13 States market; and
14 (d) to promote the export trade of the United
15 States with sugar producing countries of the world.
16 TITLE I—INTERNATIONAL SUGAR AGREEMENT
17 SEC. 101. The President is hereby authorized—
18 (a) to prohibit the importation into the United
19 States of any sugar from any country, territory, or area
20 which is not a member of the International Sugar
21 Organization;
22 (b) to prohibit the entry into the United States
23 of any quantity of sugar which is not accompanied by
24 a valid certificate of contribution to the stock financing

1 fund and other documentation as may be required by
2 the International Sugar Agreement;
3 (c) to require the keeping of such records, statis-
4 tics, and other information, and the rendering of such
5 reports, relating to the importation, distribution, prices,
6 and consumption of sugar as he may from time to time
7 prescribe;
8 (d) to take such other action and issue such rules
9 and regulations, which shall have the force and effect
10 of law, as he may consider necessary or appropriate
11 to implement the obligation of the United States under
12 the International Sugar Agreement; and
13 (e) to exercise any of the powers and duties con-
14 ferred on him under this title I through such depart-
15 ment, agency, or officer of the United States as he may
16 direct.
17 SEC. 102. Any person failing to make any report or
18 keep any record as required by or pursuant to section 101,
19 or making any false report or record or knowingly violating
20 any rule or regulation issued by the President pursuant to
21 section 101, shall, upon conviction, be punished by a fine
22 of not more than $1,000 for each such violation.
23 SEC. 103. The President shall submit to the Congress
24 an annual report on the International Sugar Agreement.

Such report shall contain full information on the operation of the agreement, including full information with respect to the general level of prices of sugar and relationship to any domestic program of the United States for sugar. The report shall also include a summary of the actions the United States and the International Sugar Organization have taken to protect the interests of United States consumers and producers.

TITLE II—DOMESTIC SUGAR PROGRAM

Subtitle A—Definitions

SEC. 201. For the purpose of this Act—

(a) The term "person" means an individual, partnershop, corporation, or association.

(b) The term "sugars" means any grade or type of saccharine product derived from sugarcane or sugar beets, which contain sucrose, dextrose, or levulose.

(c) The term "sugar" means raw sugar or direct-consumption sugar.

(d) The term "raw sugar" means any sugars, whether or not principally of crystalline structure, which are to be further refined or improved in quality to produce any sugars principally of crystalline structure or liquid sugar.

(e) The term "direct-consumption sugar" means any sugars principally by crystalline structure and any liquid

1 sugar which are not to be further refined or improved in
2 quality.
3 (f) The term "liquid sugar" means any sugars (ex-
4 clusive of sirup of cane juice produced from sugarcane grown
5 in continental United States) which are principally not of
6 crystalline structure and which contain, or which are to be
7 used for the production of any sugars principally not of
8 crystalline structure which contain, soluble nonsugar solids
9 (excluding any foreign substances that may have been
10 added or developed in the product) equal to 6 per centum
11 or less of the total soluble solids.
12 (g) Sugars in dry amorphous form shall be considered
13 to be principally of crystalline structure.
14 (h) The "raw value" of any quantity of sugars means
15 its equivalent in terms of ordinary commercial raw sugar
16 testing ninety-six sugar degrees by the polariscope, deter-
17 mined in accordance with regulations to be issued by the
18 Secretary. The principal grades and types of sugar and
19 liquid sugar shall be translated into terms of raw value in
20 the following manner:
21 (1) for direct-consumption sugar, derived from
22 sugar beets and testing ninety-two or more sugar degrees
23 by the polariscope by multiplying the number of
24 pounds thereof by 1.07;

1 (2) for sugar, derived from sugarcane and testing
2 ninety-two sugar degrees by the polariscope by multi-
3 plying the number of pounds thereof by 0.93;
4 (3) for sugar, derived from sugarcane and testing
5 more than ninety-two sugar degrees by the polariscope,
6 by multiplying the number of pounds thereof by the
7 figure obtained by adding to 0.93 the result of multiply-
8 ing 0.0175 by the number of degrees and fractions of a
9 degree of polarization above ninety-two degrees;
10 (4) for sugar and liquid sugar, testing less than
11 ninety-two sugar degrees by the polariscope, by divid-
12 ing the number of pounds of the "total sugar content"
13 thereof by 0.972;
14 (5) the Secretary may establish rates for translating
15 sugar and liquid sugar into terms of raw value for (a)
16 any grade or type of sugar or liquid sugar not provided
17 for in the foregoing and (b) any special grade or type
18 of sugar or liquid sugar for which he determines that the
19 raw value cannot be measured adequately under the
20 provisions of paragraphs (1) to (4), inclusive, of this
21 subsection.
22 (i) The term "total sugar content" means the sum of the
23 sucrose and reducing or invert sugars contained in any grade
24 or type of sugar or liquid sugar.
25 (j) The term "quota" means that quantity of sugar or

1 liquid sugar, or that quantity of sugar-containing products,
2 which may be brought in or imported into the United States,
3 for consumption therein, during any calendar year, from
4 foreign countries.

5 (k) The term "International Sugar Agreement" means
6 the agreement entered into between the United States and
7 foreign countries in 1977 and ratified by the United States
8 Senate.

9 (l) The term "price range for free trade sugar" means
10 the range between the price at which all quota restrictions
11 must be suspended and the price at which special stocks of
12 sugar must first be made available for sale and delivery to the
13 free market, in accordance with the provisions of article 44 of
14 the International Sugar Agreement as in effect on the date
15 of ratification of such agreement by the United States Senate.

16 (m) The term "Secretary" means the Secretary of
17 Agriculture.

18 (n) The term "United States" means the States, the
19 District of Columbia, and Puerto Rico.

20 Subtitle B—Quota Provisions

21 ANNUAL ESTIMATE OF CONSUMPTION IN CONTINENTAL
22 UNITED STATES

23 SEC. 202. (a) The Secretary shall determine for each
24 calendar year the amount of sugar needed to meet the re-
25 quirements of consumers in the United States, to maintain

1 and protect the domestic sugar-producing industry, and to
2 attain on an annual average basis the price objectives set
3 forth in subsection (b). Such determination shall be made
4 during October of the year preceding the calendar year for
5 which the determination is being made and at such other
6 times during the calendar year as may be required to attain
7 the objectives of this subsection: *Provided*, That the deter-
8 mination for the calendar year 1978 shall be made and pub-
9 lished in the Federal Register within fifteen days after the
10 effective date of this Act.
11 (b) The price objective referred to in subsection (a) is
12 a price for raw sugar equal to the median of the price range
13 for free trade sugar under the International Sugar Agree-
14 ment. Such price objective shall be adjusted for each cal-
15 endar quarter within thirty days after the end of such quar-
16 ter, so as to maintain the same ratio between the price
17 objective and the average of the parity index (1967=100)
18 and the wholesale price index (1967=100) for the quarter
19 as the ratio that existed between (1) the price objective,
20 and (2) the simple average of such indices for the twelve
21 calendar months immediately preceding the date of enact-
22 ment of this Act.
23 (c) For purposes of subsection (b)—
24 (1) The term "parity index (1967=100)" means
25 the Index of Prices Paid by Farmers for Commodities

1 and Services, Including Interest, Taxes, and Farm
2 Wages Rates, as published monthly by the Department
3 of Agriculture.
4 (2) The term "wholesale price index" means such
5 index as determined monthly by the Department of
6 Labor.
7 QUOTA FOR FOREIGN COUNTRIES
8 SEC. 203. (a) Whenever a determination is made, pur-
9 suant to section 202, of the amount of sugar needed to meet
10 the requirements of consumers, the Secretary shall establish
11 a global sugar quota, or revise the existing quota, for foreign
12 countries as a group. The amount of such quota shall be the
13 amount by which such determination exceeds the amount of
14 domestically produced sugar which the Secretary determines
15 will be available for marketing during the calendar year:
16 *Provided*, That the quota for the calendar year 1978 shall
17 be reduced by (1) the excess carryover stocks of sugar from
18 1977 and (2) the amount of sugar imported into the United
19 States from foreign countries during 1978 prior to the estab-
20 lishment of such quota.
21 (b) Notwithstanding any other provision of this Act,
22 the Secretary is authorized to limit, on a quarterly basis, the
23 importation of sugar within the quota for foreign countries
24 during any year if he determines that such limitation is
25 necessary to achieve the price objective of the Act: *Pro-*

30-308 O - 78 - 2

1 *vided,* That the Secretary shall so limit the importation of
2 sugar within such quota at any time during the calendar
3 year when the simple average of prices of raw sugar, ad-
4 justed for freight to New York and the applicable tariff and
5 fees, for twenty consecutive market days is 5 per centum or
6 more below the price objective determined pursuant to sec-
7 tion 202.

8 (c) The quantity authorized to be imported from any
9 country under this section may be filled only with sugar
10 produced from sugar beets or sugarcane grown in such
11 country.

12 ADJUSTMENTS IN QUOTA FOR FOREIGN COUNTRIES

13 SEC. 204. The Secretary shall, whenever the facts are
14 ascertainable by him, determine whether, in view of the
15 current inventories of sugar, the estimated production from
16 the acreage of sugarcane or sugar beets planted, and other
17 pertinent factors, the quantity of domestically produced sugar
18 available for marketing during the calendar year will be less
19 than the quantity determined in establishing the quota for
20 foreign countries under section 203. Whenever the Secretary
21 makes such determination, he shall increase the quota for
22 foreign countries under section 203 by the amount of such
23 deficit. In determining and allocating such deficits the Sec-
24 retary shall act to provide at all times throughout the cal-

1 endar year the full distribution of the amount of sugar which
2 he has determined to be needed under section 202 of this
3 Act to meet the requirements of consumers.

4 IMPORT FEE

5 SEC. 205. Whenever the simple average of the daily
6 prices for raw sugar, adjusted for freight to New York and
7 the applicable tariff and fees, is below the price objective
8 determined pursuant to section 202 for twenty consecutive
9 market days, the Secretary shall, as a condition for import-
10 ing sugar under section 203, establish an import fee as
11 provided in this section: *Provided,* That the Secretary may
12 establish such fee at any time during the first twenty market
13 days after the date of enactment of this Act. The fee shall
14 be such amount as the Secretary determines will, when
15 added to the daily price for raw sugar, adjusted as provided
16 above, achieve the price objective determined pursuant to
17 section 202. The fee shall be adjusted from time to time,
18 but not more frequently than once each quarter as may be
19 required to achieve the purpose of this section. Such fee
20 shall be imposed on a per pound, raw value, basis, and shall
21 be applied uniformly. Any funds collected as import fees
22 pursuant to this section shall be covered into the Treasury
23 as miscellaneous receipts.

1 IMPORTATION OF DIRECT-CONSUMPTION SUGAR

2 SEC. 206. (a) Except as provided in subsection (c) of
3 this section, none of the quota established for foreign coun-
4 tries may be filled by direct-consumption sugar.

5 (b) The limitations imposed by this section, and the
6 enforcement provisions of title II applicable thereto, shall
7 continue in effect and shall not be subject to suspension
8 pursuant to the provisions of section 306 of this Act unless
9 the President acting thereunder specifically finds and pro-
10 claims that a national economic or other emergency exists
11 with respect to sugar or liquid sugar which requires the sus-
12 pension of the direct-consumption limitation of this section.

13 (c) Notwithstanding any other provisions of this Act,
14 whenever the Secretary, after public rulemaking procedure,
15 makes a finding that a lack of raw sugar refining capacity
16 within the United States has created an imminent shortage
17 of direct-consumption sugar for consumers in the United
18 States, he may permit as much of the quota for foreign
19 countries established under this Act to be filled on a tempo-
20 rary basis with direct-consumption sugar as is necessary to
21 meet such imminent shortage.

22 SUSPENSION OF QUOTA AND FEES

23 SEC. 207. Whenever the Secretary finds that the simple
24 average of the daily prices for raw sugar, adjusted for freight

1 to New York and the applicable tariff and fees, exceeds by
2 more than 20 per centum the current price objective deter-
3 mined pursuant to section 202 for twenty consecutive market
4 days, he shall suspend the quota and any import fee estab-
5 lished pursuant to section 203. Whenever the Secretary finds
6 that the simple average of the daily price of raw sugar, ad-
7 justed as provided above, is less than 20 per centum above
8 the current objective determined pursuant to section 202
9 for twenty consecutive market days, he shall thereupon re-
10 establish such quota and import fees as may be required to
11 achieve such price objective.

12 SUGAR-CONTAINING PRODUCTS

13 SEC. 208. (a) if the Secretary determines that the pro-
14 spective importation or bringing into the United States of
15 any sugar-containing product or mixture or beet sugar
16 molasses will substantially interfere with the attainment of
17 the objectives of this Act, he may limit the quantity of such
18 product, mixture, or beet sugar molasses to be imported or
19 brought in from any country or area to a quantity which he
20 determines will not so interfere: *Provided*, That the quantity
21 to be imported or brought in from any country or area in
22 any calendar year shall not be reduced below the average of
23 the quantities of such product, mixture, or beet sugar molasses
24 annually imported or brought in during such three-year

1 period as he may select for which reliable data of the im-
2 portation or bringing in of such product, mixture, or beet
3 sugar molasses are available.
4 (b) In the event the Secretary determines that the
5 prospective importation or bringing into the United States
6 of any sugar-containing product or mixture or beet sugar
7 molasses will substantially interfere with the attainment of
8 the objectives of this Act and there are no reliable data
9 available of such importation or bringing in of such prod-
10 uct, mixture, or beet sugar molasses for three consecutive
11 years, he may limit the quantity of such product, mixture,
12 or beet sugar molasses to be imported or brought in annually
13 from any country or area to a quantity which the Secretary
14 determines will not substantially interfere with the attain-
15 ment of the objectives of the Act. In the case of a sugar-
16 containing product or mixture, such quantity from any one
17 country or area shall not be less than a quantity containing
18 one hundred short tons, raw value, of sugar or liquid sugar.
19 (c) In determining whether the actual or prospective
20 importation or bringing into the United States of a quantity of
21 a sugar-containing product or mixture will or will not sub-
22 stantially interfere with the attainment of the objectives of
23 this Act, the Secretary shall take into consideration the total
24 sugar content of the product or mixture in relation to other
25 ingredients or to the sugar content of other products or mix-

1 tures for similar use, the costs of the mixture in relation to the
2 costs of its ingredients for use in the United States, the pres-
3 ent or prospective volume of importations relative to past
4 importations, the type of packaging, whether it will be
5 marketed to the ultimate consumer in the identical form in
6 which it is imported or the extent to which it is to be further
7 subjected to processing or mixing with similar or other in-
8 gredients, and other pertinent information which will assist
9 him in making such determination. In making determinations
10 pursuant to this section, the Secretary shall conform to the
11 rulemaking requirements of section 4 of the Administrative
12 Procedure Act.
13 (d) Notwithstanding the foregoing provisions of this
14 section, the Secretary shall each year, beginning with the
15 calendar year 1979, limit the quantity of sweetened choc-
16 olate, candy, and confectionery provided for in items 156.30
17 and 157.10 of part 10, schedule 1, of the Tariff Schedules of
18 the United States which may be entered, or withdrawn from
19 warehouse, for consumption in the United States as herein-
20 after provided. The quantity which may be so entered or
21 withdrawn during any calendar year shall be determined
22 in the fourth quarter of the preceding calendar year and the
23 total amount thereof shall be equivalent to the larger of (1)
24 the average annual quantity of the products entered, or with-
25 drawn from warehouse, for consumption under the foregoing

1 items of the Tariff Schedules of the United States for the three
2 calendar years immediately preceding the year in which such
3 quantity is determined, or (2) a quantity equal to 5 per
4 centum of the amount of sweetened chocolate and confec-
5 tionery of the same description of United States manufacture
6 sold in the United States during the most recent calendar year
7 for which data are available. The total quantity to be im-
8 ported under this subsection may be allocated to countries on
9 such basis as the Secretary determines to be fair and reason-
10 able, taking into consideration the past importations or entries
11 from such countries. For purposes of this subsection the Sec-
12 retary shall accept statistical data of the United States De-
13 partment of Commerce as to the quantity of sweetened choc-
14 olate and confectionery of United States manufacture sold in
15 the United States.

16 PROHIBITED ACTS

17 SEC. 209. All persons are hereby prohibited—
18 (a) from bringing or importing into the United
19 States from foreign countries, or any other area out-
20 side the United States, any sugar or liquid sugar, or
21 sugar-containing product, after the applicable quota has
22 been filled;
23 (b) from bringing or importing into the Virgin
24 Islands for consumption therein, any sugar or liquid
25 sugar in excess of one hundred pounds in any calendar

1 year produced from sugarcane or sugar beets grown out-
2 side the United States;
3 (c) from exporting to any foreign country any
4 sugar or liquid sugar produced from sugar beets or
5 sugarcane grown in the United States or imported into
6 the United States within the quota for foreign countries,
7 except as provided in section 211.

8 Subtitle C—Quota—Related Provisions

9 DETERMINATION IN TERMS OF RAW VALUE

10 SEC. 210. (a) The sugar determinations provided for
11 in section 202 and all sugar quotas shall be made or estab-
12 lished in terms of raw value.
13 (b) For the purposes of this title, liquid sugar shall
14 be included with sugar in making the determinations pro-
15 vided for in section 202 and in the establishment or revision
16 of sugar quotas.

17 EXPORTATION OF SUGAR

18 SEC. 211. (a) Sugar or liquid sugar entered into the
19 United States under an applicable bond, established pur-
20 suant to orders or regulations issued by the Secretary for
21 the express purpose of subsequently exporting the equiv-
22 alent quantity of sugar or liquid sugar as such, or in manu-
23 factured articles, shall not be charged against the quota for
24 foreign countries.
25 (b) Exportation within the meaning of sections 309

1 and 313 of the Tariff Act of 1930 shall be considered to
2 be exportation within the meaning of this section.

3 INAPPLICABILTY OF QUOTA PROVISIONS

4 SEC. 212. The provisions of this title shall not apply to
5 (1) the first ten short tons, raw value, of direct consump-
6 tion sugar or liquid sugar imported from any foreign coun-
7 try in any quota year; (2) the first ten short tons, raw
8 value, of liquid sugar imported from any foreign country
9 in any quota year for religious, sacramental, educational, or
10 experimental purposes; (3) liquid sugar imported from for-
11 eign counties in individual sealed containers of such capacity
12 as the Secretary may determine not in excess of one and
13 one-tenth gallons each; or (4) any sugar or liquid sugar im-
14 ported into the United States for the distillation of alcohol,
15 including all polyhydric alcohols, or for livestock feed, or for
16 the production of livestock feed, or for the production (other
17 than distillation) of alcohol, including all polyhydric alco-
18 hols, but not including any such alcohol or resulting by
19 products for human food consumption.

20 TITLE III—GENERAL PROVISIONS

21 REGULATIONS AND DETERMINATIONS

22 SEC. 301. (a) The Secretary is authorized to make
23 such rules and regulations, which shall have the force and
24 effect of law, as may be necessary to carry out the powers

1 vested in him by this Act. Any person knowingly violating
2 any rule or regulation of the Secretary issued pursuant to
3 this Act shall, upon conviction, be punished by a fine of not
4 more than $1,000 for each violation.

5 (b) Each determination issued by the Secretary in con-
6 nection with quotas under title II shall be promptly pub-
7 lished in the Federal Register and shall be accompanied by
8 a statement of the bases and considerations upon which such
9 determination was made.

10 JURISDICTION OF COURTS

11 SEC. 302. The several district courts of the United
12 States are hereby vested with jurisdiction specially to en-
13 force, and to prevent and restrain any person from violating
14 the provisions of this Act or of any order or regulation
15 made or issued pursuant to this Act and to review any regu-
16 lation issued pursuant to this Act in accordance with chapter
17 7 of title 5, United States Code. If and when the Attorney
18 General shall so request, it shall be the duty of the several
19 district attorneys of the United States, in their respective
20 districts, to institute proceedings to enforce the remedies and
21 to collect the penalties, fees, and forefeitures provided for
22 in this Act. The remedies provided for in this Act shall be
23 in addition to, and not exclusive of, any of the remedies of
24 penalties existing at law or in equity.

CIVIL PENALTIES

SEC. 303. Any person who knowingly violates, or attempts to violate, or who knowingly participates or aids in the violation of, any of the provisions of section 209 shall forfeit to the United States the sum equal to three times the market value, at the time of the commission of any such act, of that quantity of sugar or liquid sugar by which any quota is exceeded, which forfeiture shall be recoverable in a civil suit brought in the name of the United States.

FURNISHING INFORMATION TO SECRETARY

SEC. 304. All persons engaged in the manufacturing, marketing, or transportation or industrial use of sugar and other sweeteners, including those not derived from sugar beets or sugarcane, and having information which the Secretary deems necessary to enable him to administer the provisions of this Act, shall, upon the request of the Secretary, furnish him with such information. Any person willfully failing or refusing to furnish such information or furnishing willfully any false information, shall upon conviction be subject to a penalty of not more than $2,000 for each such violation. All information required to be furnished to the Secretary under this section shall be kept confidential by all officers and employees of the Department of Agriculture.

1 INVESTMENTS BY OFFICIALS PROHIBITED

2 SEC. 305. No person shall, while acting in any official
3 capacity in the administration of this Act, invest or speculate
4 in sugar or liquid sugar, contracts relating thereto, or the
5 stock or membership interests of any association or corpora-
6 tion engaged in the production of manufacturing of sugar or
7 liquid sugar. Any person violating this section shall upon
8 conviction thereof be fined not more than $10,000 or im-
9 prisoned not more than two years, or both.

10 PRESIDENTIAL QUOTA ACTIONS

11 SEC. 306. Whenever pursuant to the provisions of this
12 Act the President finds and proclaims that a national eco-
13 nomic or other emergency exists with respect to sugar or
14 liquid sugar, he shall by proclamation suspend the operation
15 of the provisions of title II, and, thereafter, the operation of
16 such title shall continue in suspense until the President finds
17 and proclaims that the facts which occasioned such suspen-
18 sion no longer exist. The Secretary shall make such investi-
19 gations and reports thereon to the President as may be neces-
20 sary to aid him in carrying out the provisions of this section.

21 SURVEYS AND INVESTIGATIONS

22 SEC. 307. (a) Whenever he determines such action is
23 necessary to effectuate the purposes of this Act, the Secre-
24 tary from time to time shall conduct such surveys and in-

1 vestigations as he deems necessary regarding the manufac-
2 turing, marketing, transportation, or industrial use of sugars.
3 In carrying out the provisions of this subsection, informa-
4 tion shall not be made public with respect to the separate
5 operations of any person or company from whom such in-
6 formation has been derived.
7 (b) The Secretary is authorized to conduct surveys, in-
8 vestigations, and research relating to the conditions and
9 factors affecting the methods of accomplishing most effec-
10 tively the purposes of this Act. Notwithstanding any provi-
11 sion of existing law, the Secretary is authorized to make pub-
12 lic such information as he deems necessary to carry out the
13 provisions of this Act.
14 (c) The Secretary shall, whenever the New York Coffee
15 and Sugar Exchange is prevented for any reason from quot-
16 ing daily spot prices for raw sugar, determine and announce
17 a daily spot price for raw sugar, adjusted for freight to New
18 York and the applicable tariff.
19 TERMINATION
20 SEC. 308. The powers vested in the Secretary under this
21 Act shall terminate on December 31, 1982.

OPENING STATEMENT OF SENATOR SPARK MATSUNAGA, CHAIRMAN, SUBCOMMITTEE ON TOURISM AND SUGAR

Senator MATSUNAGA. Good morning and aloha, everybody. I wish to welcome you to this, the historic, first hearing of the Subcommittee on Tourism and Sugar of the Senate Finance Committee. This subcommittee came into being in this 95th Congress under the adroit midwifemanship of the chairman of the parent, full Committee on Finance, who, as you know, has become a legend in his own time. The senior Senator from Louisiana, Mr. Russell Long. If there be any among you who would dare to admit you don't know Senator Long, let me discretely advise you that he sits to the right of me as a member of this subcommittee. The third member of this subcommittee is none other than the ranking minority member of the full committee, who is serving his 24th year in the Senate and his incredible 40th consecutive year in the U.S. Congress—the senior Senator from Nebraska, Mr. Carl Curtis, who sits on my left.

This subcommittee will receive oral and written testimony on S. 2990, the "Sugar Stabilization Act of 1978", today beginning at 10:00 a.m. Before calling the first witness, I would like to make a brief opening statement:

Sugar is one of the world's most regulated commodities. Almost 85 percent of the total world production of sugar falls under some type of internal or external law or regulation. In the United States, it has been under Government regulations since the American Revolution, when the first tariff was enacted in 1789. For 40 years, beginning with the Jones-Costigan Act of 1934, the domestic sugar industry has been regulated under a detailed and complex legislative program. The House Agriculture Committee and the Senate Finance Committee have periodically reviewed and extended sugar programs, generally for an additional 2- to 5-year period. To maintain a viable domestic sugar industry, through controlled supplies, Congress established foreign and domestic quotas. The supply management system was based on the findings that (1) U.S. producers could not compete with foreign lower cost producers, and would eventually be forced out of business unless protected; (2) supplies of sugar to supplement U.S. sugar production would be readily available on the world market; and (3) U.S. consumers were willing to pay a slighter higher domestic price for sugar in order to stabilize and to protect the domestic sugar industry as a dependable supply source.

Successive sugar acts provided complex modifications, including Government payments, excise taxes, special labor provisions, price objectives and production controls.

During the 40 years of its life, the Sugar Act of 1934, proved to be one of the most successful agricultural programs ever launched. It provided the U.S. market with adequate supplies of reasonably priced sugar and firmly established a viable domestic sugar industry. The act continued to be renewed and modified to meet the needs of the disparate groups which lent their political support to the program: the growers, refiners, importers, organized labor, and users. However, beginning in the early 1970's, changing economic conditions split the coalition of interests which supported the Sugar Act's

renewal. For 4 of the 5 years, from 1970 through 1974, world sugar consumption outstripped production. As sugar prices increased dramatically, the political base, and to a certain extent the effectiveness, of the Sugar Act deteriorated. Consequently, the Sugar Act was allowed to expire on December 31, 1974.

Following the sugar price boom and the demise of the Sugar Act, world production increased substantially and prices decreased dramatically, even to levels below the cost of production. The domestic sugar industry was in deep trouble. It pressed for a reinstatement of some form of sugar price supports, but the House Agriculture Committee was unable to get sufficient support for a legislative solution.

In September 1975, the Senate Finance Committee directed the International Trade Commission (ITC) to study, under import relief provisions of the Trade Act of 1974, whether increased imports of sugar were causing harm to the domestic sugar industry. At the same time, the President raised the duty on sugar from 0.6¢/lb. to 1.8¢/lb. The ITC reported its findings that imports of foreign sugar were injuring the domestic industry, and recommended the setting of a quota on imports to remedy the situation.

In May of 1977, the President rejected the remedy proposed by the ITC, and instead approved a system of direct subsidies to sugar growers. This proposal was declared illegal by the Attorney General.

In the meantime, work was proceeding in the Congress on provisions of the Food and Agriculture Act of 1977 designed to aid the ailing sugar industry. The price support program, provided for in the legislation, was limited to the 1977 and 1978 sugar crops and became law in September 1977. The program, commonly referred to as the de la Garza amendment, requires the Secretary of Agriculture to set a support level of 52.5 to 65 percent of parity, but at least 13.5 cents a pound. The Secretary is authorized to support the price through loans or purchases of sugar. The Secretary is also required to establish minimum wage rates for agricultural employees engaged in the production of sugar.

On September 15, 1977, the U.S. Department of Agriculture (USDA) announced another payment program to support sugar prices to be effective until the provisions of the loan or purchase price support program in the Food and Agriculture Act of 1977 could become effective. Under the price support program, the USDA was to make payments to sugar processors who in turn would be required to pay growers minimum prices for their crops. The payments would be made through processors to pay to growers to support the price of raw sugar at 13.5 cents a pound. This price support program was to be financed from U.S. Treasury funds and was designed not to interfere directly with the market price for refined sugar.

The September 1977 subsidy program will remain in effect for the 1977 and 1978 sugar crop years, or until the Secretary of Agriculture determines that an international sugar agreement is in effect which assures the maintenance in the United States of a price not lower than 13.5 cents a pound, raw value.

The administration believes that an international sugar agreement provides the best long-range solution for stabilizing sugar prices. Such an international sugar agreement was reached in October 1977. This agreement is designed to make a world price range of 11 to 21 cents per pound, through a complicated system of buffer stocks and export quotas. If the agreement is successful in providing for an 11 cents per pound floor, this will have the effect of raising the price of foreign sugar delivered to the United States to the 13.5 cent per pound goal, because of shipping costs, insurance, and duty.

The U.S. International Trade Commission in its report to the President on April 17, 1978 unanimously affirmed that sugar, sirups and molasses are being imported or would be imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support program of the U.S. Department of Agriculture for sugar cane and sugar beets.

The International Sugar Agreement has not yet been ratified by the U.S. Senate, and there is serious concern about how soon its intended stabilizing effects will be realized, in the light of continuing surpluses of world sugar stocks. The 13½ cents a pound floor provided under existing law will not meet the present domestic cost of production which is estimated at 15½ cents per pound. This brings us to the business at hand.

S. 2990 was introduced by Senator Frank Church of Idaho and 34 cosponsors on April 25, 1978. The bill would provide: (a) maintenance of a viable domestic sugar producing industry capable of continuing to provide the larger part of sugar consumed in the United States; (b) the protection of the welfare of consumers and producers in providing such supplies of sugar as will be consumed at fair prices in the United States and in the world market; (c) achievement of these price and supply objectives through cooperation with sugar producing and consuming countries under the export quota system of the International Sugar Agreement and the operation of a complementary import management program for the U.S. market; and (d) the promotion of the export trade of the United States with sugar producing countries of the world.

A look at the list of witnesses for this hearing indicates to me that the disparate interests referred to earlier in my remarks are well represented; but before calling upon our first witness, I wish to call on Senators Long and Curtis for their opening remarks, if any.

Our first witness will be the distinguished senior Senator from Idaho, the Honorable Frank Church, who is the principal introducer of the bill which is the subject of this hearing, and who has worked tirelessly in behalf of the domestic sugar industry and the American consumer.

We shall be happy to hear from you, Senator Church.

Senator LONG [presiding]. The hearing will come to order.

The other Senators will be along shortly and each witness will be limited to 10 minutes and then allowed time for questions thereafter.

The first witness this morning will be the Honorable Frank Church, U.S. Senator from Idaho.

Senator Church, we are very happy that you have been able to wrest yourself away from your very busy and pressing schedule to appear here before us today, and we are very pleased to have your views.

Senator CHURCH. Thank you very much, Mr. Chairman.

STATEMENT OF HON. FRANK CHURCH, U.S. SENATOR FROM THE STATE OF IDAHO

Senator CHURCH. I appreciate the courtesy that you have extended to me and the opportunity to provide the committee with my views on S. 2990, the Sugar Stabilization Act of 1978. I appreciate the prompt attention that this committee has given to the bill which I introduced on April 25th, joined by 34 of my colleagues.

As the committee knows, the world has experienced wild fluctuations in sugar prices during the past decade and we have witnessed the destructive effect this has had on sugar producers and consumers alike.

The world sugar market, having soared as high as 70 cents a pound, has recently dropped to a low of 7 cents a pound. In a cooperative effort to bring some order to this chaotic market. over 70 sugar producing and consuming nations have negotiated the International Sugar Agreement—the ISA.

That agreement is now pending before the Senate Foreign Relations Committee, and I hope that it will prove to be effective. However, past experience suggests that it would be reckless to place our full reliance on the ISA. It is clear that a domestic backup program is needed to provide a safety net for our domestic sugar producers in the event that the International Sugar Agreement does not work.

The question now is, what type of domestic program we should enact. The one called for, in my judgment, should complement the pending International Sugar Agreement which is designed to keep world sugar prices within a price corridor of from 11 to 21 cents per pound, raw sugar equivalent.

When the world price for sugar is below 15 cents per pound, the participants would reduce their basic export quotas on a percentage basis and build reserve stocks. A fee is collected on each international sugar transaction under the agreement to be used for financing the accumulation and storage of these reserves.

When the world price is between 15 and 19 cents, the free trade range under the ISA, each nation could export its full quota, plus any sugar not in reserve stocks.

If the price rose above 19 cents, one-third of the world stocks could be exported for each penny the price rises above the free trade range.

Mr. Chairman, the Sugar Stabilization Act now before this committee is designed to complement and parallel these provisions of the International Sugar Agreement, and the need for a backup

program is apparent. We all recall the ill-fated direct payments program the administration initiated and struck out on last year. That was replaced by the de la Garza amendment which expires at the end of the 1978 crop year.

There is no hope that the ISA, the International Sugar Agreement, will reach its floor price of 11 cents per pound, much less the free trade range of between 15 and 19 cents before the current program expires. Congress must act to prevent our domestic growers from being caught in the void.

Mr. Chairman, the Sugar Stabilization Act is designed to fill that void in a manner consistent with the ISA. This bill establishes a price objective for sugar equal to the midpoint of the free trade range defined by the ISA, which is around 17 cents per pound.

The objective is to be reached through the collection of import fees on imports entering at prices below the midpoint of the free trade range and by the establishment of periodically adjusted import quotas. The bill avoids payments to producers and does not involve Government controls on the domestic production of sweeteners from any source.

I understand, Mr. Chairman, that administration spokesmen will later urge this committee to adopt a different approach, which seems to be their style. I have not seen the details of the administration proposal, but I understand that a quota of fees and standby programs designed to maintain a 13.5 cents market price domestically plus income support payments to subsidize growers is to be offered.

The income support payments, based on an average cost of production, would apparently be targeted at about 14 cents for this crop year. I suggest, Mr. Chairman, that this proposal is too little, too late, too complicated and an unnecessary drain on the Treasury.

Mr. Chairman, in deliberating what type of domestic program is needed, I urge the committee to bear in mind that the bill I propose would cause money to flow into the Treasury, not out. The cost of the Sugar Stabilization Act will be largely borne by the industrial purchasers of sugar, not the general taxpayer.

Moreover, our consumers would be protected against drastic fluctuations in sugar prices; much better served than they have been in recent years without the benefit of the stabilization bill.

Moreover, under my bill, all import controls and fees would be suspended if the domestic price were to exceed the 17 cent level by 20 percent for 20 market days. In other words, stability of price is the central objective of this bill.

Mr. Chairman, I am pleased that the members of this committee have committed themselves to passage of a workable sugar program to reinforce the pending International Sugar Agreement. The bill I lay before you is designed to accomplish that purpose.

With high confidence in your judgment, I strongly recommend early and favorable disposition of the Sugar Stabilization Act.

Senator LONG. Thank you very much for your very fine statement, Senator Church, and as one who represents a State which produces sugar, let me thank you for the leadership you have provided for all sugar producers, beet sugar as well as cane sugar, and even corn sweetener producers in this country.

Now, it seems to me that we ought to get one or two things straight, for the benefit of our so-called Cost of Living Council over there. A decision was made a long time ago, and this President has endorsed that decision, that we will have a domestic sugar industry so that the President and his administration has decided that we are not going to liquidate the sugar farmers, whether they are beet sugar or cane sugar farmers, that they should be permitted to survive.

Apparently the Cost of Living Council has not heard about that. It is true that—and the same thing is true about our shipping industry. We have a shipping industry out there. The U.S. flag is present out on the high seas because we thought it was in our national interest to have the American Merchant Marine.

Now, some want to take the view that because the price is low on the world market that they can always buy it at that price. It would seem to me that the experience that we have had under OPEC would indicate that that is a false assumption, to assume that just because the other fellow can produce it cheaper means that you can always buy it cheaper. We will be lucky if we ever get out of that trap in the next 20 years. It would seem to me—and I would hope that you would agree—that we do not want this feast or famine thing where 1 year somebody is getting 70 cents and the next year he is getting 7; we want to level it off at a price where the farmers can survive.

Now, I regret that the Cost of Living Council is looking at this thing and coming up with a price the farmer is entitled to make, comes up with figures 2 years old. You take a company like Sears and Roebuck, their margin on sales would be about 3.5 cents, maybe 3 cents, on a sales dollar. Well, if you tried to fix their price based on what their cost was 2 years ago, they would be bankrupt immediately because you would not take into account the various wage increases and cost increases that have occurred since that time.

I would hope that we could see better judgment than that at the top, but some of these underlings that Mr. Carter hired came with doubtful credentials to begin with, but the President assured us that we had nothing to worry about because he was going to put some good men at the very top.

So I had hoped that between Bob Strauss and perhaps Julius Katz over there and the Secretary of Agriculture we might manage to get at the top what we are lacking at these lower levels in this Government, that is, some judgment, a little knowledge, a little background; some indication about what the whole thing is all about.

Thank you very much, sir.

Senator CHURCH. Thank you, Mr. Chairman. I certainly agree with your comments.

Senator LONG. Senator Matsunaga is chairman of this particular subcommittee, and I will now turn the hearing over to him.

Senator MATSUNAGA. Thank you, Mr. Chairman.

I wish to welcome you, Senator Church, and the others who are here to testify, to this historic first meeting of this subcommittee, the Subcommittee on Tourism and Sugar of the Senate Finance Committee.

This subcommittee is the creation of the chairman of the full committee who, through adroit midwifemanship brought it into

being and I am especially pleased that I was made its chairman for the reason that sugar and tourism play such an important part in Hawaii's economy.

The third member of this subcommittee is none other than Senator Curtis, who is busily occupied with some other business. And of course, he, too, being the ranking minority member of the full committee, lends prestige to this subcommittee.

Now, this subcommittee will receive oral as well as written testimony today and, if necessary, tomorrow. We hope to continue today until about 12:30 or 1 and convene again at 2:30 p.m. until about 4:30 p.m. If there are witnesses who have not had the opportunity to testify, we will meet again tomorrow morning at 10 a.m.

I thank you, Senator Church, for your introduction of S. 2990 and your leadership in securing the expressed support of 34 other cosponsors. With such a good showing, I am optimistic about the bill's passage and I thank you.

Senator LONG. Senator, if each of us cosponsors will go out and pick you up just one vote, we will be all right.

Senator MATSUNAGA. That would give us 66 votes. Again, thank you very much, Senator Church.

Senator CHURCH. I appreciate, very much, the opportunity to appear here and be the leadoff witness. Thank you, Mr. Chairman.

Senator MATSUNAGA. Our next witness is the Honorable Arlan Stangeland, U.S. Representative from Minnesota.

STATEMENT OF HON. ARLAN STANGELAND, U.S. REPRESENTATIVE FROM THE STATE OF MINNESOTA

Mr. STANGELAND. Thank you, Senator Matsunaga and Senator Long. Let me say it is a very real pleasure for me to appear before this distinguished subcommittee and I very much appreciate the opportunity, but regret the necessity.

Gentlemen, I sit today before you as a farmer, as a lifelong farmer who has raised sugar beets in the Red River Valley of Minnesota. The Seventh District of Minnesota, which I have the honor to represent, has the largest sugar beet acreage of any congressional district in the United States and is the headquarters of the American Crystal Sugar Co., the co-op which is the largest sugar beet cooperative in America.

So, gentlemen, I think I know a little bit of what I speak.

I wish to stress two points in my testimony today. First: I am urging the adoption of the Sugar Stabilization Act which I have cosponsored; and second: I am vehemently protesting the irresponsible and unsupported statement of the Council on Wage and Price Stability that sugarcane and sugar beet growers have sound economic alternatives for the use of their land.

As we all know, the last year has been a difficult one for the domestic sugar industry. The Congress recognized its plight during consideration of the Food and Agriculture Act of 1977 by adopting a program which supported the price of sugar at not less than 13.5 cents a pound. Unfortunately, this figure is grossly inadequate, not even covering the cost of production of the most efficient operation.

The U.S. Department of Agriculture estimated that the cost of production approximately 5 years ago was 13.5 cents per pound.

The industry is to be commended for its efforts to keep costs down. However, even the most efficient operator's cost is now at least 15 cents.

At the time of the enactment of this program, which was just last summer, we were awaiting the final negotiations of the International Sugar Agreement. The administration has now submitted that agreement to the Senate for ratification.

The document provides a mechanism for controlling the world price of sugar through a system of export quotas and reserves. What is known as the free trade range is a world price of sugar between 15 and 19 cents.

Recently, almost 50 Members of the House and almost one-third of the Senate have sponsored the Sugar Stabilization Act of 1978. This bill simply provides a structure for maintaining the midpoint of the free trade range, which is 17 cents per pound. This legislation is necessary since a glut of government-subsidized foreign sugar currently on the world market will prevent world prices from achieving the free trade range within an adequate time frame. Just last month, the International Trade Commission found that imports were disruptive to the price support program under the 1977 act and recommended a system of quotas and fees to eliminate this interference.

Under the provisions of this bill, our domestic sugar producers could remain in business and prevent our eventual total reliance upon foreign sugar with increased price fluctuations and our loss of control over supply.

Mr. Chairman, this eventuality becomes a certainty unless an adequate sugar program is enacted. Since 1974, 8 processing plants, each employing approximately 350 people, have closed.

Now, those of you from heavily populated and industrialized areas may not be impressed by the loss of 350 jobs. However, in rural America's small towns, in the Seventh District of Minnesota, 350 jobs are hardly insignificant. Indeed, they could easily represent the majority of the work force.

The U.S. Chamber of Commerce has estimated that the dollar value of any farm product turns over seven times. As you can see, the demise of an agricultural industry has a severe impact upon the small towns of our Nation.

Mr. Chairman, this leads me to my second point. The President's Council on Wage and Price Stability recently issued the statement that both sugar beet and sugarcane producers have alternative uses for their land that are more in line with economic needs. I must tell you that I read this utterance with absolute amazement. Such a statement can only be described as assinine. We may well compare that quote to one made by Marie Antoinette back in the French Revolution when the people were crying for bread and she said: "Let them eat cake."

I ask simply: "What alternatives?" The farmer in my area could and would plant wheat, corn, and potatoes, all of which are currently in excessive supply; resorting to soybeans and sunflowers

could create an imbalance in these commodities. I challenge the President's Council to support its statement by answering my question: "What alternatives are more in line with economic needs?"

I am afraid, gentlemen, that the Council's absurd statement is typical of the way our Government all too often operates. We have uninformed bureaucrats who very likely have never raised a house plant, much less operated a farm, making public statements about a complex agricultural and economic problem. The Council's assertion is misleading and totally devoid of any understanding of our agricultural situation.

What happens to the farmers competing in a marketplace which is suffering from oversupply? What happens to the sugar processing employees and the small towns which they support? The skilled workers move to other areas in search of work, and the unskilled often go on welfare. What happens to the substantial investment which has been made in recent years in sugar processing plants? The industry was forced to modernize in order to operate efficiently and competitively and the loss of investment will be great.

What happens to our Nation's economic independence when we allow our domestic producers to go bankrupt and must submit to the dictates of foreign suppliers? We have seen what reliance on foreign sources has meant to the oil market.

The domestic sugar industry must compete with foreign government controlled and heavily subsidized competition. Are we going to stand by and let this happen? I assure you that I am going to do everything that I possibly can to see that it does not.

The same Council who issued the uncomprehensible advice to our farmers has indicated that the program called for by the Sugar Stabilization Act is inflationary. The support level of 17 cents per pound would increase the annual basket price for foods by one-tenth of 1 percent. This increase is hardly significant, and is not even necessary.

Indeed, the manufacturers of sugar-containing products can absorb this slight increase without passing it on to the consumer. The prices of their products are almost 50 percent more than they were 5 years ago, and today's price of sugar is almost 30 percent below that of 1973.

Therefore, the inflationary impact of this modest program could very easily be zero. The majority of consumers has recently indicated its support for an increase of up to 5 percent in food prices in order to help the American farmer stay in business. Gentlemen, I really do not think there is any valid objection to the enactment of the Sugar Stabilization Act. We must allow our domestic industry to survive. The modest program called for in this proposal would do that and I urge your favorable consideration.

I thank you very much.

Senator MATSUNAGA. Thank you very much, Congressman Stangeland.

Are there any questions?

Senator LONG. Let me just say this. You have put your finger on a point that I guess some of these people in the State Department look too far in the stratosphere to recognize. I know, in my

part of the country, if you do not make it possible for the sugar producer to make a profit so he can stay in business, all these poor farmworkers out there will have to go on welfare. They do not have anywhere to go but to go out and look for unemployment money and welfare. All that means is that the taxpayers are paying those people not to produce sugar, but they are paying them just to live in idleness. After a while, people sort of get accustomed to it. They get to where they like it.

It would be far better to keep these people working. I do not think the policy people downtown have that in their computer—what it costs for these people to live in idleness with the taxpayers paying their taxes and really getting nothing for it. Idle minds are the devil's workshop. That just leads to all kinds of mischief and lawlessness just because people have nothing useful to do with their time.

I am satisfied that the policy people just do not know anything about that. They have not thought about it.

Mr. STANGELAND. May I make another point, Senator?

Look at the input costs of the sugar producers, what it costs him to produce a crop of sugar and the amount of equipment that he purchases and the damage that could be done to our Main Street businessmen which, in the end, is reflected right into the highly industrialized areas. Then we talk about unemployment programs. We should realize that money in the farmer's pocket will create employment.

Senator LONG. Thank you very much.

Mr. STANGELAND. Thank you.

Senator MATSUNAGA. I have one question.

How many tons of sugar did Minnesota produce last year?

Mr. STANGELAND. I am sorry, sir. There will be people testifying from American Crystal——

Senator MATSUNAGA. You do not have that figure?

Mr. STANGELAND. I do not have that figure on hand.

Senator MATSUNAGA. Well, thank you. In the event that we should have any questions, since you are here on the Hill, we will contact you.

Mr. STANGELAND. I would be most happy to help. Thank you very much.

Senator MATSUNAGA. Thank you for your appearance.

We have next a panel from the administration consisting of the Honorable Julius Katz, Assistant Secretary of State for Economic and Business Affairs; and Mr. Howard Hjort, the Director of Economic Policy Analysis and Budget of the Department of Agriculture.

Will you two gentlemen please proceed to the witness chair? Counsel tells me that we will be allowed to meet this afternoon despite the fact that the Senate will be in session, so we will be meeting again after the recess for lunch, beginning at 2:30 this afternoon and possibly until about 4:30 or 5 in the hopes that we may be able to take all witnesses who have indicated a wish to testify before the committee.

Will you now state your names for the record?

Mr. KATZ. Mr. Chairman, I am Julius Katz. I understand Mr. Hjort is en route. Perhaps I could go ahead?

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

Mr. KATZ. Thank you, Mr. Chairman. I am pleased to appear before this distinguished committee again. I appreciate your invitation to present the views of the administration on the International Sugar Agreement and S. 2990, which would implement that agreement as well as mandate a domestic sugar support program.

Iwould like, at the outset, to reaffirm that the International Sugar Agreement remains the foundation of the administration's sugar policy. There are a number of reasons for this.

First: We have a major stake in the world sugar market. We import a large proportion of our sugar requirements; almost 50 percent in some years. We are also a major factor in the world market, accounting for some 20 percent of world imports from the free market.

It is thus very much in the interests of the United States to assure that world supplies of sugar are available over the long term at adequate amounts and reasonable prices.

The International Sugar Agreement seeks to stabilize world prices. We have witnessed, in recent years, the harmful effects of the boom-bust cycle affecting world sugar trade.

When prices become excessively low, investment in sugar production falls off and production fails to keep pace with growing demand. Inventories dwindle and a crop failure, or series of failures, causes a rapid escalation of prices.

One such result is the 60-cent-plus price for sugar in recent memory. Excessively low prices lead to excessively high prices, and the reverse is true as well. High prices encourage overinvestment and overproduction of sugar, leading, in time, to a collapse of prices, and we have seen this in the past 2 years.

While the domestic programs have the ability to sustain the domestic price at some desired minimal level, such programs are more limited in their ability to protect against excessively high prices. While a domestic program can assure a domestic production base, it cannot adequately support the world market, which supplies up to 50 percent of our requirements.

An international agreement, moreover, can provide additional protection against rapidly escalating prices by providing for reserve stocks of sugar to meet exceptional demand. A domestic program could not provide such protection without maintaining a very costly domestic stock program.

An international agreement has other advantages over a policy based on a domestic program alone. We have seen the difficulty in the past several years in developing a domestic program in the face of widely conflicting interests among the various producing and consuming groups in this country.

While the Congress did enact legislation last year calling for a domestic program, the program was finally established with great difficulty and, in the end, met with rather general dissatisfaction from all quarters. Clearly, the interests of all segments of our domestic

producing, refining and sugar using industries would be best served by a condition of stable international prices without the need to resort to extraordinary import measures or budgetary payments to support a domestic price which is different from the world price for sugar.

It was with this objective in mind that we sought to negotiate an international sugar agreement last year. After lengthy and difficult negotiations, we ultimately succeeded concluding an agreement last October among 50 sugar exporting and importing countries. In our view, the agreement is a good one which has the prospect of stabilizing the price of sugar at levels which will fairly compensate sugar producers in the United States and in the world and will be reasonable for consumers.

Effective United States participation in the agreement, however, is critical to the success. The predominance of the United States in the world sugar market requires our full participation in the agreement if it is to function effectively.

The agreement is a supply management arrangement based on international market shares. It functions on the basis of export quotas to achieve agreed price objectives. At our initiative, a number of new initiatives were introduced into the agreement in comparison with previous agreements.

A major improvement is a requirement that substantial stocks be maintained by exporting members to protect the upper end of the price range and there is an arrangement to finance these stocks. A stabilization fund provided under the agreement will provide interest-free loans to finance the carrying costs of sugar required to be held in stock by exporting countries.

The fund is financed through a fee on sugar traded internationally. The fee is collected by the sale, to traders, of certificates issued by the international sugar organization. We expect to fund a collective total of about a half a billion dollars through the 5-year period of the agreement.

The fee is very low, however: a third of a cent at its maximum, or less than 5 percent of the current fees and duties we levy on sugar.

The objective of the agreement is to stabilize world sugar prices between 11 and 21 cents per pound. Export quotas will be in effect when prices are in the lower third of the 11- to 21-cent price range.

The agreement, however, provides for suspension of the quotas when the price is above 15 cents per pound.

I am sorry, Mr. Chairman, does that——

Senator MATSUNAGA. Will you continue with your statement? I think it is very important, inasmuch as you are presenting the administration's viewpoint.

Mr. KATZ. Thank you, Mr. Chairman.

The agreement provides for the release of special sugar stocks of 2.5 million tons when the price is in the upper third of the price range. After careful analysis, we concluded that maintenance of stocks at such a level would provide a high degree of price protection against most foreseeable supply/demand situations.

I want to stress that the agreement is not intended to fix prices at a predetermined level; rather, it is designed to permit prices to fluctuate within the range of 11 to 21 cents per pound. There is no automatic

price adjustment provision for inflation, but there is a provision to review annually the price range and, if appropriate, to take into account inflation, currency changes, and other factors.

The agreement entered into force on January 1st of this year. The United States signed the agreement on December 9th and has accepted it provisionally. During the period of provisional application, the United States will not undertake obligations not presently authorized by law.

The President submitted the agreement to the Senate for advice and consent for ratification on January 1st. If Senate approval and implementing legislation are not obtained by midyear, however, we will be unable to carry out certain important obligations. These obligations are to pay contributions to the budget of the organization, to limit imports from nonmembers and, effective on July 1st, insure that all imports of sugar are accompanied by a certificate that the required contribution has been paid to the stock financing fund.

Title I of S. 2990, which authorizes the President to carry out the provisions of the International Sugar Agreement, is basically satisfactory. We would wish, however, to modify section 101(a) which authorizes a prohibition on imports from nonmember countries. The agreement requires that the United States merely limit imports from nonmembers to 55 percent of historic imports when the price is below 11 cents per pound.

We have a number of other drafting changes which we will suggest—which we will submit to the subcommittee separately.

It is fair, at this point, to ask how long it will be before the agreement has its desired effect on the market and the further question which follows is, what if the ISA does not achieve its objectives?

With regard to the first question, export quotas were introduced upon the entry into force of the agreement on January 1st. Exporting members of the agreement are required to reduce exports by up to 18.5 percent from the basic export tonnages set forth in the agreement. We believe that they are, in fact, observing these quotas. We are informed, also, that more than 400,000 tons of special stocks have already been accumulated under the terms of the agreement, stocks that have not been put on the world market.

Thus, the agreement has begun to operate. Nevertheless, the market response has not yet brought the price of sugar within the price range established by the agreement. This has been due to a number of factors.

First, inventories in the United States and consuming countries were very high at the beginning of this year in anticipation of the agreement. Higher than normal quantities of sugar were exported late last year to avoid the ISA quotas that went into effect on January 1st.

At the same time, anticipation of the U.S. domestic program with an imposition of duties and fees led to a high level of U.S. imports, reducing import demand sharply in the first part of 1978.

I might say also at this point that the failure of the European Community to join the agreement and to cooperate with it is another factor depressing world prices. They have shipped quite a lot of white sugar in the early part of this year, contributing to the weakness in the international market. They have indicated that they do

intend to open discussions with the sugar organization with a view to becoming a member, but so far that has not occurred.

A second factor is that U.S. duties and fees have, themselves, had a depressing effect on the world market.

Finally, delays in U.S. action in ratification and consequent uncertainty about the future of the agreement have adversely affected the confidence of the market.

With ratification of the agreement by the United States and the working off of excessive inventories in the United States and elsewhere in the world, we expect the agreement to have a strengthening effect in the months ahead.

Now, let me address the second question: What if the ISA does not work? As I have stated, we believe that the ISA is a good agreement and has a good chance of meeting the objectives of our sugar policy. There are many factors, however, which affect the market and there can be no guarantee of success, nor that a specific price level will be achieved.

It is for this reason that the administration accepts the need to have a contingent program. My colleague, Mr. Hjort, who I hope will arrive, will speak in detail on the elements of such a contingent program.

Let me, however, address a few issues having to do with the need for consistency between a domestic program and the international agreement.

First, the price objectives of the domestic program should not be out of line with those of the agreement. The price objective of the ISA was based on a judgment of the long-range trend in the world market. The agreement is designed to maintain prices within the 11- to 21-cent range and to give market forces desirable play within this range.

Price provisions of S. 2990, in our view, are not consistent with the International Agreement. Indeed, the program established in title II may turn out to be a substitute for the ISA. The bill establishes a nominal price objective of 17 cents which must be adjusted at the end of each quarter. The effect will be rapidly to escalate the price, so the price objective might reach 17.7 cents after the first quarterly adjustment and continue to rise sharply thereafter.

An excessively high U.S. support price would not only be inflationary, but through the incentive to increase production of sweeteners, could swell world supplies in contradiction with our objectives in supporting the ISA.

Secondly, the system used to support the domestic price could have a substantial adverse impact on the world market. Because of the predominance of the United States on the world sugar market, very high import fees would, themselves, have a depressing effect on the world market price, leading to a need to raise the fee, further depressing the world price.

In short, we might be chasing a moving target.

Quotas present their own difficulties. Global quotas involves serious difficulties and tend to break down over time. A first-come, first-served program would create confusion in the market and disrupt the functioning of the futures market.

It would give advantages to the largest exporters who were closest in proximity to the United States. It would penalize smaller exporters and those more distant from our shores.

The resulting confusion in the market and the inherent bias in the system would create strong, and perhaps inexorable pressures, toward the adoption of country quotas.

The problems of country quotas are well known to this committee, and I need not dwell on them. They create very difficult foreign policy problems; they result in windfall gains to the countries holding the right to export; and because of the substantial premiums involved, quotas become the subject of intense lobbying activity and bilateral negotiation involving issues extraneous to questions of sugar supply.

Once quotas are allocated, they tend to be regarded by each country as irrevocable patrimony, causing serious foreign relations problems if the quotas are adjusted to meet changing trade and production patterns.

Thus, the problems involved in the establishment and maintenance of a domestic price support program are formidable. They involve contentious issues between the various domestic and producing interests.

We recognize, Mr. Chairman, the need to provide United States producers with the support for the interim period until the ISA becomes an effective instrument. We also recognize the need for maintaining a contingent domestic program in the event that the ISA should fail to meet its objectives.

We believe such a program, however, should be based on a domestic price objective consistent with the support provided for other United States farm commodities, one that is fair to both consumers and producers which does not excessively stimulate production and which is in keeping with our larger interests in the world economy.

We believe firmly that the best long-term approach to a domestic sugar policy is one that is based on the International Sugar Agreement. Our domestic program for sugar should be supportive and complementary to that agreement.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Katz.

I am somewhat surprised and disturbed that the administration has come out in opposition to the bill which is now the subject of these hearings. The President and, in your capacity today as a representative of the administration, have affirmed a longstanding U.S. policy of maintaining a viable sugar, or domestic sugar, industry.

What do you understand to be a viable sugar industry?

Mr. KATZ. Mr. Chairman, first, let me say that we do not reject the bill. We accept the thrust and purpose of the bill. I think our disagreements go to some of its provisions.

In response to your question, we do believe it is essential to maintain a domestic sugar industry, and that requires, obviously, that domestic producers gain a price which covers their cost of production and provides a reasonable profit.

There are obviously variable costs, that is, the costs of production vary throughout the country. There are some producers that are higher cost than others. I do not think it is the position of

the administration, although I would hope that Mr. Hjort would speak to this, to maintain a support level to meet the costs of the least efficient producers.

Now, obviously, there is a question of balance.

Senator MATSUNAGA. Under the International Sugar Agreement, it is anticipated that we will strike a price somewhere between 11 cents and 21 cents, as you have stated.

The price, right now, is down to about 9 cents, is it not?

Mr. KATZ. No, sir, it is lower than that.

Senator MATSUNAGA. It is lower than that?

Mr. KATZ. The world price has been hovering, in recent weeks, at around 7.5 cents.

Senator MATSUNAGA. And yet, the cost of producing sugar domestically is estimated now to be at an average of about 15 cents, is it not?

Mr. KATZ. I would like Mr. Hjort to speak to the costs of production in the United States, but clearly 7.5 cents is well below. It would be a disaster price if our domestic producers had to live with it. I do not think it is a very favorable price for producers anywhere in the world.

Senator MATSUNAGA. Welcome, Mr. Hjort, and join the panel here.

Mr. HJORT. Thank you.

Senator MATSUNAGA. Do you agree that the old Sugar Act, which we allowed to expire in 1974, did lend stability to the domestic sugar industry while helping to maintain a reasonable price of sugar for consumers, including, of course, the industrial users?

Mr. KATZ. Yes, Mr. Chairman. I think it did for, well, for some four decades. It gave stability to our domestic market for most of that period.

There were some exceptions, of course, when the rapid runup——

Senator MATSUNAGA. But, generally speaking——

Mr. KATZ. Yes, I think I would agree with that characterization. The question is whether what works for 40 years could work for a further period, and for a number of reasons, it was not possible to continue that act.

Whether for that reason, or for other reasons—and I think that the other reasons were pretty powerful, although the demise of the Sugar Act had something to do with it, the world market subsequently exploded and we had very high prices which the Sugar Act, the old Sugar Act, could not have really prevented.

Senator MATSUNAGA. I am sure that we could agree that any program which effectively meets the objectives set out, when the program was set up, for 40 years, is a successful program. In my mind, I think the Sugar Act of 1933 was the most successful agricultural program we have ever seen in our statute books. And it is unfortunate that misguided individuals and groups in 1974 made a spirited effort to have that law repealed, and I think, had it not been for that fact, we would not be faced with the crisis in sugar that we are today.

Mr. Katz, without an import quota—now, as I understand it, the administration is opposed to an import quota, although the

President is presently authorized to set import quotas and has set limitations under the existing laws—how can the U.S. market be protected against a flood of imports as we have in 1977?

Mr. KATZ. Well, Mr. Chairman, we are not opposed to a provision in the law, authorizing the use of import quotas, and it may be necessary to resort to an import quota.

Our preference would be to use tariffs or fees if the situation can be managed in that way. It may not be possible. We may have to, at some point, resort to a quota.

So we would want that authority in the bill.

Senator MATSUNAGA. Of course, we do have quotas on peanuts and cotton and other commodities, the production of which we are trying to protect domestically, do we not?

Mr. KATZ. Yes, sir.

Senator MATSUNAGA. So that sugar would be, could readily be regarded, as being within such category?

Mr. KATZ. Well, there is a basic difference between sugar and some of the other commodities. Under any conceivable circumstance, we are going to remain dependent for some substantial part of our requirement on imports. As I tried to indicate in my statement, we, therefore, have a peculiar interest in what goes on out there in the rest of the world with regard to sugar.

Some of the other commodities, imports would be relatively negligible, even in the absence of quotas.

So we are dealing with large volumes of imports of sugar under almost any assumption, that is, whether it be fees or quotas or whatever the nature of the domestic program, unless we went to the extent of complete self-sufficiency and I do not know of anybody who is advocating that. That would be, obviously, a very high-cost program.

Senator MATSUNAGA. Well, thank you very much, Mr. Katz.

If you have no objections, and if you have the time to remain, maybe we should listen to Mr. Hjort and then, after he has given his statement, we might resume questioning.

Mr. KATZ. I would be very pleased to do so, Mr. Chairman.

Senator MATSUNAGA. Thank you.

Mr. Hjort, will you state your name and position for the record and proceed with your statement, and if you could summarize your statement rather than read it in full, we would appreciate it. Your written statement will appear in the record as though presented in full.

Mr. HJORT. Thank you. I will do that, Mr. Chairman.

STATEMENT OF HOWARD HJORT, DIRECTOR OF ECONOMICS, POLICY ANALYSIS AND BUDGET, U.S. DEPARTMENT OF AGRICULTURE

Mr. HJORT. My name is Howard Hjort, director of Economics, Policy Analysis and Budget at the Department of Agriculture.

As Julius Katz has emphasized, the International Sugar Agreement is the cornerstone of our sugar policy and I want to reaffirm that. I will not go into the detailed part of my statement where we testify in support of the ISA but I will simply state that we do,

in fact, believe that that program is the cornerstone of the domestic policy, and we believe that U.S. ratification is in our national interest and should not be conditioned on any other issue or decision.

The title II provisions of the bill are not in accord with the administration's program.

In brief, title II is highly inflationary and so it would aggravate the Nation's No. 1 economic problem. It is also inconsistent with our position in support of the ISA. We cannot, in good conscience, endorse it. We believe there are better ways to meet the legitimate needs of our sugar producers.

More specifically, S. 2990 with its pricing and price escalation provisions, would stimulate the production of sugar in the United States—not only sugar, but also high fructose corn sweeteners. It would lead to a situation where the imports of sugar would continue to decline.

Our estimates indicate that by 1982, our imports would be down to a level on the order of 3 million tons, compared with an estimate for the year beginning this October 1 of about 4.5 million tons and a more normal import level of about 5 million tons, if we were not reducing stocks about 0.5 million tons in the current year.

The impact on consumer prices. In the year starting October 1, 1978 we will consume in excess of 30 billion pounds of sweeteners in the United States. The raw sugar price under the current program would average, in that year, perhaps 15.2 cents a pound, something on that order.

The provisions of the bill before you would lead to a price of approximately 17.5 cents for the first year.

That increase of 2.3 cents is equivalent to $700 million. That would be the additional cost to sweetener users, be they industrial users or, in part, final consumers.

The final impact on consumers would be in excess of the $700 million.

In each year, due to the escalation provisions, there would be an increase in prices to sugar users and sweetener users of between $350 million and $400 million a year.

It is basically for those reasons, plus the fact that this measure is inconsistent with the other farm programs and farm policies that we have, that the administration is not in support of this measure—S. 2990.

We do have a program that we propose as an alternative and we are prepared, or will be soon prepared, to offer an amendment to S. 2990. In brief, the program that we propose: Beginning with the 1978 crop, we would establish a domestic price objective that we deem to be fair and realistic in terms of production costs, which would be called the established price.

There would be a formula to move that price up that would be the same as the formula for other commodities in the 1977 act. We would establish a minimum market price objective that would be below that established price.

We would request authority for payments to producers, either through processors or producers, to make up the difference between the market price and the established price.

We would request authority to use import fees to protect that market price objective and have requested standby authority to impose quotas in addition to the fees, if necessary.

Under that approach, as the world price moves up, we would systematically reduce the fees, adjust it on a quarterly basis, and as the world price moves high enough to eliminate the fees, then we would reduce the duties to their statutory minimum.

That, I believe, summarizes the program and our position. I would be pleased to respond to any questions.

Senator LONG. Let me ask you a question. Do you think that these farmers can make a profit at the price you are advocating? You say 17 cents is too much. Do you think that these farmers can make a profit and stay in business at the price you are advocating—15 cents?

Senator MATSUNAGA. Eleven cents. It starts at 11.

Mr. HJORT. At the present time——

Senator LONG. I know what I am advocating, but do you think these farmers can make a fair profit and stay in business at the price you are advocating?

Mr. HJORT. The average cost of production, according to current estimates, is about 15.2 cents a pound.

Senator LONG. That is the cost of production.

Mr. HJORT. Right. Average cost of production, including all costs, including a full return to land.

Senator LONG. All right. Now, what do you think they would have to make to cover a fair profit?

Mr. HJORT. That would cover a fair profit.

Senator LONG. Fifteen cents would?

Mr. HJORT. There is considerable variation from one region of the country to another, and not all producers, by any means, would cover their costs at that level. But there would be others that would find themselves in a position of fully covering costs and having something left over.

Senator LONG. Mr. Hjort, did you come in with this administration?

Mr. HJORT. Yes, sir.

Senator LONG. Well, now, I had not had the same experience you have had in the agricultural end of things, but I have been doing business with farmers from the political end. You go out and talk to people and you ask them to vote for you and you tell them, do not worry, old friend, I understand your problems and we are going to take care of them.

Usually when you do that you expect, if you want to get reelected, to come back and report to them on a basis that they feel that you have kept your word and they feel that they have been treated fairly and treated well.

Well, how do you stand with the farm constituency in this Nation? How do farmers feel about the Carter administration right now?

Mr. HJORT. There are certainly elements within that group that are not very pleased.

Senator LONG. I know that if I go out among my sugar cane farmers and I say something nice about President Carter I am lucky to get out with my hide.

30-306—78——4

Frankly, I am trying to avoid meeting with my sugar cane people in Louisiana for awhile, until we get this matter straightened out somehow. But I do not find the other farmers satisfied either. I find them very dissatisfied.

Now, apparently, Louisiana is not the only area where the farmers feel that way about it. I saw in the press where your boss the Secretary of Agriculture appeared out in Colorado with the President, and the Senator, who is a member of this committee, according to press reports, indicated that it would have been a lot better off if the President had left the Secretary behind. I know that your boss's heart is in the right place. I think he would like to speak to the farmers.

I have told this story occasionally about my Uncle Earl, who I think was a good politician. He was running for office one time. Money was awfully hard to raise and some little fellow found some gamblers down there in south Louisiana who would make a nice contribution, providing they could be assured that they would have home rule in that parish—the sheriff was very tolerant and considerate. They would contribute providing the government would not send the State police in to embarrass them. It sounded all right at the time, but when Uncle Earl got to be Governor, it did not seem like a good idea after all. Those fellows would camp in the Governor's office, and Uncle Earl would keep coming in and going out the back door. After a while they said send for that man that got our money and make him go in there and talk to the Governor.

So the fellow went in there, and he said, Governor, this is absolutely horrible. I talked to those people before the election and took their money and brought them in. They are out there now, Governor, and I have got to go face them. What am I going to tell them?

Uncle Earl said, tell them I lied. [General laughter.]

Well, now, it is one thing for us to go out there and admit we lied to those gamblers, but it is another thing to go out and have to tell all the farmers in the country that you lied. I think the President can get by with saying some unkind things about the lawyers—there are a lot of lawyers who do not like lawyers. I think you can get by with saying some unkind things about the doctors and about the oil people and about the insurance people, but by the time you add the farmers to all of that, it will get to where a Carter man will not be safe walking the streets, even in a small town.

Now, it seems to me that the cornerstone of any domestic farm program ought to be that the farmers are going to feel that they have been treated well, that they have been treated fairly, and that they can make enough money to get by.

Now, have you computed in your costs the cost of taking care of all of these farm laborers on the welfare rolls in the event that these farmers have to quit planting sugar cane and beets?

Mr. HJORT. Well, not in our cost of production operations. We do cover the wages and labor bill. The Secretary has talked about the possible need for adjustment assistance and the full use of the resources of the Department in areas that have very high cost and

that that may be a very necessary and important part of the program.

Senator LONG. Well, now, do you think that what you are advocating with regards to a sugar program has any constituency here in the United States among farmers? Do you think that you have support for your program among the farmers, for the program that you are advocating here?

Mr. HJORT. Well, I do know that in connection with the basic provisions and basic programs in the 1977 act, we do have support among a relatively large proportion of farmers. There is a minority group that is certainly not satisfied, but we do, if one goes to different parts of the country and talks with farmer groups, one can find a great deal of support for the basic thrust that is embodied in the programs that are in the 1977 act.

And this proposal that we have for sugar is very consistent with that approach and that is one of the main reasons for proposing it, that we do have consistency and treat producers of one commodity versus another equitably in terms of legislation.

I think there is a very important point, and that is that the farm programs, by and large, that we have had for several years now, have not been programs designed to guarantee a profit. They have been programs, rather, to prevent economic disaster.

We have not favored farm policies in this country, an approach, that has regulated prices. We have tended to favor policies that provide a minimum for prices and returns under Government programs. But in turn, let prices go higher when conditions are such, market conditions are such, that they should move higher.

In other words, we have not tried to—and certainly this administration has no desire—to take actions to control prices when they move up.

Senator LONG. The price that you are advocating for farmers, what percent of parity would that be? Is it 15.2 cents? What percent of parity would that be?

Mr. HJORT. That would be about 55, approximately there. It appears now that the July 1, 52.5 percent of parity will be on the order of 14.3, 14.4 cents a pound.

Senator LONG. I can recall days when we used to talk about 90 percent of parity for farmers. Your program is a far cry from 90 percent, is it not?

Mr. HJORT. Yes, sir.

Senator LONG. Fifty-five percent. That is a far cry from 90 percent of parity. That is what we used to talk about guaranteeing farmers on basic commodities, is it not? 90 percent?

Mr. HJORT. Right, but I am sure that you realize that the important thing is what their cost situation is. If they have their costs covered. The problem with the parity price is that it is only a comparison of price and does not take into account changes in productivity.

Senator LONG. Now, let me ask you if the two of you recognize this, because I have not had the experience Mr. Katz has had in these international arrangements and I have not had the experience that Mr. Hjort has had in agriculture. But I have had some ex-

perience in getting elected to office, and in getting reelected, and it has been my good fortune, up to now, to go back and be received on a friendly basis among farmers. And if I were trying to work out a farm program for the President, I would find a point that the farmers could stay on the farm, make a decent profit, and feel that they are being treated well. I notice that even by your own calculations you figure the average producer might be doing all right, but that leaves a lot of room for the fellow who is not quite up to what the average is.

I would like to have something where the farmers feel they are being treated well and, as a condition of it, would limit production so they would only produce a certain amount. Then you could bring in all the excess you want to fill in the gap in the world market, do whatever you want to do with that. My attitude would be that your starting point would be that your own people within your country are going to be satisfied with your program.

Once you have that taken care of, then you can do whatever you want to do about this world market situation because you would have a domestic constituency in favor of what you are doing. Your own people would feel that they are being treated fairly.

But it would seem to me that when you bring us a program that starts out failing on that, that you have not met the first simple test, and beyond that point, then you can forget about it.

It reminds me of that story Senator Symington used to tell about these old fellows who were playing craps and one of them wanted this other little fellow to join the crap game with them. He said, I am sorry, I cannot play craps with you.

Well, he said, why not? Well, he said, for five different reasons.

He said, well, what are the five reasons?

He said, well, the first is I do not have any money. The fellow said, well, you can forget about the other four reasons.

If your program does not meet that first test, it seems to me we can just forget about all the rest of it. There is no point in going any further with it.

What we need is the cooperation of this administration and the help of this administration in making your program meet this first test. I hope you two can stick around to hear what the other witnesses are going to say. But we have some very unhappy constituents in the farming business and I think that that is a sign of trouble for what you both have been trying to work for, gentlemen.

Senator Matsunaga. Thank you, Mr. Chairman.

Now, I think with every new administration we have young people, idealists, who come in with the President and try to adopt a program of idealism and, I suppose, it is no different with this administration because we have had some lessons in practical politics here this morning.

I remember when I was a student at Harvard Law School I was asked to come down to talk to one Senator Russell Long, of Louisiana, because he was opposed to Hawaiian statehood.

They said I would have the entree because I was a veteran of the famous 100th Battalion, 442nd Regimental Combat Team and

while the others could not see him, I could see him. So I did come down and I did go to see him and he said to me, "Do not come to me; go to my constituents. If my constituents tell me that I should support statehood, I would."

He continued, "You all must remember that a U.S. Senator is primarily interested in two things: one, to be elected, and two, to be reelected."

[General laughter.]

That is a true story.

You know, Mr. Hjort, when I first entered politics, after serving one term in the Hawaii State House, I was so disillusioned that when a reporter questioned me about my future plans, I said that I would not seek reelection; that I was completely disillusioned in politics, since I found myself constantly compromising against my own principles. People took me at my word and I nearly got defeated the next time around.

I would have kept that word except for this. There was a professor at the University of Hawaii, Dr. William Schimer, who read the news story about my statement on the front page of the Honolulu Advertiser, in black border. He called me at 7 o'clock the next morning and said, "Spark, don't do anything foolish. I want to see you." And he came to my office, bringing with him an article from the Phi Beta Kappa quarterly magazine, entitled: "Compromise: A Principle in American Politics." It hit the nail right on its head.

That is why I decided to remain in politics. Now, I think your administration, with an idealistic President—and I admire him for that. I think he is an honest man. He strives to do that which is good and that which is right, and for that I love him; and all who know him love him and admire him for that.

Mr. Hjort, during the recent U.S. International Trade Commission hearings in connection with its investigation into the sugar situation, a number of questions were submitted to you in writing and one of them, to which you responded, was a question to which you responded as follows, and I quote:

> The large volume of sugar imported between November 11, 1977 and the end of the year was not due to loopholes in the import fee system but resulted from exemptions accorded to transient shipments and previously negotiated contracts. Such examples are normal practice and necessary for reasons of fairness. The omission of a separate fee for refined sugar mainly affected the composition of sugar imports rather than the total volume.

Now, according to the Customs Bureau, more than 1 million tons of foreign sugar entered U.S. ports in the month of December 1977 alone, including some 469,000 tons of refined sugar; and total shipments for that 1 month accounted for more than 16 percent of the shipments for that year.

Your suggestion that this glut of imports resulted from exemptions accorded transient shipments and previously negotiated contracts and not as a result of the loophole in the President's proclamation is very difficult to accept.

Now, would you tell this committee what is fair, insofar as domestic sugar producers go; and would you tell us also who, in the administration, is watching out for what is fair to the domestic

sugar industry while others are looking after what is fair for foreign producers who are dumping their surplus sugar here in the United States and just about bankrupting the domestic industry?

Mr. HJORT. Well, I think the beginning point in response to that question is to consider and think back on the process that was underway. It was evident quite early in the year, certainly by midyear, that there would be legislation on the part of the Congress and it became abundantly clear, by the time we were in conference on the 1977 act. And so all segments of the industry that rely upon imported sugar had ample time to arrange contracts. They knew that there was going to be a change; there would have to be a protective measure of some sort established; and there is precedent for sugar, or any other commodity under contract, when a change comes in to have that come into the country if it has been under contract prior to the official date of a proclamation, as in this case.

And so that sugar was under contract. Now, I should modify that in that there was a loophole in that proclamation with respect to refined sugar and the context of my remarks and response at the ITC hearings was in respect to the raw sugar that was under contract.

There was a loophole, and I admit that, with respect to the refined sugar.

With respect to the thrust of your major question, what I can say is that the President of the United States has reviewed the material in connection with S. 2990. He has reviewed it personally and he has concluded that that measure would be unacceptable.

I have talked about the reasons why he finds it to be so. They are, that it would be inconsistent with the ISA and that it would systematically lead to a reduction in our imports to go along with the increased production.

That arises mainly because the price level and the escalation formula provides a price to the producer that is toward the high end of the range in cost of production for domestic producers.

There is no measure in S. 2990 to restrict the production and so, in those circumstances, one would expect an increase in production and there would be a return for most sugar producers over and above all costs. Now, when that happens one of two things do happen. They expand and bring in land that is slightly less efficient and there is a return to land and that gets capitalized back in.

What would happen is that the rent for land and the land price itself, would go up under that measure and it would drive our costs even higher.

The other immediate impact is inflation, and that, of course, is the No. 1 problem in this Nation today. And a measure that would significantly increase costs to consumers is one that is not acceptable.

The third reason is the consistency in farm programs and farm policies. We have a set of measures and we sought consistency from one producer group to another and we continue to seek that consistency in our approach to the sugar producer.

Senator LONG. If we amend this legislation with the kind of production control which would assure that the price we think fair for sugar would not bring the additional production that you fear,

would that not take care of your problem about the International Sugar Agreement?

Mr. HJORT. That certainly would help, Senator Long. As far as the implications for the International Sugar Agreement it certainly would help, because then we would not be seeing the decline in imports. We would still have this question of the pricing provision where the escalation formula, it appears, would take us to the maximum of the range, up to the 21-cent level, after about 3 years in operation. And so there would still be that part of it which would be troublesome with respect to our posture on the ISA.

Senator LONG. Well, if we took care of that part of it, would that then solve the problem as far as your objections are concerned?

Mr. HJORT. No, sir. It would alleviate some of the problems with respect to the ISA in consistency. There would still be the potential inflation problem, and there would still be the lack of consistency with the other farm program.

Senator LONG. It seems to me that the International Sugar Agreement gives you all the latitude you would need to take care of your domestic farmers, in line with what they thought the President was promising them when he was a candidate for office, without creating any problem as far as the foreign market is concerned. The producing countries want to sell sugar to us. So long as we are buying sugar from them and not denying them what they anticipated to be their share of our domestic market, it would seem to me that it would be immaterial to them precisely what we are doing for our own farmers within this country.

I am not concerned about what foreign countries do to help their farmers, except I get resentful sometimes that we do not do as well by our own.

But what concern is it of people under the international agreement that we are dong very well by our farmers in the United States? It is not denying them any market that they would have otherwise. What is the problem?

Mr. HJORT. Well, as I said, I believe, from the standpoint of the ISA itself, a provision that did restrict production would take away a major objection that we have, but it would still leave these other problems of inflationary impact and the consistency of the sugar approach vis-a-vis the other commodities.

Senator LONG. Well, here you are, worried about the inflationary impact for a bunch of hard-bitten people who are having a tough time making it, and a lot of low-paid workers. If you are worried about inflationary impact, what we need to do is to do some jawboning and some arm-twisting with regards to those people who are making high wages.

I would much rather vote to control the prices of drugs where they are making big profits and to control some of these hospital costs and vote to control the prices of lawyers, or even doctors, or for that matter, both of them, than to vote to make life even more difficult for people who are having a tough time the way it is now. These are not highly paid workers that we are talking about, you know. They do not get anything like the price we are paying for construction labor.

But we are not talking about anything like that. All we are talking about is trying to get these people up to where they can survive just a little bit out of poverty, and fix it so that those farmers who hire them make enough profit to stay in the business.

Now, that is not asking too much. It seems to me you need to make your fight on the cost of living with the people who are making $10 an hour and think that is not nearly enough, or the people like our coal mining friends. I do not begrudge them that wage increase, but they are getting 38 percent over the next couple of years and they are already getting good wages.

Maybe one of these days we can get the guts up to do something about a locomotive engineer who works about 20 hours a week and gets paid $45,000 for it. But we are not talking about that right now.

When you see those kind of things going on and then you come in here and talk about squeezing out the people like the farm labor that we have in these sugarcane fields, to me that is just looking at the problem with blinders on. How can you look at it any other way? Are not most of your farm labor low-paid workers?

Mr. HJORT. Yes, sir. Farm labor does tend to be among the lowest. We do have minimum wage provisions under the present program that, in some areas of the country, at least, provides for a higher wage than there is for other general farm work.

I would agree with you completely, Senator Long, that the fight against inflation should not be viewed as one particular matter or one particular issue like this, but it does need to be a broad-based attack, and it is, I think, in that context that we have these concerns over the inflationary impact of this measure.

Senator MATSUNAGA. You seem to place great emphasis on the inflationary impact which you say this bill would have on the national economy. Is it not true that the basic export tonnage under the International Sugar Agreement constituted only 17 percent of the total world production of sugar.

Mr. HJORT. That sounds about right.

Senator MATSUNAGA. That is about 15 million metric tons. That is only about 17 percent.

And is it not true also that the domestic industry still produces about 55 percent of our needs?

Mr. HJORT. Yes, it is quite close to that. We anticipate this year that domestic production will be close to 6 million tons and we will be using about 11 million tons in this country.

Senator MATSUNAGA. So that will still be about 55 percent.

Mr. HJORT. Yes, sir.

Senator MATSUNAGA. Now, if we permit the situation which now exists to persist for another year or so, domestic industry will go under and those who are now producing sugar will certainly get out of the sugar producing business, the world market price, as you know, being about 7.5 cents per pound. Nobody is going to remain in any business which will bankrupt them, and then what would happen? 55 percent of our needs are being met by domestic production and when they go out of business, then we have got to import more than double what we are now importing from the world market.

Eighty-five percent of the total sugar production is under control, as you know, and we have got to import from this residual 15 percent, then what will happen to inflation? The demand upon this residual world market will drive the price sky high.

So, if you look at the facts, I think it is shortsighted on the part of the administration to be concerned about the impact of inflation which this bill will have. We should be more concerned about what will happen if we let the domestic sugar industry go under.

Mr. HJORT. Senator, we do not have any intention of letting the domestic sugar industry go under. We do support the objective of a viable domestic industry.

Under our proposal, we would anticipate, however, a decline in U.S. production. But we are not talking about a program that would systematically lead to sharp reductions in U.S. production and, in turn, sharp increases in imports.

Senator MATSUNAGA. Senator Dole, do you have any questions?

Senator DOLE. I have a statement I would like to make as part of the record, Mr. Chairman. I will not read it, but it just indicates my hope that we can work out some meaningful legislation with the administration. I would ask that this be made a part of the record.[1]

Senator MATSUNAGA. Without objection, it is so ordered.

Senator DOLE. I certainly apologize for being late but we were in another committee when we were trying to find boxcars or hopper cars and Howard knows how tough that is—nobody seems to know where they are, and I do not have any notion of where they are either.

I want to commend Mr. Katz for his leadership in obtaining this 5-year ISA. I just hope now that we have gotten to that step that we can take the next step in developing some legislation to protect the domestic sweetener industry, and having joined with Senator Church and 30-some others, I think that it is fair to say that we at least feel rather strongly that that is a step in the right direction.

I understand that there may be some differences of opinion on the part of the administration.

I have tried to glance over the statements of both witnesses. Mr. Hjort, when you say it is inflationary, do you put a price tag on it yet?

Mr. HJORT. The estimate is built in this way. Assuming that the measure were effective October 1, with the 17-cent initial price, that would escalate to something on the order of 18 a year later, and so you would have, say, a 17.5-cent average in that first year.

Under the present program, it appears that that average would be on the order of 15.2 cents, somewhere thereabouts, so it would be about a 2.3-cent increase, and we would consume, in that year, a little more than 30 billion pounds of sweeteners, so that comes in as about a $700 million increase to sweetener users, be they industrial or direct consumption.

As that moves through the system, if the past is any guide, there would be some further add-on, and so the net impact to consumers would be in excess of that $700 million. I do not have a precise number on what that would be.

Senator DOLE. How does that compare with the administration plan?

---

[1] See p. 271.

Mr. HJORT. What the administration would propose to do is to have a program that would reduce the market price of sugar and protect producer returns through a payment program. The objective in the administration proposal would be to have a market price of 13.5 cents and so there you would have a 4-cent difference and so that would be on the order of $1.2 billion difference in the cost to sugar users.

Senator DOLE. Now, as I recall, it was about a year ago, President Carter indicated that the cost of production of sugar was about 13.5 cents per pound and I assume at the time he made that statement that the data must have been a year or 2 old and now it is another year.

What do Government studies now show the cost of production for 1978 to be?

Mr. HJORT. The average cost, using the highest estimates that we use, based on the current land value, current rental arrangements, is about 15.2 cents, national average.

If one uses the same concept that was used for the target prices for wheat, corn and cotton, that would come in at about 14.05 cents.

Senator DOLE. Being a member of the Agriculture Committee and having had some experience in these matters, do I take it that this is the—the administration plan, is this the plan developed by the USDA or is this somebody else's plan?

Mr. HJORT. This is the plan developed by the administration, including USDA.

Senator DOLE. Well, I know how it works. Probably several people have input, but is what we have before us essentially what the USDA recommended?

Mr. HJORT. This is a matter that came through the working group process that involves all of those that have a responsibility for some element of a matter like this and represents the conclusions of the President and his concurrence and his recommendations.

Senator DOLE. I guess what I am trying to determine is—maybe it would be possible to have the USDA position papers. I am not sure whether that is privileged or not. I am just trying to establish the genesis of the plan.

Maybe I could ask Mr. Katz the same question. Does this plan reflect the State Department's position?

Mr. KATZ. Well, as Mr. Hjort said, it is the position of the President. It is certainly supported by the State Department.

As I tried to bring out in my statement, Senator, we looked at this from the point of view of the consistency with the international agreement. I explained in my statement why we regarded the international agreement as a foundation for our policy. We were seeking a domestic program that would support and complement that agreement, and I believe it does that.

Senator DOLE. Is it fair to assume that this plan is sort of a hybrid of different agencies—maybe the State Department, USDA, a blend of two different positions, or are you pretty much in accord?

Mr. KATZ. Senator, you know, the policy process is based, first of all, on analysis of the situation, on the development of alternative approaches and then, finally, a decision. I do not think that I can go beyond that, except to state once again it is a position of the administration as a result of the policy process.

Senator DOLE. If it would be possible to have the position papers of the State Department and USDA, it would be very helpful. My beet farmers never really understand the necessity of the State Department getting into this legislation, and maybe it is because they are so far from here, and like it that way.

You know, it is hard to explain to the beet producer who thinks this is a farm program or farm policy that it gets so involved in international policies.

Mr. KATZ. Senator, I would be glad to try to explain that.

Senator DOLE. To me, or to my farmers?

Mr. KATZ. To both. I would be prepared to explain it to your farmers. I do not like to think that the State Department is making agricultural policy but, again, referring to my statement, we have a major stake in the world economy in general, and in particular with respect to sugar. We import a large part of our sugar.

Now, there is an alternative. I suppose, at some cost, we can be self-sufficient in sugar or in sweeteners. But, I do not think anybody is suggesting a policy of sugar independence. Therefore, it does matter what happens in the world economy.

Now, if we adopt the policy which has the effect of depressing the world price, ultimately we are going to have to pay a much higher price for imported sugar at some point in the cycle. We saw that in 1975—1974 and 1975—when the price of sugar went very high.

There is a very important domestic policy component, it is a critical component, of our sugar policy. There is also an important foreign economic policy dimension of that policy.

Senator DOLE. I appreciate that, but it is difficult—I guess what I am trying to determine, because we have had some experience this year with emergency farm legislation which was viewed as inflationary by the administration. We accepted some of that, and I cannot quarrel with the figures, because I do not have any way to determine their accuracy.

But has it gotten to the point where if Congress would pass the bill introduced, the administration would recommend that it be vetoed?

Now, I am a believer in the administration when they say they are going to veto something. I think we learned from the emergency farm bill that the President probably meant it. So if that is the case, I think we need to find it out early rather than late.

Mr. HJORT. Yes, sir, Senator Dole. If S. 2990 in its present form were placed before the President, I am sure he would veto it.

Senator DOLE. Solely because of its inflationary impact?

Mr. HJORT. No, sir, not solely because of that. Because of the inflationary impact. Because of the inconsistency with the ISA, what that measure would lead to. And, because of its inconsistency with the general farm program's thrust.

Senator DOLE. I notice you said you agreed with title I of the proposal. But beyond that, you would prefer that we would follow the administration proposal?

Mr. HJORT. Yes, sir. We are preparing amendments to the measure, if that would be useful and helpful to the committee.

Senator DOLE. Now, have you any limitations on your payments?

Mr. HJORT. No, sir.

Senator DOLE. Do you think that is advisable not to, or do you think they ought to have big payments?

Mr. HJORT. I think, given the characteristics of the domestic industry, it is advisable.

Senator DOLE. Is that consistent with the other farm policy that you are talking about being consistent with?

Mr. HJORT. There is a basic difference between the sweetener industry and in the case of the other farm commodities. The processor and producer segment of the sugar industry are intimately tied together. It is extremely difficult to devise some way of treating that industry without recognizing that it is tied directly together.

Senator DOLE. Again, I recognize that and I am not trying to pick out any one particular area or areas, but again, it is difficult when we impose payment limitations on other producers, as I think we probably should, and I do not quarrel with that. Maybe if you could run this out to each employee or worker, it probably might be in line with other payment limitations, but I would suggest that would be a point that would probably be raised if we go the direct payment route and it comes to the Senate floor or the House floor, there are those in the Congress who feel strongly that the Government does too much for farmers in any event and that there should be a payment limitation as a minimum.

I just suggest that this is one area that would probably meet with some difficulty.

Mr. HJORT. We recognize that.

Senator DOLE. I have a number of other questions, but I do not think they would add to the record. I could go back and quote Secretary Bergland when he was a Member of Congress on his views on sugar legislation, but again, I understand, then he was a Member of Congress and now he is Secretary of Agriculture and he has a different responsibility. But he was very concerned then about the dismantling of the domestic sugar industry and, in effect, having a sugar OPEC. He was very concerned about that.

Maybe this International Sugar Agreement will dispel any problem there.

Mr. HJORT. Secretary Bergland is very much in support of the International Sugar Agreement.

Senator DOLE. This does not have any flexibility in the program, does it? There would not be a flexible parity approach here at all, would there?

Mr. HJORT. We do not, in this case, request authority to adjust the target prices for various set-asides.

Senator DOLE. Thank you.

Senator MATSUNAGA. Mr. Secretary, is there a deadline by which the International Sugar Agreement must be ratified?

Mr. KATZ. No, sir, not as such, except that on July 1 we begin incurring obligations that we cannot carry out without legislation.

Those obligations are the ones that I listed in my statement. Essentially, they are to pay our dues, to limit nonmember imports and to exclude imports that are not accompanied by this certificate of contribution to the stock stabilization fund.

We would hope that we would have authority, legislative authority with ratification completed by that time, and implementing legislation; that would of course, make the agreement more effective, and would support our other objectives by strengthening the market.

Senator MATSUNAGA. You made a statement that the International Sugar Agreement is provisionally operative. What did you mean by that?

Mr. KATZ. Mr. Chairman, the agreement itself is fully operative under its terms. The fee system to finance the stock arrangement does not begin to operate until July 1, but the export quotas are in effect so that exporting members are now restricting supplies, as they are required to do under the agreement.

Senator MATSUNAGA. Strictly on a voluntary basis.

Mr. KATZ. No, sir. Some of those governments have ratified. The U.S. Government has not ratified and, therefore, we cannot undertake obligations under the agreement.

We have, therefore, accepted the agreement provisionally, subject to ratification. Should the Senate not given its advice and consent, of course, we would be obliged to withdraw at that point. Should the legislative authority not be provided by July 1, we could not carry out our obligations and we would have to either seek a waiver of obligations or withdraw or, conceivably, there might be some adjustment by the sugar organization of that obligation.

Senator MATSUNAGA. Does the situation not indicate to you that perhaps S. 2990 ought to be given early consideration?

Mr. KATZ. Yes, sir. We would hope that it would be given very early consideration and I would hope that the committee would give consideration to the amendments that the administration will propose.

Senator MATSUNAGA. And, of course, with the cooperation of the administration, we might expedite that consideration.

One last question, Mr. Secretary. You mentioned direct payments from the U.S. Treasury to the sugar producers in order to limit the effect of the domestic sugar program on U.S. prices. Now, would not direct payments require a horrendously complex system with extensive Federal regulation and would not direct payments be unfair to producers of other sweeteners?

For example, what would be the effect on producers of corn sweeteners? Would not direct payments take money out of the Treasury while the fees imposed on the S. 2990 would bring revenues into the Treasury?

Mr. KATZ. The administration proposal, of course, does not eliminate the need for fees. There would be support of price up to some level and then payments beyond that.

Perhaps Mr. Hjort could comment.

Mr. HJORT. On the question of the direct payment, it would be no more difficult than was the system that we were operating earlier this past year in connection with the 1977 crop.

We were operating a payment program prior to its being replaced by the so-called de la Garza price support loan program.

I believe the evidence is that that program was a superior approach to the loan program. And so I do not believe that it is terribly administratively complex.

As far as the relationships within the sugar, or sweetener, industry, certainly price level makes a difference on the pace of growth in the high fructose industry, but the provisions we are proposing here are patterned after those for corn which is the raw material for that segment of the sweetener industry.

What we are proposing is, in effect, the same thing. We are proposing an established price or, as it is more popularly known, as a target price, and the difference between the market price objective and the target price would be covered by payment.

And so, in that way, it is the same program that we have for the corn producers.

Senator MATSUNAGA. Senator Dole?

Senator DOLE. When we finally agreed on the Food and Agriculture Act of 1977, the conferees were, I think, very direct in what they wanted the administration to do. We put in language:

> The conferees expect that the Executive Branch will utilize existing authority of law to implement immediately upon the bill becoming law, and import fee or duty which, when added to the current import duty, will enable raw sugar to sell in the domestic market at not less than the effective support price.

I have never really understood why it took so long to do that. It took about 4 months before anything was done, and then it took a lot of tugging and hauling by many members of this committee and others.

Was there some administrative problem that would not permit any earlier implementation of that directive?

Mr. HJORT. The basic administrative problem that we were facing at that time, if you recall, we had gone forward with proposed regulations to implement the payment program, and then had questions raised over the legal sufficiency and the way it was proposed from the Comptroller General and, in turn, after requests, a concurrence on the part of the Deputy Attorney General, that there were legal questions over the way it had been proposed.

But about the time that the new measure was being passed, we had been given the green light, given some modifications with those regulations, and we were in a position where we could go forward and provide at least some protection sooner under the payment program than the price support loan program.

And so we were trying to move forward with both approaches at the same time. Begin the development of the regulations for the loan program, but move forward to implement the payment approach so that there was at least some measure that was providing protection on the 1977 crop.

The general response to your question is that I think it amazes all of us—it certainly does me—the amount of time it takes to go through these formal rulemaking procedures.

As you know, when we finally did implement the price support loan program, we did not follow the normal loan making procedures and I think we have had evidence that because we did not, we have had other problems with that program that we should not have had, such as the price support loan level for sugar.

Senator LONG. Mr. Hjort, did you ever work, directly or indirectly, for the industrial users of sugar?

Mr. HJORT. No, sir, not directly.

When I was with the consulting firm that I was previously with we had clients that covered almost the entire spectrum of the agricultural industry. We had a connection with producers, through another firm that provided marketing advice to producers.

Senator LONG. Were you associated with Mr. John Snitner, who was former Under Secretary of Agriculture, in a consulting practice before you joined the administration?

Mr. HJORT. Yes, sir. I was a partner and a vice president of that firm, and it was that firm—we had clients that stretched the full segment from producers, but not direct, through other firms and on through to brokerage firms that were trading——

Senator LONG. Among those you were consulting and representing, did that include Coca-Cola?

Mr. HJORT. No, sir.

Senator LONG. What industrial users of sugar did it include?

Mr. HJORT. We had Heinz as a client; and we had one of the high fructose corn sweeteners—I have forgotten the name.

Senator LONG. Does your former associate, Mr. Snitner, still represent industrial users?

Mr. HJORT. I do not know, sir.

Senator LONG. You are familiar with the administration's program as relating to peanuts, are you not?

Mr. HJORT. Somewhat, yes, sir.

Senator LONG. Now, with regard to that program, do we allow the importation of peanuts?

Mr. HJORT. We are trying our best to export peanuts. I am not sure that——

Senator LONG. How about importation. Do we allow them to come into the country?

Mr. HJORT. No, not at our domestic price. I am not sure what exact authority we use in that——

Senator LONG. And what is the parity level on peanuts at this point?

Mr. HJORT. I am not sure.

Senator DOLE. About 75 percent.

Mr. HJORT. About 70 percent, somewhere in there.

Senator LONG. Now who, in your opinion, is calling the shots at the White House on sugar?

Mr. HJORT. Senator, I do not believe that I know of anybody who is calling the shots, other than the President of the United States. The materials move through the normal process that we use——

Senator LONG. Well, when you call down there, if you cannot speak to the President, who do you ask for if you want to talk about sugar? That is what I want to know.

Mr. HJORT. The people that—the representative on the domestic policy staff that we work most closely with is Lynn Daff.

Senator LONG. Who?

Mr. HJORT. Lynn Daff.

Senator LONG. Yes.

Mr. HJORT. We work closely with representatives from the Council on Economic Advisers, either the chairman or one of the members. We work closely with representatives of the Office of——

Senator LONG. It is distressing that the Cost-of-Living Council is using figures that are 2 years old. Would that not indicate that it leaves something to be desired?

Mr. HJORT. The Cost-of-Living Council has a status that is somewhat different than most of the rest, as I understand it, and a degree of independence that some of us do not have.

Senator LONG. Thank you.

I would like to submit some questions for Mr. Katz, but he can answer them for the record.

Senator MATSUNAGA. Other members may wish to submit questions in writing, and we would appreciate your responding to them.

Mr. KATZ. We would be very glad to do so, Mr. Chairman.

[The following was subsequently supplied for the record:]

QUESTIONS SUBMITTED BY SENATOR LONG AND MR. KATZ' RESPONSE TO THEM

Question. What is wrong with increasing domestic production?

Answer. Artificially increasing domestic production through high support price and restrictive trade measures would be very costly to consumers, a wasteful use of land, would be contrary to our agricultural policy and would be against our interest in maintaining our access to adequate quantities of reasonably priced world sugar.

Our objective under the International Sugar Agreement is to stabilize world sugar prices. By preventing the collapse of world prices, we prevent the situation where sugar producing nations stop investing in sugar. Such a situation has led and would again lead to very high prices to U.S. consumers.

The same measures which would increase domestic production would cause world sugar prices to fall even further. This would contract the world market. Later, when we needed reasonably priced sugar, it might not be available.

Question 1. It would save dollar exchange. What was our balance of payments deficit?

Answer. It is doubtful that reducing sugar imports would save foreign exchange. A large percent of our sugar imports come from developing countries. A cut in our imports would undermine their ability to purchase goods at the present level from us.

Question 2. It would take land out of production of surplus crops.

Question 3. It would provide jobs—maybe take people off welfare.

Question 4. It would use surplus corn.

Answer. It is certainly true that the higher U.S. protected price of sugar, the more land would be diverted out of existing crops into sugar production. Certainly corn production would also benefit. However, consumers would be paying very high costs to subsidize inefficient production of sugar and corn. Also, corn sweeteners because of their lower costs of production would take over a larger market share. High domestic support prices could create a short term gain for sugar producers, but a significant long term loss of market share.

Question 5. Have you made an estimate of the possible expansion?

Question 6. Do you know the tonnage that can be processed?

Question 7. Do you know the cost of new processing mills? Can they make the investment?

Answer. Expansion possibilities in domestic sugar are obviously only limited by the level of price support. Present prices are clearly below the level that would justify new investment in processing mills. Over the short term, attainment of prices which would yield new investment would be reached only at high costs in terms of inflation, and high costs in terms of undercutting the ISA and causing serious economic hardship to the developing countries that export sugar.

Question. You have indicated that a domestic price objective at the midpoint of the price range for free trade in sugar under the ISA is too high. If that is the objective we have set for international trade in sugar, why should we not have the same objective for domestic trade? Should we pro-

vide a price objective for foreign producers higher than that we set for our domestic industry?

Answer. The International Sugar Agreement aims at stabilizing the world price of sugar between 11-21¢ per pound. Its objective is not to keep prices between 15-19¢, the free trade range of the Agreement. The 11-21¢ range was chosen because careful studies indicated that the long term trade of world sugar prices lay within these price bounds. The ISA is not attempting to raise prices, only to control excessive fluctuations around a trend.

We have the same objective for the domestic industry. We have proposed a program that will guarantee farmers domestic prices will not fall precipitously, and will assure a reasonable return to sugar producers.

Question. Did the Department of State recommend payments this year? How about Agriculture? Who recommended direct payments? The White House?

Answer. Development of the Administration position of a contingency program to back up the ISA went through several different stages. An interagency working group met on several occasions to prepare different options. As these options were developed, it became increasingly evident that there was (1) general dissatisfaction with the loan program, and (2) a widespread concern about the inflationary consequences of any domestic sugar program. These concerns became so widely shared that in the end all agencies recommended the use of payments.

Senator MATSUNAGA. Thank you very much, Mr. Secretary and Mr. Hjort for your testimony.

[The prepared statement of Mr. Hjort follows:]

PREPARED STATEMENT OF HOWARD W. HJORT

I appreciate the opportunity to present the Administration's views on Senate Bill 2990. This bill would (a) authorize U.S. participation in the International Sugar Agreement and confer upon the President the necessary authority to carry out the obligations of that Agreement; (b) mandate a domestic sugar price support program at an initial support level of 17 cents per pound, raw value, with provisions for quarterly adjustment in the support level by the average of the prices paid by farmers and the wholesale price indices; and (c) require the use of an import quota and fees to limit imports to the estimated difference between domestic sugar requirements and domestic sugar production. Title I concerns the International Sugar Agreement (ISA), Title II concerns the domestic support program and related import controls, and Title III contains various general provisions. In my testimony, I will deal with Titles I and II separately.

As my colleague, Assistant Secretary Jules Katz, has already indicated, the Administration favors the provisions which are contained in Title I. They would enable us to ratify the ISA and to function as a conscientious party thereto. As he emphasized, the ISA is the cornerstone of our sugar policy. I want to reaffirm that. In the International Sugar Agreement, our longer term national interests and those of other sugar producing and consuming countries coincide.

If the Agreement is permitted—by our adherence and cooperation—to become fully effective, world sugar supplies will be brought into a better relationship with demand and prices will strengthen. Barring some weather or other catastrophe, prices should also achieve reasonable stability, a condition we have not had for some time. External prices will no longer threaten the viability of our domestic sweetener industry. Producers, processors, and consumers alike will benefit from greater stability of price and supply. Governmental intervention will be minimized if achievement of the support level is a solidly accomplished fact; and as things progressively improve, we can move toward elimination of the present import fees as these trade-restrictive devices no longer are necessary.

United States participation is vital to the ISA. ISA stock financing provisions are to go into operation on July 1. The U.S. cannot assure the implementation of the ISA stock financing fee on sugar imports from nonparticipants as required. We hope that the Congress will act on the amendment and the necessary implementing legislation before July 1. Together with

other members of the agreement, we will of course be reviewing the need for adjustments in the implementation of the stock financing provisions as July 1 approaches.

As we all know, there are many conflicting interests and differences of opinion on domestic sugar policy. We are here today because they are so difficult to deal with. They will be much less difficult if prices of foreign sugar can be brought in line with ours. The best hope—currently the only hope—for achieving this is a working, effective ISA. United States ratification is in our national interest and should not be conditioned on any other issue or decision.

Title II would mandate a support level for sugar beginning at 17 cents per pound, raw basis, thereafter escalating with adjustment determinations required each calendar quarter. It would, in other words, require support of sugar production at roughly the costs of the least efficient producers and insure a continuing upward spiral. Production of both cane and beet sugar as well as other sweeteners would not merely be sustained; rather, it would be greatly stimulated. The artificially high level of prices would of course attract a flood of imports if matters were left to market forces; since this would be fiscally intolerable, Title II further mandates the imposition of a global import quota plus import fees, both determinations to be made according to prescribed formulae. These provisions are not in accord with the Administrations program.

We wish to emphasize to the Subcommittee that our opposition to Title II provisions is not merely philosophical or doctrinaire, but is the result of careful analysis and time consuming deliberation. We have examined the content and prospective consequences of Title II. The upshot of all this work comes down, in essence, to a very simple conclusion: Title II is inflationary. It will aggravate this country's Number One economic problem. It is likewise inconsistent with our position in support of the ISA. We cannot in good conscience endorse it. There are better ways to meet the legitimate needs of our sugar producers, as I will enlarge upon subsequently.

Before getting into matters of substance, let me observe that the provision as to the effective date—that is, fifteen days after enactment—is not well chosen. A realistic date for a new sugar program is October 1. What is needed is good legislation, enacted very soon, to be followed by necessary and proper rulemaking procedure which necessitate two or three months. We are opposed to a mandatory fifteen day rule in S. 2990 or in other authorizing legislation.

Now let me summarize the main reasons why the Administration opposes enactment of Title II as it is now written. Thereafter, we will offer some suggestions as to how Title II might be changed or amended to provide for a sugar production support program that would be fair to producers and consumers alike and which would be essentially neutral with respect to its inflationary impact.

S. 2990 would require the establishment of a floor price for sugar of 17 cents per pound, raw value, to be effective fifteen days following enactment. The national average cost of producing sugar is approximately 15.2 cents per pound, which means that the initial support level would be about 12 percent above average cost. This minimum would be adjusted quarterly by an average of the prices paid by farmers and wholesale price indices. Our analysis indicates that, at the end of one year, the minimum would probably have risen to 18 cents, and would average about 17.5 cents for the first year. After three years, the minimum would probably have risen to 21 cents which, incidentally, is the ISA maximum. The escalation would continue in subsequent years.

Total sugar and sweetener consumption for the year beginning October 1, 1978 is estimated to be in excess of 30 billion pounds. The raw sugar price under the current program would average about 15.2 cents a pound for the October–September year. The S. 2990 mandated raw sugar price of 17.5 cents a pound would be 2.3 cents a pound higher. The resulting increase in outlays by sweetner users would thus be about $700 million. The final impact on consumers would be even larger. The mandatory price increase provision would escalate user costs $350–$400 million a year in subsequent years. These pricing provisions would be a new inflationary force, in and of themselves;

and they would aggravate the inflationary forces which already exist. This is exactly what this country does not need. There are approximately $125 billion in government programs that are automatically indexed by increases in the CPI.

The stimulation of sugar prices would stimulate sugar production. We project the upcoming 1978-79 beet and cane crop outturn to be 6 million short tons of sugar, raw value. If S. 2990 were enacted, we estimate that the sharp initial price increase would boost the following year's production to 6.8 million tons. Production would continue to increase thereafter, but at smaller increments. High fructose corn sirup (HFCS) production would increase greatly, probably doubling in about three years. Since sugar and sweetener requirements would not rise anywhere near as much, there would be a forced cutback in permitted imports, from the abnormally low 4.5 million tons expected during October-September 1978-79 to 3 million tons over the next four years. Such a deliberate shrinking of our import market would not be supportive of the ISA; indeed, it would undercut the ISA and severely hurt many of the supplying countries.

The Administration agrees with the policy objectives as stated in the preable to S. 2990. At this juncture, I refer particularly to the first two, namely, maintenance of a viable domestic sugar producing industry and having prices which are fair to producers and consumers. These *must* be the policy objectives of both the Congress and the Administration—even-handed treatment of both producers and consumers. S. 2990 is not even-handed.

Having criticized and opposed the domestic program envisioned by Title II, we are obliged to offer a better alternative. We are prepared to do so.

In brief, we propose (a) beginning with the 1978 crop, establishment of a domestic price objective which is fair and realistic in terms of costs of production, which would be called the "established price" (b) an escalation formula which conforms to (and is essentially the same as) the formula which now applies to wheat, corn and cotton under the Food and Agriculture Act of 1977; (c) establishment of a minimum market price objective, which would be lower than the established price; (d) authority for payments to producers, either through processors or directly to producers, to make up the difference; (e) authority to impose import fees without the 50-percent-of-value limitation which is now prescribed in our existing authority;[1] and (f) standby authority to impose import quotas, in addition to fees, as necessary to cope with unexpected situations.

We project that the established price would initially be 14.05 cents a pound, raw value. The minimum market price objective would be 13.5 cents a pound. For the 1978 crop, we would in fact still be required to carry out the existing loan program legislation (the so-called de la Garza amendment), unless it is superseded by new legislation. We currently estimate that the loan rate will be about 14.4 cents per pound, raw value. But, under our proposal, the established price of 14.05 cents would be the price which would be escalated using the formula which applies to other crops under the 1977 Act. We estimate that this would increase annually by nearly one cent a pound. The difference between the established price and the market price objective, I repeat, would be made up by payments. Producers would have reasonable support and consumer prices would be kept from inflating.

So long as the price of foreign sugar remains below the objectives of our domestic program, border protection will be necessary. We propose to use import fees for that purpose. These would be adjusted quarterly, if necessary. We would regard the import fees as a temporary device to assure attainment of our domestic price objectives during an interim period until the ISA has had a chance to become fully effective in raising world prices to satisfactory levels. We should make clear our intention to progressively reduce the fees as increases in world prices permit, the aim being to eliminate them completely. Thereafter, when conditions permitted, we would hope to reduce the import duty to the statutory minimum.

We are preparing proposed amendatory language which would modify S. 2990 to provide for the domestic program which I have briefly outlined. We will provide it to the Subcommittee as soon as possible, hopefully by early next week. The delay reflects mainly matters of precision in drafting, to insure that

[1] Section 22(b) of the Agricultural Adjustment Act of 1938, as Reenacted and Amended.

we have the necessary and correct legal language. It does not reflect any indecision in the Administration as to the nature of the program or what the program should be. That has been decided. If there are questions, I will try to answer them.

I would like to close my remarks by stressing again, as I did at the beginning, the necessity for Senate approval of United States participation in the International Sugar Agreement. This is the only means by which we can hope to get the corrections and adjustments in the world supply and price situation. The more quickly we ratify the ISA, the better able we will be to cope with our domestic problems and operate a sound, rational domestic sugar program which serves the needs and interests of producers and consumers alike. Ratification of ISA should be accomplished on its own merits and not be delayed because of debate or differences concerning the nature of the domestic program. The better answer may simply be separate legislation.

Thank you.

Senator MATSUNAGA. Our next panel of witnesses, representing cane sugar, consists of: Mr. George Wedgworth, representing the Florida Sugar Cane League and Rio Grande Valley Sugar Cane Cooperative; Mr. Karl H. Berg, president of the Hawaiian Sugar Planters' Association; Mr. Gilbert J. Durbin, vice president and general manager of the American Sugar Cane League; and Mr. Francis Pacheco, chairman, County Sugar Steering Committee of the County of Hawaii.

Will the named witnesses please come to the witness table.

We will proceed on this basis: A 5-minute presentation by each member followed by questions to the panel or directed at any one member of the panel.

Is that satisfactory?

Is there anyone who has been designated by the panel to start as the number one witness? No? Then, we will just call the witnesses in the order that I named them.

Mr. George Wedgworth, will you state your name and capacity and proceed?

STATEMENT OF GEORGE WEDGWORTH, ON BEHALF OF THE FLORIDA SUGAR CANE LEAGUE AND RIO GRANDE VALLEY SUGAR CANE COOPERATIVE

Mr. WEDGWORTH. Thank you, Mr. Chairman and members of the committee.

I appear before you today representing the Florida Sugar Cane League and the growers and processors of sugarcane in Florida and also the growers and processors of sugarcane in Texas.

I have filed with you a complete text of my statement. I will merely try to summarize and hit the high points, and make it as expeditious as possible.

First, I would like to tell you about my qualifications. I also am a general manager of a farm sugarcane operation, intimately involved in the production of sugar. I also am the chief executive officer of a cooperative mill which processes sugarcane into sugar.

We completely endorse S. 2990, the Sugar Stabilization Act of 1978. Sugar legislation is needed immediately because of the economic situation of the sugarcane growers and processors and it is almost in a chaotic condition at this time.

A delay by the administration to fully implement the mandates of Congress has caused untold problems. We, in Florida, have sugarcane now stored in large volumes in temporary facilities. We have even had it, at times, under circus tents.

The domestic price must be increased and something has to be done to control the importation of foreign sugar which will increase the demand for domestic sugar.

Normal buyers of our sugar are seeking sugar from offshore and we are sitting there holding large volumes of sugar without the demand at prices which would return the amount which the Congress set out in the de la Garza amendment.

We just must maintain a level of price so that the grower cannot just break even, but at least he can make a profit, and this is definitely not being done.

Domestic growers are as efficient as any other growers in the world, but we cannot compete at world prices because we have cost levels because of our labor costs, because of our costs to protect the environment and the other costs of input.

The cost of production, according to a study by the University of Florida for the 1975–76 crop, and updated to reflect 1977 costs of production is 16.54 per pound, and that documentation is attached to my statement.

Returns during the past 2 years to growers of sugarcane and first processors have been below the cost of production. Without an increase in income, the sugarcane growers will be forced out of business, resulting in higher prices to consumers.

Industrial users can afford to pay a higher price for raw sugar and one expert in sugar who purchased probably more sugar than any other purchaser in the United States, Mr. John Mount, stated on October 23, 1974 in a speech to a joint convention of the Milk Industry Foundation and International Association of Ice Cream Manufacturers:

> I do not, however, see the market going to 25 cents for raw sugar any time in the next 6 months of 1975, nor do I see a return to 1972 sugar price, that is, 13 to 14 cents refined, any time during the 1970's. In my opinion, raw sugar prices in the 18 to 20 cents per hundredweight range would not be unreasonable and should attract the added protection so necessary. These prices would provide refined sugar in the 20 to 25 cents range and those of us who so far have survived 40 cent prices of refined sugar would be delighted to see those lower levels.

S. 2990 is in line with the administration's goals and objectives as outlined in the ISA. The price objective of the proposed legislation is the midrange of the free market price under ISA. Authorization is provided for duties and import quotas.

There would be no payments to growers and no budgetary outlays other than administrative costs. Duties and tariffs would result in a substantial income to the Treasury.

The need for import quotas has been emphasized by the International Trade Commission on two occasions within this last year. Duties alone cannot achieve the domestic price objective.

Senator MATSUNAGA. I am sorry, but due to time limitations, we are going to have to go to the next statement. Your entire statement

will be inserted in the record so that members of the committee may refer to it, and we may raise a few points during the question and answer period.

[The prepared statement of Mr. Wedgworth follows:]

STATEMENT OF MR. GEORGE H. WEDGWORTH ON BEHALF OF FLORIDA AND TEXAS SUGAR CANE GROWERS AND PROCESSORS

SUMMARY

(1) Complete endorsement of S. 2990, Sugar Stabilization Act of 1978.

(2) Sugar legislation needed immediately because of economic situation of domestic sugar cane growers and processors and to implement provisions of the International Sugar Agreement.

(3) Delay by the Administration in fully implementing the de la Garza amendment to the 1977 farm bill has resulted in excessive imports of foreign sugar and forced domestically produced sugar into government loan. Domestic price must be increased to prevent sugar under loan from entering CCC stocks.

(4) If viable domestic sugar industry is to be maintained returns to growers must be increased.

(5) Domestic cane growers are as efficient as any cane growers throughout the world. Cost per unit of production may be higher because of higher wages, clean air and clean water requirements and cost of inputs.

(6) Cost of production according to a study by the University of Florida for 1975–76 crop and updated to reflect 1977 costs shows production costs of 16.54¢ per pound.

(7) Returns during the past two years to growers of sugar cane and first processors have been below the cost of production. Without an increase in income cane growers will be forced out of business resulting in higher prices for consumers. Industrial users can afford to pay higher prices for raw sugar.

(8) S. 2990 is in line with the Administration's goals and objectives as outlined in the ISA. The price objective in the proposed legislation is the mid-range of the free market price under the ISA. Authorization is provided for duties and import quotas. There would be no payments to growers and no budgetary outlays other than administrative costs. Duties and tariffs would result in substantial income to the Treasury.

(9) The need for import quotas has been emphasized by the International Trade Commission on two occasions within the last year. Duties alone cannot achieve a domestic price objective.

(10) While most sugar cane farmers have been operating at a loss, refiners and industrial users have continued to show a profit and in some cases record profits.

(11) Price objective in S. 2990 is approximately the same as the raw sugar price for the month of April 1976.

(12) If the increased price is passed on to consumers it would increase the average cost of the food basket, for a family of four, by only one-tenth of 1 percent per year.

STATEMENT

Mr. Chairman and Members of the Committee, my name is George H. Wedgworth, and I appear today on behalf of the sugar cane growers and processors in Florida and Texas.

At the outset, I want to wholeheartedly endorse the proposed sugar legislation, S. 2990. The growers and processors in Florida and Texas participated in the development of this proposal and sincerely hope that it will be passed by the Senate and House and signed by the President.

We extend our thanks and commendations to our own Senator Stone and to the Staff of the Senate Agriculture Committee, Senate Finance Committee and those staff members for various Senators, as well as individuals from the USDA for their part in developing this proposed legislation.

Sugar legislation is needed immediately for two major reasons, (1) the economic situation of the domestic sugar industry and (2) to implement provisions of the International Sugar Agreement.

First, I would like to discuss the urgent need for passage of this legislation: A little background and history is necessary to emphasize the importance of speedy action. As you know, Mr. Chairman, the so-called de la Garza amendment was signed into law in late September of last year. This amendment provided for mandatory loans or purchases of sugar at not less than 13½¢ per pound, raw value. The Conference Report by the Conferees on the farm bill clearly outlined their desire to have its provisions in effect immediately. They further stated that they expected emergency action to be taken under Section 22 of the Agricultural Adjustment Act which would bring the market price in the United States to not less than 13½¢ immediately. By so doing, it would be unnecessary to use the loan program provided by the legislation. Because the Administration failed to follow the Congressional mandate, we began our harvest of sugar without knowing when the program would be put into effect. The Administration finally acted in the second week in November, but left the gate open for unprecedented imports of foreign sugar through December. In fact, the imports during the last two months of 1977 were at an all time high and resulted in carry-over stocks into 1978 of about one and a half million tons in excess of normal. The net result of this was that the market price did not reach the support level and we were forced to put sugar under CCC loan. As of April 21, there is under loan in Florida 322,276 tons of raw sugar and in Texas, 50,241 tons of raw sugar. This sugar remains under loan because the market price and demand are not adequate to permit the loan and interest charges to be paid and the sugar marketed in the regular market channels. We have had to resort to the use of equipment sheds, rented storage, and temporary storage to house the sugar.

Unless action is taken immediately which will have the effect of creating demand for domestic sugar at a price level sufficient to redeem these loans, the government will be forced to take this sugar into Commodity Credit Corporation's inventory. Furthermore, the sugar needs to be moved out of our storage prior to beginning of harvest, which occurs in late October in Florida and early October in Texas.

President Carter has stated that he desires to have a viable domestic sugar industry. Even though the de la Garza amendment was beneficial to our industry, support prices set by the Secretary of Agriculture are insufficient to keep the industry viable.

We are familiar with sugar cane growing and processing throughout the world and we believe we are as efficient in Florida and Texas as producers and processors are in any part of the world. Our cost of production is in excess of the cost in many other countries, but most of these costs cannot be controlled by us. Other countries are not required to pay wages equivalent to what we pay, to comply with clean air and clean water requirements, to pay the high cost for the inputs necessary to produce a crop and many other restraints placed upon us as domestic producers.

WHAT DOES IT COST TO PRODUCE RAW SUGAR?

The University of Florida Food and Resource Economics Department completed an economic study of the Florida sugar industry in March 1977. The study, which was based on an actual examination of the financial records covering 60 percent of the sugar cane acreage grown in the state and all the processors, showed that average costs of production for the 1975–76 crop to be 14.5¢ per pound. When using the current market value of land, average production costs were 15.2¢ per pound of raw sugar. Costs, of course, have increased since that study was completed. According to an official publication of the Department of Agriculture, prices paid by farmers (parity index) increased from 1975 through 1977 by 11.2 percent. I would like to offer a summary of this study entitled, "Cost of Producing Sugarcane and Processing Raw Sugar in South Florida, 1975–76," as an exhibit. Costs during 1978 continue to accelerate.

Prices received for raw sugar during the past two years have been insufficient to cover the cost of production. No industry can stay in business if it loses money year after year. The reason prices have been inadequate is due to a world surplus of sugar which has developed during the last two years. You surely recall that raw sugar prices reached a level of 64¢ per pound for one day in November 1974. Sugar prices for the entire year of 1974 averaged 29.50¢

per pound. During 1974 prices increased simply because of a world shortage of sugar. For four straight years, including 1974, consumption had exceeded production on a worldwide basis. No one expected production to increase as rapidly as it has increased. Very few expected prices to drop as rapidly as they did. One of the experts in sugar who purchases probably more sugar than any other purchaser in the United States, Mr. John Mount, stated on October 28, 1974, in a speech to the joint convention of the Milk Industry Foundation and the International Association of Ice Cream Manufacturers, "I do not, however, see the market going below $25.00 for raw sugar anytime in the first six months of 1975 nor do I foresee a return to 1972 sugar prices (i.e. $13 to $14 refined) anytime during the 1970's. In my opinion, raw sugar prices in the $18.00 to $20.00 per cwt. range worldwide would not be unreasonable and should attract the added production so necessary. These prices would provide refined sugar in the $20.00 to $25.00 range and those of us who so far have survived $40.00 refined sugar would be delighted to see these lower levels."

If the domestic industry is to survive, growers producing cane and beets for sugar must receive a price for their product that will keep them in business. The alternative is for growers to go out of business creating a shortage and higher prices for consumers.

The Administration has been participating in discussions for an International Sugar Agreement. Such agreement was drafted and is now before the United States Senate for ratification. Terms of the agreement were generally supported by the Administration, Industrial Users of sugar, refiners of cane sugar and by some producers and processors of cane and beets. The ISA would seek to stabilize sugar prices at a level from 11 to 21¢ world basis, which is equivalent to 13½¢ to 23½¢ U.S. prices. The agreement in addition to having a price objective would achieve such objective through a system of export controls and stockpilings. The principal goal would be to achieve a world price of from 15 to 19½¢, which is equivalent to 17½¢ to 21½¢ U.S. basis. With prices within this range, there would be no required addition to stocks, nor would there be any release from stockpiles.

Senate Bill 2990 would establish for domestic growers a program similar to that desired for growers worldwide. The Senate bill would establish a domestic price objective of 17¢ per pound and would provide an import quota equal to the amount of sugar needed in excess of domestic production. It further provides authority for duties to bridge the gap between world prices and domestic prices. Tariff and duties would accrue to the benefit of the U.S. Treasury.

There would be no payments to beet or cane growers and no cost for the program other than administrative costs.

Import duties alone cannot achieve a domestic price objective. This was vividly illustrated by the fact that tremendous amounts of foreign sugar was dumped into the U.S. during last November and December. It is true that the duty was not in effect on such sugar, however, had a duty been in effect and not subject to change for a specified period of time and if world prices were declining, foreign sugar could still be dumped in the U.S. in expectation of a higher duty going into effect.

The necessity for realistic import quotas has been emphasized twice within the last year by special studies made by ITC. We fail to understand the reluctance of the Administration to use such import quotas. Import quotas were used successfully for 40 years on sugar and are currently used on other commodities. So called "free trade" advocates condemn the use of import quotas, but fail to explain that quotas are in effect on some commodities, and that negotiated restrictions on imports are in reality import quotas.

While most sugar cane farmers have been operating at a loss for the past two years, refiners and industrial users of sugar have operated at a profit. In fact, some industrial users have materially increased their profits and refiners have increased their refining margins.

The price objective requested in this legislation, I remind you, is no higher than the average price of raw sugar for the month of April 1976, two years ago. The prices for sugar containing products instead of declining since 1974 have steadily increased. (see attached table)

It is time that the producers of the raw product have a fair share.

Some will say that this legislation is inflationary and costly to the consumers. From the facts I have cited, and the attached table, it is clear that there is no justification for increase in price for sugar containing products if this legislation is adopted. Furthermore, if the industrial users desire to continue to increase inflation by increasing the price of their products, the increased cost on a per capita basis would be less than 3.00 dollars per year. This cost would be borne by users of sugar and not by all of the general public.

Mr. Chairman we urge passage of S. 2990.

ECONOMICS REPORT 84: COST OF PRODUCING SUGARCANE AND PROCESSING RAW SUGAR IN SOUTH FLORIDA, 1975-76, MARCH 1977

SUMMARY

This study of the cost of producing sugarcane and processing it into sugar in Florida included a sample of 60 percent of the acreage grown, 86 percent of the acreage harvested and 90 percent of the sugar processed by Florida mills during the 1975-76 season. Average costs less land charge per cwt. of raw sugar were $4.30 for growing sugarcane, $3.55 for harvesting and hauling and $5.25 for processing.

Total costs including land charges are shown in Table 4. Using a current market value concept as an appropriate land charge the average cost per cwt. of 96° raw sugar was $15.22. If one chooses to use the net cash rent or equivalent opportunity cost as the proper land charge the average cost per cwt. of sugar was $14.53.

TABLE 4.—COST OF PRODUCING, HARVESTING, AND PROCESSING SUGARCANE PER 100 LB OF 96° RAW SUGAR UNDER ALTERNATIVE LAND CHARGES, SOUTH FLORIDA 1975-76 SEASON

[Dollars per hundredweight of raw sugar]

Item	Land charge	
	Current market value	Net cash rent [1]
Production cost	$6.421	$5.729
Harvesting and hauling	3.553	3.553
Processing	5.248	5.248
Total cost	15.222	14.530

[1] Equivalent to opportunity cost as well.

TABLE S-14.—SUGAR AND PRODUCTS CONTAINING CALORIC SWEETENERS: RETAIL PRICES, U.S. AVERAGE, 1967-77, AND BY MONTH 1978 TO DATE

[Amount in cents]

Year and month	Sugar, granulated, 5-lb	Bread, white, 1-lb	Cookies, cream sandwich, 1-lb	Ice cream, ½ gal	Chocolate bar, 1-oz	Chocolate syrup, 16-oz	Cola drink, 72-oz	Carbonated fruit drink, 72-oz	Lemonade concentrate, frozen, 6-oz	Fruit drink, canned, 46-oz	Fruit cocktail, canned, 303 can	Pears, canned, 2½ can	Peaches, canned, 2½ can	Grape jelly, 10-z	Relish sweet pickle, 12-oz
1967	60.5	22.2	51.8	80.9	5.0	22.7	60.8	57.0	12.3	32.0	26.1	45.3	32.1	26.2	33.1
1968	60.9	22.4	50.9	80.7	5.3	23.2	65.1	60.5	12.4	32.2	28.3	53.4	35.2	26.6	33.9
1969	62.0	23.0	49.9	81.3	5.9	24.1	68.9	63.1	12.7	33.8	27.8	50.3	34.4	27.9	35.0
1970	64.8	24.3	52.2	84.5	6.5	25.1	72.6	69.1	13.2	35.3	28.3	49.5	35.2	29.9	36.9
1971	68.1	25.0	54.5	85.4	6.7	25.5	75.8	72.6	13.9	36.2	30.7	52.9	36.7	31.4	38.1
1972	69.5	24.7	55.2	85.8	6.7	25.2	83.3	73.2	14.4	36.8	31.6	53.5	37.5	32.9	41.8
1973	75.5	27.6	57.8	91.0	7.0	26.6	86.1	75.5	14.7	38.0	33.8	56.6	41.0	35.3	44.0
1974	161.7	34.5	73.5	107.6	9.8	36.5	108.9	93.7	17.2	43.7	40.8	65.2	52.2	45.2	48.9
1975	186.2	36.0	94.0	122.3	12.5	48.0	132.8	115.2	23.0	54.3	46.2	74.9	59.2	61.2	57.7
1976	119.8	35.3	95.5	127.1	12.2	47.8	127.2	116.6	22.7	55.6	46.0	71.4	59.0	58.6	60.6
1977	108.1	35.5	104.1	135.2	14.5	52.8	107.4	113.8	23.1	58.3	47.8	71.7	61.2	57.7	62.8
1977:															
January	105.7	35.8	95.5	131.7	12.3	48.8	105.6	111.7	22.9	56.1	47.0	71.1	60.3	57.6	63.3
February	107.1	35.3	96.7	130.7	13.0	51.3	105.4	111.5	23.0	55.4	47.2	70.7	60.2	57.2	63.4
March	109.3	35.2	101.2	131.2	13.4	51.9	105.7	112.3	23.2	56.9	47.3	70.9	60.7	57.5	63.7
April	109.8	35.7	99.2	130.2	13.9	52.4	107.6	113.6	23.4	57.7	47.3	70.8	60.7	57.5	63.6
May	111.8	35.5	100.5	134.7	14.3	53.2	107.9	114.2	22.7	58.3	47.8	71.2	61.6	57.7	62.1
June	111.8	35.3	98.7	137.0	14.7	53.5	107.7	114.0	22.6	58.9	47.9	72.0	62.3	58.0	61.0
July	108.5	35.6	101.7	137.6	14.9	53.2	106.5	114.8	23.2	58.5	48.0	72.0	61.7	57.9	60.7
August	106.6	35.6	99.2	135.5	15.1	53.5	108.3	116.4	23.0	58.6	48.1	71.8	61.5	57.8	61.3
September	106.7	35.7	109.5	137.5	15.2	53.9	109.1	114.2	23.1	59.4	48.1	72.2	61.7	57.6	62.0
October	106.1	35.5	111.6	138.6	15.5	54.0	108.2	114.4	23.2	59.2	48.5	72.0	60.4	57.8	63.2
November	105.7	35.4	117.6	137.9	15.8	53.9	108.0	114.4	23.2	59.5	48.4	72.2	61.6	58.1	64.3
December	107.8	35.9	117.8	139.6	16.2	54.4	108.4	114.1	23.3	61.0	48.7	72.9	62.1	58.2	65.4
1978:															
January	113.9	35.0	117.0	139.1	16.4	56.8	107.8	141.6	23.8	61.4	48.7	73.3	62.2	57.9	65.7
February	118.5	36.1	115.5	141.1	16.5	60.7	114.5	119.6	24.1	61.4	49.1	73.9	62.9	58.3	66.8
March	121.7	36.2	11.14	141.5	16.7	61.5	116.4	120.6	24.2	62.2	48.9	71.4	62.9	58.2	67.2

Source: Bureau of Labor Statistics.

Senator MATSUNAGA. Our next witness is Mr. Karl H. Berg, president of the Hawaiian Sugar Planters' Association.

Mr. Berg, we will be happy to hear from you.

STATEMENT OF KARL H. BERG, PRESIDENT, HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Mr. BERG. Mr. Chairman, Senator Long, Senator Dole, I am Karl Berg. As the chairman indicated, I am president of the Hawaiian Sugar Planters' Association. This morning, I represent the Hawaiian sugar industry comprised of 15 large plantation companies as well as nearly 500 small, independent growers, most on the Island of Hawaii.

My colleague, Francis Pacheco, who will speak to you in a few moments, is one of the independent growers and he will describe their problem to you more in detail.

Although Hawaii is a relatively small State as far as population goes, having less than 1-million people, it is the largest sugar-producing State in the Union. The welfare of the sugar industry thus is of vital concern to the people of Hawaii.

If significant segments of the sugar industry were to fail, it would be an economic disaster for our State. The noted economist, Dr. Thomas Hitch, estimated in a report last year that if large units of the sugar industry were to stop operating, it would cause unemployment of unprecedented proportions, reaching 40 percent or more on some of the outside islands.

In actual cases where plantations have gone out of business, no other enterprises in the same district have ever been able to generate anywhere near the same number of jobs or the same volume of business.

Despite prolonged research extending over many years, we have not been able to develop alternate crops which could be grown profitably on any sizable portion of the 225,000 acres which are presently devoted to sugarcane.

The Hawaiian sugar industry, therefore, fully supports S. 2990, the Sugar Stabilization Act of 1978. We believe that this act will insure an adequate supply of sugar to the American public at a level of prices fair to both consumers and producers.

We also support the International Sugar Agreement which, once it begins to take effect, whenever that is, should be a calming influence over the world marketing of sugar.

S. 2990 will maintain the desired level of prices by a system of quotas and import fees which should make it possible to even out the wild swings in prices such as have occurred in recent years.

Events of the recent past have demonstrated that it has not been possible to prevent, solely by means of fees and tariffs, the entry into the country of a flood of foreign sugar. This is unfair competition. Sugar from most countries importing into the United States is produced at wages far below the American standard.

These countries, moreover, do not have to comply with the costly edicts of the Environmental Protection Agency and other regulatory bodies, as American producers are forced to do.

We have spent millions of dollars in Hawaii in an effort to comply with the multitudinous regulations of EPA. Many of these expenditures have not added one iota to productivity.

S. 2990 would relieve us from the onerous burden of the unfair competition of foreign sugar. It would make it possible for American producers, growing and processing sugar under American laws and regulations, to maintain a viable American sugar industry.

Mr. Chairman, we submitted a full statement which is on the record and I will, of course, be willing to answer questions as I can.

[The prepared statement of Karl Berg follows:]

Statement of Karl H. Berg, President, Hawaiian Sugar Planters' Association

Mr. Chairman and members of the Subcommittee, my name is Karl H. Berg. I am President of the Hawaiian Sugar Planters' Association, Aiea, Hawaii. Members of our Association account for more than 95 percent of all the sugar produced in our State. A more detailed description of the Hawaiian Sugar Planters' Association and the Hawaiian sugar industry and its operations is appended to the end of this statement and marked Exhibit I.

The Hawaiian Sugar Planters' Association, including our marketing cooperative, the California and Hawaiian Sugar Company which markets our entire crop consisting of some 800,000 tons of sugar it refines and about 200,0000 tons of raw sugar, supports S. 2990 and urges its prompt enactment. We do so for the following reasons:

First, United States sugar policy has been based for many years on the premise that it is in our national interest to produce a significant portion of our sugar requirements from domestic sources so that we do not depend on foreign suppliers for a disproportionate share of our needs. This long-standing policy was reaffirmed by President Carter in his message of May 4, 1977, to the Special Representative for Trade Negotiations. The President said: "I firmly believe that it is important to maintain a viable domestic sugar industry in this country." This is the basic objective of S. 2990.

Second, the steps taken, both administrative and legislative, since the expiration of the Sugar Act failed to achieve this basic objective of U.S. policy. A meaningless foreign quota of 7 million tons has been in effect since early 1975. A report based on a thorough investigation by the U.S. International Trade Commission was sent to the President on March 17, 1977. The Commission found that sugar was being imported in such increased quantities as to be a substantial cause of the threat of serious injury to the domestic industry and recommended quota restrictions of between 4.275 and 4.4 million tons.

The President rejected the Commission's recommendations and announced instead a support program for domestic sugar producers of up to 2¢ per pound whenever the domestic price fell below 13.5¢ per pound, the putative average cost of production. While this program provided a vital measure of relief for the troubled domestic industry it was beset with difficulties, both political and legal, and even now is the subject matter of litigation in the federal courts. Whatever the merits of this approach, a payment program on a continuing basis is so uncertain that it ought not to be considered as other than a temporary expedient.

The loan and purchase program mandated by the so-called de la Garza amendments to the Food and Agriculture Act of 1977 runs out with the 1978 crop. It, too, has been fraught with problems in its implementation and administration. Whatever faults it may contain, and there is no dearth of criticism, it has provided the Congress and the Administration the time required to consider a long range sugar program.

But there is a serious question if the time has been used wisely. A second investigation by the U.S. International Trade Commission led to issuance of a report dated April 17, 1978, which reaffirms much of what it reported over a year ago—namely, that sugar is being or is practically certain to be imported in such quantities "as to render or tend to render ineffective, or materially interfere with, the price support operations being conducted by the U.S. Department of Agriculture for sugar cane and sugar beets, or to reduce substantially the amount of any product being processed in the United States from such domestic sugar cane and sugar beets."

At the same time we are being urged once again to delay action on a long-term domestic sugar program in the wistful hope that the recently negotiated International Sugar Agreement (ISA), if ratified and fully effective, will restore stability to the industry both at home and abroad. We support the aims of the ISA and join with others in wishing for its success. It is clear, however, that such success is anything but assured and we cannot rely on discretionary administrative measures under existing authority to adequately protect the domestic industry while the ultimate results of the ISA are in doubt.

Third, the Hawaiian sugar industry, like many of its mainland counterparts, is in a hazardous position. The world continues to produce more sugar than it consumes and one of the favorite dumping grounds for excess world production continues to be the United States. In its recent report to the President, as stated above, the U.S. International Trade Commission recommended fees and import quotas to control this dumping of sugar. Both are provided in S. 2990.

While administrative attempts are made to help the domestic industry, increases in material and wage costs continue their inexorable rise. In addition, there is no respite from the requirements of the Environmental Protection Agency and other government regulatory bodies which have forced the industry to spend millions of dollars and make heavy capital investment in new and costly equipment which, if anything, reduces productivity. As a result of these conditions, some smaller production units in Hawaii have discontinued operations. 23 independent growers have ceased cultivation of sugarcane and 61 others have turned to other means of making a livelihood. Even the larger producers are not out of danger. The 13.5 cents per pound figure was widely accepted as the average cost of production in 1976. As with all averages, it reflects some costs above 13.5 cents and some below. Some of the principal producers in Hawaii have costs in excess of that figure despite truly prodigious efforts to cut all costs.

We have no practical alternative crops and no other reasonable use for most of the 225,000 acres of land devoted to cultivation of sugarcane. Failure of any of the large producing units in Hawaii would result in an unparalleled catastrophe. Unemployment in some of the islands beyond Oahu could reach the staggering figure of 40 percent.

Fourth, the fluctuation in world sugar prices during the last four years is a clear indication that the market is badly in need of stabilization. High sugar prices in 1974 and 1975 reached a record 64 cents per pound in the world market. Largely because of high prices, world production of sugar has greatly exceeded demand and, as a result, world sugar prices fell below seven cents per pound. This wild swing in prices has been costly to consumers and producers alike. Unless effective action is taken this kind of boom-and-bust market can be expected to repeat itself within a few years.

The ISA is an effort to deal with this situation and is certainly a step in the right direction. It establishes an export quota system for the purpose of achieving world prices in a range of 11 to 21 cents per pound. While exporting member countries are subject to restrictive quotas until the world price reaches 15 cents per pound, the ISA does not protect an importing member country such as the U.S. from the price depressing effects of excessive imports. The export quotas are on a country-by-country basis but there is only a global quota for importing countries. Accordingly, the ISA does not provide a complete and dependable supply management system. Without an effective domestic program there is little likelihood that the ISA alone would assure domestic prices sufficient to maintain a viable domestic industry. Unless the domestic industry can continue to supply the larger part of our sugar requirements, U.S. sugar consumers will be dangerously dependent upon an uncertain and volatile world sugar market.

S. 2990 provides for a domestic sugar program by extending the supply management principle to imported sugar as a means of achieving a U.S. price fair to both consumers and producers. The objective of the bill is a domestic price of 17 cents, that is, the mid-point of the ISA price range where export quota controls end and releases of special stock reserves begin, an area defined in the bill as the free trade price range. Stated another way, the objective is somewhat less than the low point of this free trade range (15 cents), adjusted for freight to New York and the applicable tariff.

The domestic price objective is to be achieved through the mechanism of import quotas and import fees on sugar from foreign countries. Thus the Secretary would determine the total U.S. sugar requirements for each calendar year at a level that would provide adequate supplies and achieve the price objective on an annual average basis. The Secretary would then establish a global import quota for foreign countries equal to the amount by which the total U.S. requirements exceed the amount of domestic sugar available for market. The bill provides for an import fee in an amount necessary to maintain domestic prices at the price objective. As a protection against undue price increases (more than 20 percent above the price objective) the Secretary would be required to suspend both quotas and fees until prices are reduced below the suspension level. The President is also authorized to suspend Title II of the bill (domestic program) during periods of national economic or other emergencies.

The ISA and the domestic sugar program contained in the bill provide a complete and balanced program to stabilize sugar supplies and prices in both the U.S. and the world market. The Administration, by negotiating and signing the ISA, has committed itself to a price range of 11 to 21 cents for the world market but has expressed doubt that the ISA alone can achieve even the minimum price in this country any time soon. Certainly the behavior of the market since the Agreement was entered into shows that the Secretary of State, in his letter of December 24, 1977, to the President, properly cautioned against over-optimism concerning results under the Agreement.

The domestic program proposed in S. 2990 is an effort to guarantee that the price goals of the ISA will be achieved in our domestic market. If those goals are proper for the world market, a position of the Administration with which we agree, it is sound policy to have a complementary domestic program that will improve the chances of stabilizing the U.S. market and thereby maintaining a viable sugar industry in this country. Unless we have an effective domestic program, the U.S. will again be victimized by wild price fluctuations such as we have experienced during the past four years.

S. 2990 will be opposed by a number of groups. None will be more vocal, or less consistent, than those who profess to see in the quota provisions an attack on a doctrinaire notion of free trade and those who will criticize the pricing provisions by professing to speak for the consumers.

Supply management, another name for a quota system, is no stranger to the United States economy. Currently there are quotas on the imoprtation of peanuts, cotton and dairy products under section 22 of the Agricultural Adjustment Act of 1933, as amended, (7 U.S.C. 624) and limits on the importation of textiles and meat by special agreements authorized by section 204 of the Agricultural Act of 1956 (7 U.S.C. 1854). It should also be noted that section 22 of the Agricultural Adjustment Act of 1933 provides in subsection (f) as follows:

"No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section."

Furthermore, there is no significant free trade in sugar. The U.S. International Trade Commission estimates that five-sixths of world sugar output is in controlled markets; that is, "most sugar not entering international trade and about half of that entering world trade is subject to some form of governmental control on price or supply. * * * The so-called free market for sugar sold in nonpreferential international markets accounts for only about one-sixth of world sugar production. To call even this a free market may be a misnomer because when sugar is in abundant supply this market becomes a distress market for subsidized exports or for surplus sugar from countries that normally sell part of their exports in controlled markets."

The International Sugar Agreement itself clearly provides for so-called "Special Arrangements" within the ISA structure and even provides for such arrangements as may be entered into after the ISA becomes effective. (Article 29, paragraph 5).

Therefore, to attack quotas on the lofty principle that they violate some basic tenet of U.S. trade policy is to ignore the realities of trade practices. To embrace quotas publicly but at such an inflated level that their basic purpose is not achieved is disingenuous.

Much will be made over one of the basic principles of S. 2990, that the price objective is to be achieved in the marketplace. Opponents of the bill will quickly

assume the mantle of consumerism, quite unjustifiably, and urge that direct government payments to producers, if necessary, are preferable to market relief since they allegedly cost the consumer less, or nothing at all. Once again, this argument ignores the realities.

The era of large government payments to farmers, particularly large farmers, is past. Under the Sugar Act, the sugar industry in Hawaii paid more in excise taxes than it received in compliance payments and even then we were regularly attacked on the payments issue. So vulnerable was the industry that the last Sugar Act contained a provision for terminating the entire program if a payment limitation were enacted during the period of extension of the Act. There is a payment limitation on most farm payment programs and one on sugar was passed by the Senate only last year as a part of an agricultural appropriations bill, in an effort to block even the temporary sugar payment program announced in May. That payment program, although superseded by the loan and purchase program, is even now being contested in federal courts in a suit against the Secretary of Agriculture. Clearly, government payments of any sort are extremely vulnerable.

Payments, if enacted, would almost certainly generate attempts to impose limitations and thus would threaten disaster for large producers. Pennies are important in the economics of the sugar industry. A 2 cents per pound payment, as originally proposed last year by the President, would amount to $40 per ton or $40 million on our Statewide production of about 1,000,000 tons. A 1 cent per pound payment would result in a $20 million entitlement. And yet a $50,000 payment limitation, such as the one adopted by the Senate last year, would reduce this amount to $750,000.

The reason for this is simple: the Hawaiian industry is by necessity organized around fifteen large plantations. In order to reach its high level of efficiency the industry has had to make huge investments in irrigation, agricultural and transportation equipment, and sugar factories. There is no way to accomplish this job on the basis of the family farm. Without these large producing units, and the efficiencies they achieve, the sugar industry in Hawaii would not exist. This is true of similar areas on the mainland. Large producers simply could not survive under a payment program with limitations similar to those in effect for other commodities. This is a fact known to all segments of the sugar industry and the suggestion that a payment program is an effective mechanism to support the sugar industry is to ignore the political realities.

To have this alternative promoted in the guise of protection to the consumer has a ring of insincerity at the least. Most cane sugar refiners run what is essentially a cost-plus operation. They pay whatever is necessary to obtain supplies, add their refining costs and margin, and sell the refined sugar for the best price obtainable. There is certainly nothing wrong with this but it is less than candid to suggest that they are opposed to supply management and in favor of direct payments because they are more economical for consumers.

Major industrial users of sugar often adopt the same stance, yet they have no hesitancy in passing on the increased costs of sugar to the consumer in their finished products. There is no comparable reduction in consumer costs when sugar prices plummet.

In summary, the Hawaiian Sugar Planters' Association, whose members grow more than 95 percent of the sugar produced in our State, endorses S. 2990. We contributed our ideas to its formulation and believe it to be a balanced program which is fair to all concerned.

HAWAIIAN SUGAR PLANTERS' ASSOCIATION AND THE HAWAIIAN SUGAR INDUSTRY

The Hawaiian Sugar Planters' Association, founded in 1895, is a non-profit agricultural organization of sugar companies and individuals formed to maintain, advance, improve and protect the sugar industry in Hawaii and to support a scientific experiment station. This experiment station is one of the finest research institutions of its kind in the world. Attached to this exhibit is a list of member companies of HSPA.

Hawaii is a major source of domestic sugar and annually supplies approximately 1,100,000 tons or about 10 percent of the sugar consumed in the United States. Our State is a natural place to grow sugarcane and we do it efficiently. Our production per acre-year is among the highest in the world. Sugar is by

far the most important agricultural commodity produced in the Islands and it is one of the largest sources of income, ranking behind only the federal government, tourism and construction.

The industry provides year-round employment for approximately 9,000 employees, most of whom are union members. They are among the highest paid year-round agricultural workers in the world in terms of average daily cash earnings and employee benefits. If we add to the 9,000 persons directly employed by the industry the number of people in non-sugar jobs associated with or indirectly dependent on sugar, we estimate that about 30,000 people depend for their livelihood on the sugar industry in Hawaii today. Our operations are highly mechanized and we require specialized equipment which must be specifically adapted to the widely varying conditions found within the Islands. For all these reasons, the industry is highly capital intensive.

A number of important factors serve to distinguish the Hawaiian sugar industry from its counterparts on the mainland. They include the following:

1. Typical Hawaiian sugarcane is allowed to grow for approximately two years before it is first harvested and in some cases it grows for 3 or even 4 years. Typical mainland cane is harvested between 11 and 14 months after planting. Investment in Hawaiian sugar planting is, therefore, a long term operation, especially since we get at least two ratoon crops at two year intervals from each planting so that the minimum crop cycle is six years.

2. We have found no alternative crop for most of the approximately 225,000 acres planted in sugarcane. Hawaiian producers do not have the luxury of shifting to other, non-sugar crops which many mainland farmers enjoy.

3. Hawaii's geographical location makes it necessary to ship our sugar at least 2,400 miles to the West Coast and substantial amounts of Hawaiian sugar go to more distant ports on the Gulf Coast. Transportation costs, already heavy, are increasing and they constitute an additional burden on the cost of getting sugar to market.

Hawaii is a small State with less than a million inhabitants. A sound domestic sugar industry is of vital importance to the fragile economy of the State. Failure of any of our larger producers would be a tragedy for all the people of Hawaii.

PLANTATION MEMBERS OF HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Island of Kauai

Gay & Robinson;
Kekaha Sugar Co., Ltd.;
The Lihue Plantation Company, Ltd.;
McBryde Sugar Co., Ltd.;
Olokele Sugar Co., Ltd.

Island of Oahu

Oahu Sugar Co., Ltd.;
Waialua Sugar Co., Inc.

Island of Maui

Hawaiian Commercial & Sugar Company;
Pioneer Mill Co., Ltd.;
Wailuku Sugar Company.

Island of Hawaii

Hilo Coast Processing Co.;
Honokaa Sugar Company;
Ka'u Sugar Co., Inc.;
Laupahoehoe Sugar Co.;
Mauna Kea Sugar Co., Inc.;
Puna Sugar Co., Ltd.

SUMMARY

1. The Hawaiian Sugar Planters' Association, whose members produce over 95 percent of the sugar grown in Hawaii, endorses S. 2990, the Sugar Stabilization Act of 1978.

2. A domestic sugar industry must be maintained so that the United States does not become over-dependent on foreign sugar supplies.

3. Since the expiration of the Sugar Act of 1948, as amended, at the end of 1974, the administrative and legislative steps taken to achieve this goal have been either ineffective or of limited duration. A long-term program is needed to restore stability to the industry.

4. S. 2990 provides for a domestic sugar program compatible with the International Sugar Agreement. It would achieve a fair price for both consumers and producers and eliminate the wild price fluctuations characteristic of the sugar market during the last four years.

5. S. 2990 provides for a system of quotas and import fees to achieve its objectives. Quotas are not inconsistent with U.S. international trade commitments. Government payments to farmers are not a realistic long-term alternative.

Senator MATSUNAGA. Some of you may be wondering what these three little bulbs up here are. There is a green light, a little yellow light and a red light, just as in the traffic system. Green is go, yellow caution, your time is about ready to expire. When the red appears, the bell will ring, and that means your time is up.

Our next witness is Mr. Gilbert J. Durbin, vice president and general manager, American Sugar Cane League. Mr. Durbin, we will be happy to hear from you.

STATEMENT OF GILBERT J. DURBIN, VICE PRESIDENT AND GENERAL MANAGER, AMERICAN SUGAR CANE LEAGUE

Mr. DURBIN. Mr. Chairman and gentlemen of the committee, the American Sugar Cane League represents the Louisiana sugarcane farmers and the Louisiana sugarcane processors, those who produce the raw sugar.

We support enactment of S. 2990 because we think it is necessary to do so in order to save the domestic sugar industry. Now, why should we save the domestic sugar industry?

Well, one group that should be interested in maintaining a domestic sugar industry is the consumers of this Nation.

I want to refresh your memory. Back before World War II, the Philippines provided us with 15 percent of the sugar we consumed in the United States—not of the amount that we imported, but of the total amount that we consumed. There were 5 years, 1943 to 1947, that we did not get 1 pound of sugar from the Philippines.

I am citing this and some more examples to show that domestic sources are more dependable than foreign sources, and that should be of interest to consumers.

We had Cuba. Cuba, before Cuba turned Communistic, supplied us about one-third, one-third, of the sugar we consumed in the United States. Since 1960, we have not gotten 1 pound of sugar from Cuba.

Mexico became a major supplier of sugar in the United States. For the last 2 years, we have gotten less than 1,000 tons per year of sugar from Mexico. They are not able to supply it, apparently.

Brazil became a very major supplier, to the point where she was supplying almost a million tons of sugar per year. In 1976, we did not get 1 pound of sugar from Brazil. Brazil had weather problems.

I cite these to show that you cannot always depend upon foreign sources and we should not expect the consumers of this country to so depend. We need a domestic sugar industry.

You know all of the reasons for the producing groups to need a domestic sugar industry—and it is not only us, it is our workers and all of the businesses that are allied with us. We need to maintain that.

As Senator Long pointed out, if you close up the domestic sugar industry, you are going to throw people on welfare. They will be a liability to this country rather than an asset.

Now, I would like to spend my remaining time talking about the price. I am amazed at some of the statements that the spokesman for the administration made. They apparently talk with many mouths.

There were three USDA cost studies that were made by different research workers in the Department of Agriculture of just the Louisiana cost of the 1975 crop. If you update those cost figures for inflation, all three show costs in excess of 17 cents.

Now, a more recent study was made of the beet sugar industry on the 1976 crop. That study showed—and Mr. Hjort transmitted this to the International Trade Commission—showed that at 65 percent of parity, which is approximately 17 cents, 20 percent of the sugar beet growers would lose money.

Is he willing to write off 20 percent of the sugar beet farmers of this Nation? I do not think so.

My final point—since I see the light—is that it is important to implement this act as soon as possible after its enactment in order to avoid a flood of sugar in the United States as we had last fall.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Durbin follows:]

STATEMENT OF GILBERT J. DURBIN, VICE PRESIDENT AND GENERAL MANAGER OF THE AMERICAN SUGAR CANE LEAGUE OF THE U.S.A., INC.

Mr. Chairman and members of the committee: My name is Gilbert J. Durbin, Vice-President and General Mnaager of the American Sugar Cane League of the U.S.A., Inc., whose address is 416 Whitney Building, New Orleans, Louisiana 70130. The American Sugar Cane League is a non-profit association, organized fifty-six years ago to protect and preserve the welfare of the Louisiana sugar cane producers and processors of sugar cane into sugar. The organization's membership includes all of the Louisiana sugar cane processors, who operate twenty-eight factories, and about 97 percent of the more than four thousand sugar cane growers and landlords.

I appear in support of Senate Bill 2990. Enactment of this legislation is necessary to save the domestic sugar industry. The American Sugar Cane League would have preferred enactment of a supply-management program for all caloric sweeteners, domestic and foreign; however, we are convinced that passage of that type legislation is not feasible at this time. Senate Bill 2990 is the next best thing, and we strongly support its enactment.

The domestic sugar industry cannot exist with unregulated competition from foreign sugar producers, because foreigners do not operate under the same "rules of the game" as apply to U.S. producers. Wage rates in many foreign sugar producing countries are only about one-tenth of those in the United States. U.S. sugar producers and processors are required to make much larger non-revenue-producing expenditures than do their foreign counterparts. Such expenditures include those made to meet water and air pollution control criteria of federal and state agencies and those made to comply with the Occupational Safety and Health Act. Also, many foreign governments subsidize and determine the size of their sugar industries without regard to usual economic factors. In addition, foreign sugar industries receive financial assistance from the Export-Import Bank of the United States and from the World Bank.

U.S. consumers need a dependable supply of sugar, and domestic sources are more dependable than foreign sources. Before World War II, the Philippines supplied about 15 percent of the sugar consumed in the U.S. During the five-year period, 1943-47, we received no sugar from the Philippines. Before Cuba turned Communistic, that country supplied the U.S. with about one-third of the

sugar we consumed. We have not received any sugar from Cuba since 1960. Brazil became a major supplier of sugar to the U.S. in the 1960's, and in 1974 its shipments to us had grown to 783,000 tons. In 1976, we received no sugar from Brazil, because of a freeze-damaged crop and possibly other reasons. Mexico was a major supplier of sugar to the U.S. through 1974, when we received 538,000 tons of Mexican sugar. Shipments from Mexico dwindled to less than 1,000 tons in each of the years 1976 and 1977, due to rapidly increasing consumption of sugar within Mexico and possibly other reasons.

The U.S. depends on foreign countries to supply us with about 45 percent of the sugar we consume. This is too much dependence on foreigners and is too risky for consumers. The example of oil has shown us how high prices can go and how uncertain supply sources can be when we rely heavily on foreign producers. Coffee offers us another recent example.

A domestic sugar industry is needed to continue the employment of many thousands who are engaged in the production and processing of sugar cane and sugar beets and to provide markets and jobs for many thousands of others who supply goods and services to sugar farmers, processors, and workers.

Importation of foreign sugar contributes to the U.S. balance-of-payments deficit. A continuation of the large deficit in the U.S. balance of payments does not make good economic sense and is certain to cause repercussions such as the recent weakness of the dollar in relation to other currencies.

One final justification for the existence of the domestic sugar industry is the fact that sugar-crop production is the best use of the land and labor in many areas.

Senate Bill 2990 will save the domestic sugar industry by preventing the dumping of surplus foreign sugar on the U.S. market. It will accomplish this by the use of import fees and quotas. The bill would also implement the International Sugar Agreement, which seeks to stabilize sugar prices through a system of quotas and reserve stocks. The domestic sugar program provided by the bill would not conflict with the International Sugar Agreement but would complement and supplement it. Both the international program and the domestic program provided for by this bill would aim to protect consumers by keeping sugar prices from going too high.

Enactment of Senate Bill 2990 will not be a burden on the taxpayers. In fact, the U.S. Treasury will make a profit from the import fees. If the United States imports 4,000,000 tons of sugar over a twelve-month period and collects a three cent per pound fee on such sugar, the U. S. Treasury would be $240,000,000 richer.

The price objective of the Act is 17¢ per pound of sugar, raw value. The present price of sugar is about 14¢ a pound. If we assume a full three cents per pound increase in price, enactment of Senate Bill 2990 would cost the average consumer less than 1¢ per day. This is based on an annual per capita consumption of about 100 pounds of sugar.

It is extremely important that the price objective in this bill not be reduced. Projections from U.S.D.A. cost studies indicate that a substantil number of sugar cane and sugar beet farmers cannot produce sugar as cheaply as 17¢ a pound, raw value. A raw sugar price of 17¢ a pound is equivalent to about 65 percent of parity for sugar cane and sugar beets. In the twenty-eight years, 1937–1974, there was not one sugar cane or sugar beet crop which sold for as little as 65 percent of parity. Not one single crop! A price objective lower than 17¢ will result in the destruction of a very large part of the domestic sugar industry.

The final point I wish to make is that the provisions of this bill regarding early implementation following enactment should not be changed. If the import quotas and fees are not imposed quickly, the United States will be flooded with foreign sugar as we were last fall.

That concludes my testimony.

Senator MATSUNAGA. Thank you very much, Mr. Durbin.

Our final witness of this panel is Mr. Francis Pacheco, chairman of the County Steering Committee of the County of Hawaii.

Mr. Pacheco, we are happy to have you travel 5,000 miles to be with us, along with Mr. Berg. You may proceed.

Mr. PACHECO. Thank you, Mr. Chairman.

STATEMENT OF FRANCIS PACHECO, CHAIRMAN, COUNTY SUGAR STEERING COMMITTEE, COUNTY OF HAWAII

Mr. PACHECO. I am Francis Pacheco, the chairman of the Hawaii County Sugar Steering Committee and I am also here in my capacity as president of the United Cane Growers Cooperative. Also I am an independent farmer.

We, in the County of Hawaii, support Senate bill 2990 because of the potentially disastrous social and economic consequences of the loss of a substantial part of the island's sugar industry. Average sugar production of the county is still operating at a loss. Most of the small farmers are deeply in debt, and the uncertain future, plus already incurred losses, are jeopardizing the industry's ability to compete.

Mr. Chairman the Island of Hawaii is the only island on which we have independent cane growers. We have approximately 450 of them there.

The city of Hilo is predominantly dependent, very highly, upon the Hilo Coast Processing Co. as far as economics are concerned. The Hilo Coast Processing Co. was formed by the independent growers. The 385 growers who belong to the company are in a very, very precarious situation at the present time.

We have taken substantial losses over the last 3 years. Many of us are on the verge of bankruptcy. The contribution to the economy of Hilo is approximately 20 percent. If we, alone, go out of business, the city of Hilo faces chaos on the Island of Hawaii.

So we strongly urge and support this bill, S. 2990, because we believe that it can, along with the International Sugar Agreement, provide us with some stability for the future for us to remain in business. Many growers are dropping off right now, and we are having an acute problem. Financing has become a very acute problem for us. It is not just a matter of getting financing at a very high cost, in most cases we are not even able to get financing. So we are in a very, very precarious situation and along the coast, our cooperative produces approximately 22,000 tons of sugar per year. It is the second largest producer in the State of Hawaii.

And so I think that the Island of Hawaii is very, very much concerned. We, as the independent growers, are thoroughly worried. We are at the point where we do not know where to turn and we certainly urge that something like this be passed.

[The prepared statement of Mr. Pacheco follows:]

STATEMENT OF THE HAWAII COUNTY SUGAR STEERING COMMITTEE

Honorable Matsunaga and Members of the Subcommittee: My name is Francis Pacheco, presenting this testimony as Chairman and on behalf of the Hawaii County Sugar Steering Committee. The Committee, apopinted by Mayor Matayoshi, is made up of representatives of business, labor, and agriculture and was charged with the task of initiating or recommending means to preserve the sugar industry in the County of Hawaii.

The County of Hawaii strongly supports the enactment of S.B. 2990 as of extreme importance to the County of Hawaii. The economic health of three-quarters of the county's communities are dependent to a major degree upon the existence and viability of the local sugar industry. The three thousand employees and over 450 independent farmers, plus the 6,000 other jobs that are de-

pendent on the industry make up about 80 percent of the country's employment.

The social and economic effects of the loss of all or a substantial part of these jobs would be disastrous to this isolated island community. Replacement crops or industry even remotely capable of producing equivalent employment or income are not available even though major efforts by the state, county, and private industry to find alternatives to sugar have been going on for many years.

The assistance granted by Congress through the provisions of the De la Garza amendment to the Agricultural Act of 1977 is very much appreciated, having had the effect of keeping the industry and most of its independent small farms alive, although far from healthy.

The average returns from sugar and molasses to the county's sugar producers are still below the average cost of production despite drastic cuts in operating costs and capital investment. Most of the small, independent farms are deeply in debt.

We hope that the cost-cutting will not have such a great effect on yields so as to further increase the unit costs of production and that the restricted capital investment does not permanently impair the ability of the industry to compete effectively in the future. The lack of a long term domestic sugar policy and the very uncertain future contributes, along with a negative cash flow, to the current climate of caution.

Thank you for your attention and your consideration of the problems of our sugar supported community.

Senator MATSUNAGA. Thank you very much, Mr. Pacheco. I think your testimony has been most effective, on the chairman of this committee, at least.

We will now turn to questioning of the panel and unless the Senator has a question he would like to put first, I would just——

Senator LONG. Let me just ask one thing.

Senator MATSUNAGA. Senator Long?

Senator LONG. To me, I think the key point is, what is the price that ought to be assured? Mr. Durbin, you testified here that the 15 cent figure was arrived at was really based on outdated figures. Was that correct?

Mr. DURBIN. Senator Long, I am not sure how they arrived at the latest figures. I understood that they were scurrying around to get the lowest figure that they could, but I do not see how they can disown all of the published figures that they have already published, that indicate that 15.2 just is not right.

I do not know how they arrived at that.

Senator LONG. In other words, you think that time has marched on and left them with whatever they were relying on to arrive at 15.2 cents?

Mr. DURBIN. I just cannot see how they arrived at it. As I say, I am amazed that he got up here and testified to the effect that that was the cost of production figure. I cannot account for it.

May I make one point in relation to price? For 28 years under the Sugar Act, from 1937 through 1974, the last 28 years, in every single year the price of sugar, for every crop, cane and beets, was in excess of 55 percent of parity. And that is what we are talking about when we are talking about 17 cents.

And we were not getting rich during those periods. We were existing. We were maintaining an industry.

Senator LONG. I was just looking at the figures that I myself put into the record yesterday, and I would have to say that would be true with regards to both beets and sugar.

In other words, if you go from 1976 all the way back to 1957 you do not find a year, except 1976.

Mr. DURBIN. Senator, I went back to 1937 and found the same thing. That is a true statement, that for each year since 1937, for each crop, sugarcane and sugar beets each year, the price was higher than 65 percent of parity.

Senator LONG. So if the administration wants to consider it on any relative basis—well, I see in 1975 you have 61 percent of parity for the sugarcane. But if I understand what you are talking about, if you put it on a parity ratio, the administration would more or less have to select a disaster year in order to find when somebody had a price quite that low.

Mr. DURBIN. Senator, in 1965 you say it was 61 percent?

Senator LONG. 1975, according to the figures that I put in the record, had 61 percent on sugarcane.

Mr. DURBIN. And we did not have the Sugar Act. I said for the 28 years ending in 1974 when we had the Sugar Act, the price, in every year, was more than 65 percent.

Senator LONG. Then your point is that so long as you had a Sugar Act there at all, you never had a price as low as 65 percent of parity.

Mr. DURBIN. Correct.

Senator LONG. And that is all you are asking for.

Mr. DURBIN. That is all we are asking for.

Senator MATSUNAGA. Senator Dole has a question.

Senator DOLE. First of all, I appreciate the testimony. I understand the difficulties that the administration has, any administration, and I do not want to take issue with what they have said except to find out—now, you have listened to the administration witnesses. I just wonder if anybody could give me any idea of what impact the proposed amendments would have on your industry. Do you see any hope in what the administration proposes?

Mr. BERG. Senator Dole, we would not be in favor of the system of payments that the administration proposes. I have not seen their proposal in detail, but you questioned Mr. Hjort on that quite closely.

There is a stigma attached to large payments to corporate producers. But, in Hawaii, if there were a system of payments and if we were subject to a limitation, there would be no program at all. We were able to demonstrate this last summer, thank heavens, to the Congress and therefore there was no limitation on the payments involved then, but this is one feature of the administration's program that we would be afraid of.

Senator DOLE. Is that—maybe not just that view, but listening to the objections to S. 2990 posed by the administration and then their own program, there seems to be the penchant that to give it to the farmer out of the Treasury somehow does not upset the consumer. That is what they wanted to do with the emergency farm bill. I do not know where that money comes from that you write the checks with, but there is the feeling that they should not get it out of the marketplace.

I frankly never understood the Farm Bureau's supporting a program of emergency farm legislation that would take it out of the Treasury, but that is their problem.

But, it seems to me that unless we are afraid of the marketplace—we all talk about it in our speeches and then we come up here and

listen to the Government tell us that we ought to send the farmer a check.

My farmers would rather get it out of the marketplace, and all he wants to do is make a living, and I do not understand the penchant for just always saying, well, we will make direct payments to farmers.

They do not want the marketplace to operate, or at least, that seems to be the feeling and it really is distressing, and it does not happen just in this administration.

I know there may be some valid objections to the bill, but what is going to happen, I can already see it. They are going to rev up the "farm press," like the Wall Street Journal, the New York Times, and the Washington Post and you are going to see editorials tomorrow or next week saying that this is inflationary, just as they did with the emergency farm bill.

They put the highest possible price tag on it, scared the consumers out of their wits, and they get all these farm journals to write big editorials. You will have one in Forbes Magazine, probably and all these "farm" journals that do so much for the American farmer.

They will stimulate everybody and they will be fed all of this propaganda by the Department and make it look like it is really going to be a terrible thing for the consumer, and never really address the question that you address, what happens if we do not have the producer in this country, what happens then to the consumer? And I think that is the point that you have been trying to make.

Mr. WEDGWORTH. Senator Dole, one of the most disturbing things that I heard in Mr. Hjort's presentation was an admission on his own part that the administration's program, in itself, was designed to put certain farmers out of business. In other words, it was designed to only take care of a certain percentage of the farmers, and what concerns agriculture people is, who is going to sit there and play God and determine which group are you going to put out.

That is the most disturbing thing as to an agriculture program designed, from its first instance, to reduce the production of sugar in the United States.

Senator DOLE. It is a tough problem. I know President Carter met with a group of farmers who were here before on their tractors and all of that, and brought their goats—some were turned loose in the Congress and some people did not even know the difference.

But President Carter met with a group of those farmers, and maybe he said it in jest, but he said, "those who survive will have it pretty good."

Well, that word was spread around pretty well over rural America.

I do not suggest that we have to prop people up with Government payments. We are trying to get away from that through a market-oriented program, and that is the kind the chairman supports.

Mr. PACHECO. Senator Dole, if I may, this concerns me quite a bit, because what we in the island of Hawaii and the State of Hawaii who have lands that are in sugar at the present time, that we have no other use for; we, as the independent growers, for example, cannot grow anything else with our lands. And we are on the verge of bankruptcy, most of us.

Senator DOLE. That is the only crop that you raise.

Mr. PACHECO. If it was a matter of having a diversified crop that we could then export and compete with any other market then fine, we could be in business. But as it stands right now, we have had to go to the legislature, for example, over the last 2 years and ask the State legislature to loan us money, aside from the moneys we have borrowed from the commercial banks, to keep us in business.

And this, as you well know, is not a very easy thing to do.

We are not looking for handouts. We want to work our farms and make them produce, but in a situation like the administration puts us, it puts us in general chaos. This worries all of us.

Senator MATSUNAGA. I am sure you heard, this morning, the administration representative express the fear that if S. 2990 should become law the general effect of it would be to increase domestic production, increase it to a point where it would be undesirable.

Now, would the passage of S. 2990—we can go right down the line—in any way affect the acreage planted, for example, now, in Hawaii, Mr. Berg?

Mr. BERG. Not 1 acre, Mr. Chairman. Not 1 acre. It would not make any difference. We would be happy just to stay with our present acreage.

Senator MATSUNAGA. Mr. Wedgworth?

Mr. WEDGWORTH. In answer to that question, of course, Florida has been increasing production of sugar over the past 10 years. There is an increasing trend historically.

However, with the economic climate that we have had in the last several years, acreage is reducing. I would say that it would stop the reduction of acreage and there would probably be some modest increase of production, only to utilize the capacity of the existing grinding capacity in Florida.

But the economics under what is proposed here would not economically justify the capital necessary to go into a new processing plant, so there would not be significant, or a great expansion, of sugar in Florida.

Senator MATSUNAGA. Mr. Durbin?

Mr. DURBIN. We have lost acreage in Louisiana in each of the last 2 years because of the local price. We have lost 5 sugarcane factories, 5 out of 33, just since the last crop. In other words, we had 33 factories that ground the last crop and we will have 28 that will grind this year's crop.

So we do not have much chance to expand. We may get back a little closer to normal. We will not exceed our normal acreage.

Senator MATSUNAGA. Mr. Pacheco?

Mr. PACHECO. Mr. Chairman, no, I would not see any increase of acreage. As a matter of fact, as you well know, our company has, as of Saturday, closed our third mill and we only have one mill left in operation. So the acreage which we have in production now under the independent growers, which is 8,000 acres, will remain the same, with no increase at all.

Senator MATSUNAGA. So that you are in general agreement that the fear expressed by the administration is wholly unfounded?

Mr. DURBIN. As far as sugar in Louisiana is concerned.

Senator MATSUNAGA. The record will show that all four on the panel are nodding yes.

Mr. PACHECO. Mr. Chairman, if I may just make a slight comment, Senator Long brought this out very nicely and I would like to say it also, that I think we should be very much concerned about our domestic industry, about our own country first, before we look to the outside.

Senator MATSUNAGA. Now, we heard Mr. Durbin express his evaluation as to what sugar costs today. He said, I believe, 17 cents.

What is the cost now in Hawaii, Mr. Berg?

Mr. BERG. The cost in Hawaii as of now?

Senator MATSUNAGA. Yes.

Mr. BERG. It is right around 15 cents, Mr. Chairman. And obviously, an average is composed of elements above and elements below it.

At 15 cents, there would be some producers losing money.

Senator MATSUNAGA. Some would be losing money at 15 cents?

Mr. BERG. Yes, sir.

Senator MATSUNAGA. Mr. Wedgwood?

Mr. WEDGWOOD. Attached to my statement is economic report 484 done by Dr. Brooks which is for 1975–76. We have updated that to 1977 and we are showing about 16.5 cents.

Senator MATSUNAGA. Mr. Pacheco?

Mr. PACHECO. Our cost, Mr. Chairman, is running at 15 cents a pound before financing, and we are having to get financing costs, as an independent grower, at 10 and 12 percent, provided you have sufficient equity on your own lands to augment your financial statements.

Senator MATSUNAGA. So it is in excess of 15 cents, that is, 15 plus the financing costs.

And, Mr. Durbin, you have testified that it costs 17 cents in your area.

Well, I think you have presented facts here which go a long way toward Congress doing what you feel ought to be done.

Senator LONG. May I just ask one question?

Senator MATSUNAGA. Yes; Senator Long.

Senator LONG. I was thinking in terms of what the President's objectives were and what the administration sought to achieve in 1975 and 1976. The sugarcane farmers had bad years because the Sugar Act expired, but, as I recalled it, is it not correct to say that the President, at the time, did not want that to happen? The administration tried to continue the Sugar Act.

It simply failed in the House of Representatives, largely because of a problem involving the labor group. But is it fair to say that?

If I recall it correctly, it was not really the intention of the President, being President Nixon, that the prices go that low. They had recommended legislation that would have kept it from going that low. Is that correct, or not?

Mr. DURBIN. As I recall, when the Sugar Act was up for renewal in 1974 we got absolutely no support from the administration and in effect, it is not official, unofficial objections to the Sugar Act.

The head of the USDA Sugar Division, at that time Mr. Calganini, was openly against the Sugar Act and started making speeches against it in November 1973.

Senator MATSUNAGA. As a matter of fact, I distinctly recall, Senator Long, that the administration was opposed to the extension of the Sugar Act in 1974.

Senator LONG. But the Sugar Act, as I recall, went out at a time when prices were very high, is that right?

Mr. BERG. That is correct.

Senator LONG. But then we had those low prices in 1975 and 1976, and was the administration at that time trying to do something about it, or were they just going to let it go?

Mr. DURBIN. The only thing the administration did was President Ford increased the tariff from 1.875 cents per pound to 2.81—I am sorry. No, it was automatic, after the Sugar Act, it went up to——

Mr. BERG. He increased it from 62.5 cents per hundredweight to $1.875 per hundredweight.

Mr. DURBIN. And then later he increased it to 50 percent, to the 2.81, was it not?

Senator LONG. But under Presidents Kennedy, Johnson, Eisenhower, and Truman, none of them proposed anything as bad for the sugar industry as what this administration is now proposing, is that not about the size of it?

In other words, none of them sent a man up here asking that we have a price for the sugarcane farmers that would go below 60 percent of parity. None of them said anything like that up here, did they?

Mr. DURBIN. No, sir.

Senator LONG. So, in other words, to have a man speaking for the administration advocating less than 55 percent of parity, for a Democratic administration, for example, that really sets a new precedent, does it not?

Mr. PACHECO. I think it does, Senator.

Senator LONG. I know that Presidents like to compare themselves to other Presidents, and I would like for the message to go down there to President Carter that he ought to compare himself to President Johnson and President Kennedy and President Truman. I know he has done this on the stump. He said, how did you like those guys? Well, look at me. I am one of the crop.

So that I would think that it would be nice to tell the President that if he wants to be in that league, he had better take another look at this sugar bill. I would hope that he would like to have his name called right alongside of Truman, Johnson, and Kennedy. It seems to me that he had better up his sights if he wants to put himself in that class.

Mr. PACHECO. May I just make another comment, Senator Long? This is along with the Sugar Act and its existence for the 40 years, which was the only sugar legislation, as our good Senator mentioned, that worked amicably. And when the legislation ended, it had put into the General Treasury a surplus of something like $636 million. That goes to prove how effective it was.

Senator MATSUNAGA. Well, thank you very much, gentlemen. We certainly appreciate your testimony. Thank you.

Our next witness is Mr. James Graugnard who is the president of the Louisiana Farm Bureau, representing the American Farm Bureau Federation.

Mr. Graugnard, we would be very happy to hear from you. In your case, we will allow 10 minutes because we have the chairman of the full committee present, and you know what State he represents.

We will be happy to hear from you. Will you state your name and your capacity for the record?

STATEMENT OF JAMES GRAUGNARD, PRESIDENT, LOUISIANA FARM BUREAU AND MEMBER, AMERICAN FARM BUREAU FEDERATION BOARD OF DIRECTORS

Mr. GRAUGNARD. Mr. Chairman, Senator Long, I am James Graugnard. I am a sugar farmer from St. James, La. I am here making comments on behalf of the American Farm Bureau Federation which I serve as a member of the American Farm Bureau Federation board of directors.

I will not read my whole statement, but I would like it to be in the record, and I will just cover a short part of it.

Senator MATSUNAGA. Your entire statement will appear in the record as though read, and will you limit your summary to 10 minutes, please.

Mr. GRAUGNARD. It will be shorter than that, sir.

Senator MATSUNAGA. Would you wish to introduce the person who accompanies you?

Mr. GRAUGNARD. I have with me Mr. Tom Hammer of the American Farm Bureau staff.

Senator MATSUNAGA. Fine, You may proceed.

Mr. GRAUGNARD. The domestic sugar producers have suffered three consecutive seasons of disastrously low sugar prices. We commend the members of the subcommittee and other Senators who coauthored this bill with Senator Church. We favor the domestic sugar program since the expiration of the old Sugar Act of 1974.

Senate bill 2990 meets most of our policy objectives for a sound domestic program. Such a program is badly needed to bring a measure of stability to the industry.

The Farm Bureau has traditionally opposed international commodity agreements. Experience has demonstrated that international commodity agreements which attempt to control supplies and fix world prices with narrow ranges do not accomplish their intended purpose.

At the most recent meeting of the American Farm Bureau Federation, our voting delegates of the member State farm bureaus adopted the following policy in regards to the International Sugar Agreement:

> We are opposed to the International Sugar Agreement. Adoption would make the U.S. producers and consumers dependent on the action of foreign producers and interfere with the blance of supply and demand within the United States. We support legislation to provide reasonable levels for raw and refined sweetener imports to be set on a quarterly basis to meet the needs of the American consumer.
>
> Such legislation should not mandate a special minimum wage for agricultural workers engaged in sugar production.

End of our position.

On April 28, 1978, Senator Church joined with many other Members of the Senate, introduced the Sugar Stabilization Act of 1978. This legislation established price objectives for sugar delivered in New York, fees and duty paid, equal to the midpoint of the free trade range defined by the International Sugar Agreement. The price objectives of the domestic producers, which equals 17 cents per pound, is to be achieved through, first, the collection of the variable import fee; second, the establishment of import controls, adjusted periodically, to meet the U.S. consumer demand.

This legislation also authorizes U.S. participation in the International Sugar Agreement.

S. 2990 is in line with the type of domestic program that the Farm Bureau has been seeking, but we would prefer to see a system of fixed duties rather than variable fee structures. Quarterly adjustments should be made in import quotas rather than sporadic adjustments in import fees.

Variable fees closely resemble the levy system used by the European community which has been strongly objected to by the Farm Bureau since the establishment of the common agricultural policy. The adoption of the variable fee program would reduce our ability to continue to oppose application of similar levies to our export products.

The domestic program along the lines described above, which includes a fixed import fee, an import quota with quarterly adjustments, would give adequate protection to the U.S. sugarcane and sugar beet producers and therefore render the international commodity agreement unnecessary from the point of view of the domestic industry.

Unless a workable domestic program is enacted prompted, the U.S. sugarcane and sugar beet producers will continue to go into bankruptcy and the United States will become more and more dependent on the sugar imports for our supply of this important commodity.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Graugnard follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION PRESENTED BY JAMES GRAUGNARD, PRESIDENT, LOUISIANA FARM BUREAU AND MEMBER AFBF BOARD OF DIRECTORS

My name is James Graugnard and I am a sugarcane farmer from St. James, Louisiana. These comments are made on behalf of the American Farm Bureau Federation, which I serve as a member of the Board of Directors.

Domestic sugar producers have suffered three consecutive seasons of disastrously low sugar prices. We commend the Members of the subcommittee and other senators who coauthored this bill with Senator Church. We have favored a domestic sugar program since the expiration of the old Sugar Act in 1974. S. 2990 meets most of our policy objectives for a sound domestic program. Such a program is badly needed to bring a measure of stability to the industry.

The only program which the Government had in effect for several years was a global import quota of 7 million short tons which exceeded actual import levels by as much as 3 million tons per year.

Sugar prices declined from a peak of nearly 65 cents per pound (raw, duty paid, New York) in late 1974 to less than 9 cents per pound at the low point on September 9, 1976 and remained below 14 cents per pound from that date through November 2, 1977, the last date that New York spot prices were quoted.

During this period of low sugar prices Farm Bureau has repeatedly sought action to protect the interests of domestic producers and to maintain a viable sugar industry. Our requests for a reduction in the global import quota to a

level commensurate with our import needs have repeatedly been denied in spite of the fact that the International Trade Commission concluded by an overwhelming majority that the domestic industry was being seriously injured by imports of foreign sugar.

Instead of reducing the global quota the present administration elected to attempt to negotiate an international sugar agreement as the cornerstone of U.S. domestic sugar policy.

Some relief was provided to the domestic sugar industry in the Food and Agriculture Act of 1977, which authorized a price support program designed to aid the sugar industry. However, this support program, known as the de la Garza Amendment, was limited to the 1977 and 1978 sugar crops. It was designed to support domestic sugar by means of a loan and purchase program at not more than 65 percent nor less than 52 percent of parity. The Secretary was authorized to suspend this sugar price support program when it is determined that an international sugar agreement, which would maintain a U.S. raw sugar price of at least 13½ cents per pound, is in effect. In addition, this legislation directed the Secretary to establish minimum wage rates for agricultural employees engaged in the production of sugar.

Farm Bureau has traditionally opposed international commodity agreements. Experience has demonstrated that international commodity agreements which attempt to control supplies and fix world prices within a narrow range do not accomplish their intended purpose.

At the most recent annual meeting of the American Farm Bureau Federation, the voting delegates of the member State Farm Bureaus adopted the following policy in regard to the International Sugar Agreement:

"We oppose the International Sugar Agreement. Adoption of this agreement would make U.S. producers and consumers dependent upon the actions of foreign producers and interfere with the balance of supply and demand within the United States."

We support legislation to provide for reasonable levels of raw and refined sweetener imports to be set on a quarterly basis to meet the needs of U.S. consumers. Such legislation should not mandate special minimum wage rates for agricultural workers engaged in sugar production.

On April 25, 1978, Senator Church, joined by 27 other members of the Senate, introduced the "Sugar Stabilization Act of 1978" (S. 2990). This legislation establishes a price objective for sugar delivered in New York, fees and duties paid, equal to the mid-point of the free trade range defined by the International Sugar Agreement. The price objective for domestic producers which equals 17 cents per pound is to be achieved through:

(1) The collection of variable import fees, and

(2) The establishment of import controls, adjusted periodically, to meet U.S. consumer sugar demands.

This legislation also authorizes U.S. participation in the International Sugar Agreement.

S. 2990 is in line with the type of domestic program that Farm Bureau has been seeking except that we would prefer to see a system of fixed duties rather than a variable fee structure. Quarterly adjustments should be made in import quotas rather than sporadic adjustments in import fees.

Variable fees closely resemble the levy system used by the European Community which has been strongly objected to by Farm Bureau since the establishment of the Common Agricultural Policy. The adoption of the variable fee program would reduce our ability to continue to oppose the application of similar levies to our export products.

A domestic program along the lines described above, which includes a fixed import fee and import quotas with quarterly adjustments, should give adequate protection to U.S. sugarcane and sugar beet producers and, therefore, render the international commodity agreement unnecessary from the point of view of the domestic industry.

Unless a workable domestic sugar program is enacted promptly, U.S. sugarcane and sugar beet producers will continue to go into bankruptcy and the United States will become more and more dependent on sugar imports for our supply of this important commodity.

Senator MATSUNAGA. Thank you very much, Mr. Graugnard.

Senator Long, do you have any questions?

Senator LONG. Let me just ask you this, Mr. Graugnard. Do you believe the price set by this bill S. 2990 is fair and adequate?

Mr. GRAUGNARD. Yes, sir.

Senator, I think that it certainly would, in my opinion, save the sugar industry. Surely in Louisiana, which I am more familiar with, and I think probably in the whole country.

Senator LONG. What would be the effect of setting a price objective substantially below what we are suggesting in this bill?

Mr. GRAUGNARD. Well, I would say it would cause bankruptcy. As the producers would go out of business, the mills would go out of business with them and I would think there would be total chaos in the whole sugar industry.

Senator LONG. Now, what is the potential of, let's say, putting a substantial part of our people out of business and having them shift over to something else?

What is the possibility in that respect?

Mr. GRAUGNARD. Well, let me give you our own case. We produce sugarcane on our farm operation. We use approximately—well, we use 33 hired people. If we would change it, the only alternative we would have would be soybeans. We could do it with four.

Now, this would also effect agribusiness, because sugarcane is a high user of fertilizer, chemicals and so forth and also, the processing of sugarcane, which we are financially interested in, because we are members of a co-op, would go down the drain with the sugarcane.

Senator LONG. Did you start by saying you would use four workers if you produced soybeans?

Mr. GRAUGNARD. That is right. From 32 to four, and these four would strictly be management because we have four managers and with soybeans on the same acreage, we could do it with four managers.

Senator LONG. So that would mean that about 80 percent of your employees would have to go looking for jobs somewhere else?

Mr. GRAUGNARD. That is right, and most of them are not qualified to find jobs in industry. They would be low production people.

Senator LONG. So is it fair to say that most of them would have to be either on welfare or unemployment compensation?

Mr. GRAUGNARD. That is right.

Now, besides that, we use seasonal workers besides those regular workers. Those 32 are fulltime. Besides, we use seasonal workers, and they would be out of work.

Senator LONG. Thank you very much.

Senator MATSUNAGA. Well, thank you very much. I think the sugar growers in Louisiana are in the same predicament that sugar growers in Hawaii are, and I am happy to find that the Farm Bureau is in support of a program such as S. 2990, just as sugar growers in Hawaii, and the Farm Bureau in Hawaii, are in support of this legislation.

Mr. GRAUGNARD. Mr. Chairman, I just want to say that I am a little upset that the Department made the statement that they made, because looking at other commodities they compare all the time, all these commodities that have programs are above the parity price for sugar and most of these commodities, such as wheat, corn, rice and so forth, have a payment program, too.

So I do not think the sugar farmers are asking for anything that the rest of the farmers would not justifiably get from the administration.

Senator MATSUNAGA. And the one thing which I find that not only this administration but previous administrations tend to overlook is that the sugar industry—sugar, as a commodity, differs from most other agricultural commodities in that sugar is an import commodity. We have an industry here which needs protection from foreign imports, and that is what is frequently overlooked and confused in the entire agricultural program to the disadvantage of the sugar industry.

I thank you again for your testimony and we certainly will take advantage of your advice.

We will now recess until the hour of 2:30 p.m. and we will start with Mr. Linwood Tipton.

[Thereupon, at 12:55 p.m., the subcommittee recessed, to reconvene at 2:30 p.m. this same day.]

[AFTER RECESS]

Senator MATSUNAGA. The subcommittee will come to order.

In continuing the hearings started this morning, we will be pleased to hear now from Mr. Linwood Tipton, who is the vice chairman of the Sugar Users Group, accompanied by Mr. Robert T. Devoy, Jr., attorney, for Ragan & Mason.

Will you state your name and capacity and proceed and you might introduce the other person whose name I have not mentioned.

Mr. TIPTON. Yes, sir, Mr. Chairman. My name is Linwood Tipton and I am the economist and executive assistant for the International Association of Ice Cream Manufacturers, as well as the vice chairman of the Sugar Users Group.

I am accompanied today by Dr. Dean Peterson, director of economics at Nabisco, who is sitting on my right; and by Bob Devoy who is our counsel and with the law firm of Ragan & Mason, who is sitting on my left.

STATEMENT OF LINWOOD TIPTON, VICE CHAIRMAN, SUGAR USERS GROUP AND ECONOMIST AND EXECUTIVE ASSISTANT, INTERNATIONAL ASSOCIATION OF ICE CREAM MANUFACTURERS; ACCOMPANIED BY DEAN PETERSON, DIRECTOR OF ECONOMICS, NABISCO, AND BOB DEVOY, RAGAN AND MASON

Mr. TIPTON. The Sugar Users Group is an organization representing trade associations whose members are major users of sugar in the United States. The company members of the associations comprising the Sugar Users Group use over 60 percent of the sugar consumed in the United States.

Mr. Chairman, if it is agreeable with you, I would like to summarize and highlight my statement, but I would ask that the entire statement and the accompanying document which is attached to the statement be inserted in the record in its entirety.

Senator MATSUNAGA. Without objection, it is so ordered.

Mr. TIPTON. Unfortunately, there are some who believe that the industrial sugar users are only interested in buying sugar at the lowest price possible. This is not the position of the Sugar Users Group. We have repeatedly testified, not only before committees of Congress but before other administrative agencies in support of a viable domestic industry.

We know this can only be accomplished through policies which afford an adequate return to efficient domestic producers. The Sugar Users Group supports the concept of an International Sugar Agreement to encourage and maintain production of sugar throughout the world. The present low world market prices may ultimately reduce production and result in extremely high sugar prices. This has been

the scenario of events in the past and we do not want to have a repeat performance.

The Sugar Users Group also favor the development of standby authority to protect the domestic sugar producing industry in the event that the objectives sought in the International Sugar Agreement are not obtained. Unfortunately, however, we view the thrust of S. 2990 as being in direct conflict with the objectives of the International Sugar Agreement.

Not only are its provisions in conflict with the International Sugar Agreement, but they are also highly inflationary. The price objective under the bill is considerably in excess of that necessary to support a viable domestic industry.

As defined, the initial price of raw sugar is 17 cents, but when adjusted by the complex escalation formula in the bill, it will, in all probability, exceed 18 cents by the end of the year.

This would provide a level of return for most growers far in excess of what their published statements have indicated they need to remain viable. It is an increase of about 4.5 cents, or 33 percent, over the present support price objective.

The Council on Wage and Price Stability has already called the bill highly inflationary and noted it would place sugar among our most highly subsidized commodities. They estimate the subsidy at about 2.4 billion pounds, and indicated that it would add a full percentage point to the food CPI.

We would like to emphasize that the prices and impacts on consumers, as stated above, are minimums and there would be other features of the bill which would increase the price even more.

In addition to the direct inflationary impact of the bill, we are convinced that its enactment would set in motion additional inflationary forces. The inconsistent, if not contradictory objectives of the International Sugar Agreement and this bill might well create shortages of sugar in the future, with accompanying inordinantly high prices.

Title II is designed to encourage and protect domestic producers to such an extent that it will discourage foreign sugar production contrary to the objectives of the International Sugar Agreement.

The Sugar Users Group is unalterably opposed to the imposition of quotas. Unfortunately, section 202 mandates the use of quotas to obtain the price objective. Quotas are widely regarded as the most objectionable of all trade restrictions.

Under the bill, domestic producers would be assured of a market for all sugar produced but would have no obligation to supply the market, even for short periods, if other alternative enterprises appear more attractive.

This approach reduces ~~foreign~~ sugar producers, on whom we have traditionally relied for nearly half of our sugar requirements, to the role of residual suppliers. It is equally objectional to the users, particularly in the Northeast, who are dependent upon such imports for the preponderant proportion of their needs.

The quota system would provide an umbrella price for domestic corn sweeteners, enabling them to capture a substantially enlarged share of the market.

30-306—78——7

The foreign quotas would be administered on a quarterly basis. Apparently, sugar from foreign suppliers would be entered by Customs on a first-come-first-served basis at the beginning of each calendar quarter. It would be extremely difficult to buy, or commit forward, because one could not be assured there would be sufficient quotas remaining when the sugar actually arrived in port to permit its entry. This would be a most chaotic and devastating situation.

Also, the quarterly quotas would result in roller coaster prices. There would most likely be a rush to bring the sugar in during the quota period to make sure it was within the quota, but near the end of the quota period, if there were shortages or dislocations, prices could increase substantially.

The users have insistently and emphatically described their needs for forward buying. Any program which interferes with this requirement could create severe hardships and could jeopardize supplies. The quota provisions, we are fearful, would do just that.

In our statement, we have discussed the import fees section of the bill, but I will pass over that at this time and we can come back to it later, if you would desire.

We are adamantly opposed to the bill. We sincerely believe it would not be in concert with the International Sugar Agreement and might well create shortages instead of insuring a continuing adequate supply of sugar for U.S. consumers.

As stated at the outset, however, this does not mean that we are opposed to providing protective assurances to domestic producers in the event that the world price objectives of the ISA are not obtained, and we would like to outline how we believe this may be accomplished.

The Sugar Users Group supports the ISA. We consider this agreement a rational and well-conceived effort to address the problems of balancing supply and demand. We support its ratification. We also support its ratification if combined with a reasonable domestic program which complements its provisions. However, we do not support its ratification if accompanied by an domestic program which would interfere with, or frustrate, the objectives of the agreement. We believe the domestic title of this bill does that.

We support a domestic program which would provide protection for domestic growers of sugar beets and sugarcane at realistic support levels in the event the market fails to afford an adequate return. In our opinion, this could be accomplished with a far less complex law and one which permits sugar to move freely, without quotas.

We believe an appropriate support price level for the 1978 crop year would be 14 cents per pound of raw sugar. However, we would not object to a slightly higher price if one were deemed absolutely necessary.

In any event, we do not believe a price in excess of 14.5 cents can be justified for the 1978 marketing year.

The support price should be attained by the imposition of import fees to the extent necessary to equate world prices with support price levels. This would necessitate exemption of sugar from the 50-percent ad valorem limitations on import fees presently contained in section 22 of the Agricultural Adjustment Act of 1933.

We would suggest that the standby domestic program could provide for adjusting the effective price for domestic producers.

However, rather than imposing such higher prices on all sugar consumed in the United States, we would urge that such increases should be in the form of deficiency payments made directly to domestic growers. This would avoid imposing such higher prices on imported sugar which accounts for about one-half of the U.S. supplies and would still provide income protection to domestic growers in the event the market prices are not at, or above, the support price level.

We would suggest that the Secretary of Agriculture be authorized to make such adjustments to domestic growers as are necessary in order to assure an adequate supply of sugar to meet current needs. The Secretary's determination should include consideration of changes in domestic consumption, world and domestic production, and the level of income to domestic producers necessary to maintain productive capacity.

In no event, however, should the adjustment exceed the annual rate of change in the implicit price deflator for gross national product.

Because, under our proposal, the price for the 1978 crop year would be set at 14 to 14.5 cents, such payments would not be required until the 1979 crop year, and only then, if necessary by the Secretary's determination.

We believe that the price objective could be most effectively accomplished through the use of a fixed fee on imports to be adjusted at periodic intervals, preferably on a 6 months basis, but not more frequently than quarterly.

Mr. Chairman, we have prepared a description of the formula that we would suggest be used for that adjustment. I would like to offer that for the record also, if I may.

Senator MATSUNAGA. Without objection, it will be included in the record.

Mr. TIPTON. This is a submission that was earlier made to the Department of Agriculture when it was considering the current regulations imposing fees, but it describes the method that we would suggest.

[The material referred to follows:]

[From the Executive Office of the President, Council on Wage and Price Stability]

BEEF, SUGAR BILLS BEFORE CONGRESS CALLED INFLATIONARY, APRIL 27, 1978

The staff of the Council on Wage and Price Stability today labeled inflationary two restrictive international trade measures currently before the Congress which would raise the price of food products to consumers. The Council is especially concerned about these measures because of the expectation that food prices will outpace non-food price inflation this year.

The President stated only two weeks ago that the government should take the lead in the fight against inflation. These two measures, if enacted, would clearly make the effort to control inflation more difficult. If we are to be successful in moderating inflation, the trend of responding with such special interest legislation that raises consumer prices must be reversed. All too often, these measures are justified on the basis that the direct inflation impact is small. But their cumulative effect on overall prices is substantial.

The proposed "Sugar Stabilization Act of 1978" would raise the price of sugar by over 100 percent above free market levels and would raise the costs to consumers for sugar subsidies to a total of $2.4 billion each year and add a full percentage point to the food CPI. The proposed "Beef Import Act of 1978" would have resulted in fewer meat imports, on average, since 1969, and thereby raised costs to consumers, especially lower income consumers.

SUGAR

The sugar bill would, by restricting imports, raise the price of sugar from its present level of about 13.5 cents per pound to 17.5 cents per pound. This would come on top of measures taken last year by the Congress and the Administration which have the effect of increasing prices from slightly over 8 cents per pound to their present levels. Thus, if the sugar bill were enacted, the price of sugar would be double its free market price, with a resulting cost to consumers of $2.4 billion annually and an incremental cost of $1.2 billion.

This measure would surely place sugar among our most heavily subsidized commodities, with the average producer receiving a subsidy of $36,000 each year when compared with the current price, and twice that amount when compared with the free market price. Levels of support for some large producers would likely run into millions of dollars each year.

It should be noted that both sugar beet and cane producers have alternative uses for their land that are more in line with economic needs. In addition, by providing a price umbrella, enactment of the sugar measure would increase the use of high fructose corn syrup, a close substitute for sugar in many uses.

MEAT IMPORTS

The beef import bill would substitute a countercyclical meat import policy for the current procyclical policy (under the Meat Import Act of 1964) whereby meat imports increase when domestic production is high. While the Council is sympathetic to a countercyclical approach, the proposed bill would be moderately inflationary because it would reduce the absolute level of meat imports, on average, over a cycle of production. Between 1969 and 1977, the proposed bill would have reduced imports of products covered by the 1964 Act by about five percent. It would, in addition, establish quotas for categories of meats that are not currently restricted.

It should be emphasized that imported beef, which is used to produce hamburger and other manufactured products constitutes only one percent of domestic meat consumption and does not directly compete with the better quality fed beef primarily produced by American producers. In fact, the International Trade Commission recently concluded that imports did not constitute a threat to domestic producers. On the other hand, a reduction in imports has a disproportionately harmful effect on lower income consumers who purchase less expensive meat products.

Wholesale beef prices, which have already increased by 25 percent during the past year, are expected to be the principal cause of high food price inflation this year. Enactment of these bills would, in the Council's view, be inconsistent with the nation's anti-inflation efforts.

Mr. TIPTON. Mr. Chairman, we have attempted to offer suggestions which could be incorporated in a much less complicated bill which could be equally, or more, effective in supporting the domestic industry and be consistent with the ISA. Very simply, it would provide a support price for sugar for the 1978 marketing year in the 14 to 14.5 cent range. It would provide authority for the imposition of fees on imported sugar up to the amount necessary to protect the price support objective. It would provide that any future adjustments in the price objective for domestic producers would be accomplished by deficiency payments.

We believe the standby domestic program should extend for a 3-year period. Such a program, in our opinion, would provide a reasonable return to domestic beet and cane growers, maintain an effective futures market price structure for forward contracting, is consistent with the provisions of the International Sugar Agreement, and will maintain a viable domestic industry. We believe it is superior to the course outlined in S. 2990.

Thank you, sir.

Senator MATSUNAGA. Thank you very much, Mr. Tipton.

We have allotted 10 minutes. I suppose the others will respond to questions?

Mr. TIPTON. Yes, sir. This completes our statement.

Senator MATSUNAGA. In November 1974, as you, I am certain, know, beet sugar prices reached a record high. Now, prices are about one-sixth of that record level.

During the period of rising prices, sugar users generally raised the prices of their products, and with justification. Now, I have been very much disturbed to find that sugar users have not since then, after having raised the price in 1974, reduced their prices proportionately.

What has your observation been and, if you agree with my observation, how do you explain this?

Mr. TIPTON. Mr. Chairman, like you, we have been disturbed that these allegations have continued to arise, because the facts are that sugar prices, when they came down, have been accompanied by a reduction in the price level of sugar-containing products.

We have prepared an analysis of that and I would like to ask Dean Peterson to comment on the factual situation.

Senator MATSUNAGA. Mr. Peterson?

Mr. PETERSON. I would add, however, that during the period between late 1974 and 1975, most producers of sugar-containing products were not able to pass through the cost increases and the price increases that occurred in sugar because they were of such overwhelming proportions, and we found that our product volume was substantially curtailed in many cases.

The material, I noted, that was prepared for submission to this committee, in table 7, cites the volume of sugar actually purchased by sugar users, sectors of the industry, during this period. In many cases, it was dramatically curtailed because we found we could not raise our prices to the extent that prices of sugar were increased during the 1974 period.

However, we have analyzed the price changes that have occurred in a number of sugar-containing products. The U.S. Department of Agriculture regularly publishes in their sugar and sweetener reports price series for sugar-containing products, and we took a simple average of the 15 major sugar-using categories, and those prices were lower for the calendar year 1977 than they were in 1975, which began to reflect the effects of the sugar price runup during 1974.

These prices were lower in 1977 despite the fact that many other commodities and many other elements in our cost structure have increased during this period. Our labor costs have gone up, our taxes have gone up, packaging materials have gone up, energy costs have nearly doubled, and yet, on the average, the prices of these 15 major sugar-using commodities for the calendar year 1977 were below those in the calendar year 1975.

Senator MATSUNAGA. What are the commodities that you included in this basket?

Mr. PETERSON. Well, the commodities that are included in the—the 15 commodities in the basket?

Senator MATSUNAGA. Yes.

Mr. PETERSON. This is the USDA list of commodities. It includes white bread, cookies, sugar at retail, ice cream, chocolate bars, chocolate syrup, cola drinks, carbonated fruit drinks, lemon concentrate, fruit drink, fruit cocktail, pears. It reflects most all of the major sugar-using industries.

Senator MATSUNAGA. Among bakery products, one of my favorites is Portuguese malasadas. Another is Japanese manju. We used to be able to purchase one for 25 cents. In 1974, they blamed it on the price of sugar and they raised it to 40 cents apiece and it is still 40 cents apiece, it has not come down, although the price of sugar is only one-sixth of what it was. And with candy bars too, as you know, they have made the candy bars smaller and are charging more for the smaller bars.

I do not know whether you eat your own products and drink your own products, but from my own experience and the experience of those around me, we suddenly have felt the price go up and the retailers, at least, blamed it on the price of sugar, and the bakers, too, but the prices have not come down with the fall in the price of sugar.

Mr. PETERSON. I wish I were familiar with the particular products to which you refer, Senator, although I might mention that one of the other major ingredients which is common to many of our bakery products, our cookies, and particularly the candy industry, is cocoa, which has increased over five-fold since 1972 in price. In part, the reduction in prices of sugar has been offset by a continuing escalation in cocoa prices, which one tended to offset the other in that range of products.

It is impossible, in our business, to trace the price level of a particular product to the cost of a particular commodity and when we attempt to do that, whether it is from our own industry or otherwise, they do a disservice to the complexities of the economic process. There are many factors involved in the cost and unfortunately, the vast majority of them go only one way—up.

Senator MATSUNAGA. Generally, you would agree that prices are going up, and allowing for increase in labor, inflation et cetera, the prices should be allowed to go up.

Mr. PETERSON. We do not want to encourage that trend.

Senator MATSUNAGA. But what about sugar? Are you not going to apply that thinking to sugar?

Mr. TIPTON. Mr. Chairman, I think that in our proposal we were suggesting an increase in the price of sugar. We suggested a different support price level than that which currently exists.

Senator MATSUNAGA. But you just testified, Mr. Tipton, you felt that the target price should be 14 cents and not 17 cents.

Mr. TIPTON. Yes, sir.

Senator MATSUNAGA. And you heard earlier testimony that the costs of producing sugar is no less than 15 cents a pound. How do you expect the producer to make money?

You cannot sell your products at below cost and stay in business, can you?

Mr. TIPTON. No, sir, but I would also comment, that we have reviewed a number of cost presentations and do not find that the

costs are as high as some of the portrayals that have been made this morning. We have reviewed the studies published by the Department of Agriculture. I think there were a number of references regarding beets.

The study they published indicates that the price for the 1976-77 crop year was 24.33 as an average cost per ton of beets. Now, that translates to about 12.90 cents as a raw price. If one were to adjust that, compounded for the rate of inflation from that time to the present, you would come up with a little over 14 cents.

So we think that we are honestly trying to look at what the costs are.

I would also add that that study reflects land values at their present commercial value, which is somewhat different than costs are normally calculated.

We have also had an opportunity to review a number of the public corporate statements of sugar-producing companies and have found that in this last year by their own annual reports that at the price levels which have prevailed they have made profits, and that would indicate that the costs that they experienced were something less than the 13.5-cent level because the price prevailing for the year was something less than that.

So we think there is a lot of evidence that the cost is somewhat less than has been presented frequently.

Senator MATSUNAGA. Do you support the International Sugar Agreement?

Mr. TIPTON. Yes, sir.

Senator MATSUNAGA. Under that agreement, there is a price range allowed of 11 to 21 cents. Assuming that we strike something in between there, we are liable to end up somewhere around 15 or 16 cents anyhow, are we not?

Are you saying then that it is all right to place the price of sugar at 17 cents under the International Sugar Agreement but not under S. 2990?

Mr. TIPTON. There is quite a difference between the International Sugar Agreement concept and this bill. One of the major differences, of course, is in the price objectives. There is a wide range under the International Sugar Agreement, ranging from 11 to 21 cents and the increases in the price are to be accomplished by adjustments to supply and demand and accomplished through the marketplace.

However, this bill would establish, at the minimum, at the present time, a 17-cent minimum and that is considerably above the 11 cent attempted floor under the International Sugar Agreement. I would say they are quite different.

Senator MATSUNAGA. You were in the user business during the period that the Sugar Act was in effect, were you not, Mr. Tipton?

Mr. TIPTON. Yes, sir.

Senator MATSUNAGA. You were.

And under the Sugar Act of 1933, which was amended from time to time, is it not true that you experienced stability in price to a point where you could even plan and project into the future knowing what the price of sugar was going to be?

Mr. TIPTON. For a number of years, that was correct.

Senator MATSUNAGA. For 40 years.

Mr. TIPTON. Well, no, sir, not quite, because there were some periods of time when there were some very rapid and substantial increases in prices. One of the things that we are trying to avoid is repeating that situation.

Those were very, very difficult times, not only for users but for the ultimate consumers of products, for everybody who was involved.

We are supporting the International Sugar Agreement with the hope that we would avoid the very low prices that have generally been followed by a world shortage and cause those prices to increase.

So yes, the former act provided some stability in a number of years, but it also contributed in our opinion, to world shortage situations that forced extremely high prices on other periods.

That is why we wanted to do a combination of an International Sugar Agreement, and a standby protective device for the domestic industry.

Senator MATSUNAGA. Now, tell me—I am informed that the sugar users themselves during the period that the price of sugar skyrocketed, in 1963, as I recall, and again in 1974, just before the Sugar Act expired, that the sugar users bought large quantities of sugar to begin with, and even engaged in the sale of sugar instead of having the sugar in large quantities for their own use.

Is there any truth in this allegation?

Mr. TIPTON. I do not know, sir. I am not aware of any of those situations.

Senator MATSUNAGA. You know of no such practice in the last 40 years?

Mr. TIPTON. There may well have been situations where sugar-using companies were involved in speculating in the sugar market. I am not aware of those and I think that they were not very extensive.

Senator MATSUNAGA. Let's see. The sugar user groups that you represent, the Baker's Association, Frozen Foods, Retail Bakers, Biscuits, milk industry—the National Soft Drink Association. What soft drinks do you represent?

Mr. TIPTON. The National Soft Drink Association is a trade association representing the bottlers of soft drinks.

Senator MATSUNAGA. What?

Mr. TIPTON. The bottlers.

Senator MATSUNAGA. All bottlers?

Mr. TIPTON. Yes, sir.

Senator MATSUNAGA. Including Pepsi, Coca-Cola, 7-Up, those larger——

Mr. TIPTON. And the many companies which are actually bottling, which are a number of small companies, actually.

Senator MATSUNAGA. Now, what do you see, Mr. Tipton, or any of you, as the future of high fructose corn syrup in so far as users go? Are the sugar users going to use it more and if so, in what—what do you see as its limits and would you care to hazard a guess as to what percentage of the total sweetener markets it will supply in the next 5 years, looking at it from the user's point of view?

Mr. TIPTON. I can answer the last one first because no, I would not want to hazard a guess on that, but let me expand that a little bit.

The reason I would not is because there are so many factors that come to bear on it that it is almost impossible to make a guess. One

of the major factors that will be involved is, what kind of price-support program is established for sugar.

If a price-support program for sugar, such as is contained in this bill, were established, then we would expect that the production and the use of high fructose sweeteners would increase very, very rapidly. They have been able to make a lot of technological advancements, and it is now technologically possible to use the product in a number of foods.

The price is a major factor in how rapidly it would expand and how big of a competitive advantage it has on other sugars.

Senator MATSUNAGA. In the sugar-containing products, what percentage of the cost of the product would you say is represented by sugar?

Mr. TIPTON. That varies tremendously from some sugar-containing products that would probably be in a percent, or even less than a percent, of the total cost to some which would be in excess of probably 90 percent. There is just a very, very wide range.

Senator MATSUNAGA. Let's take soft drinks now, as an example. What percentage would you say of the cost is represented by sugar?

Mr. TIPTON. I do not know, in the case of soft drinks, what that would be.

Senator MATSUNAGA. What about bakery products?

Mr. TIPTON. Bakery I do not know either. I could discuss ice cream if you would like, a little bit.

Senator MATSUNAGA. Ice cream?

Mr. TIPTON. Ice cream would be about in the area of, depending on the price of the sugar again, in the area of about 12 to 18 percent.

Senator MATSUNAGA. 12 to 18 percent.

Soft drinks would be much, much less, would they not?

Mr. TIPTON. I would imagine that they would be considerably in excess of that, but I am not sure of that.

Senator MATSUNAGA. And, of course, some of the bakery products, dependent on what it is, it would vary—but what I am driving at is that so frequently we find that where sugar represents such a small part of a product yet proportionately speaking, every time the price of sugar goes up the users seem to seek justification for increasing the price almost in line with the products which use considerably much more sugar.

And this is what frequently raises the question, in the minds of those of us here on the Hill, about the sincerity of the users in their representations before us.

Mr. TIPTON. Senator, I have heard these kinds of questions with respect to individual commodities. For example, the milk price-support program, by congressional action, has been increased substantially in the last year. The cocoa prices have increased very substantially. And when we have had hearings on individual products there seems to have been an attempt to center on that individual product and say, why does not the retail price follow that individual product cost directly?

The fact is that there are just so many cost elements that go into the production, distribution, and retailing of a food that it is very difficult to find that direct relationship.

One of the problems that the Wage and Price Council had when they were in operation a few years ago was the virtual impossibility of administering cost changes with price changes. It is a very, very complex situation.

Senator MATSUNAGA. I grant that, certainly, and whenever we deal with sugar it is a complex issue because its use is in such varied percentages and even as to the cost.

Now, if you were a manufacturer of shoes, I would ask you—I would come to you to find out what the cost of a pair of shoes is. Now, if I wanted to know the cost of what a pound of sugar is, I would go to the sugar producer rather than the sugar user.

So when the sugar producer tells me it costs him 15 cents a pound to produce sugar, and the sugar user says no, it costs him only 14 cents, well, I am inclined to go along with the producer because it is what he produces. So I am wondering where you get that 14 cents.

Mr. TIPTON. Well, as I indicated, we had reviewed a number of the financial statements. I read an article in the Wall Street Journal at the end of March which reported that in Hawaii it cost a grower $257 to produce a ton of sugar. Now that would translate out to a price of about 12.85 for last year. Now, of course, that was in Hawaii and there would be some transportation costs involved.

I have reviewed the published reports of a number of other companies and, from their own reports, they have indicated the prices which they receive for sugar and their profits. And it seems to me that if they were able to make a profit that they must have been able to recover their costs.

Senator MATSUNAGA. Well, had it not been for that Sugar Act and the sugar program which passed last year they would not have made any profit at all. I do not know whether you were here when the sugar panel testified. We had two from Hawaii and, in the case of the independent sugar growers, its representative, Mr. Pacheco, represented that the cost is 15 cents plus the cost of borrowing money, and the independent growers, because they could not borrow from banks anymore, had to go to the State legislature and get a loan program from the State legislature in order to keep in business.

And we had others from Louisiana here who represented that it cost 17 cents a pound.

While the representative of the Hawaii Sugar Planter's Association indicated that it was less than 15 cents, as you correctly observed, Hawaii still must ship it to the market which is 2,000 miles away on the West coast, and even more inland.

So I do not see how we can expect anyone, just as we would not expect the users to be in business by selling their products below cost, I do not see how we can continue to expect the producers to stay in business by not devising a program which would permit them to sell above costs.

And, you say the International Sugar Agreement would do that, but you heard the testimony of the representative from the administration that although the International Sugar Agreement has not been ratified, in effect, it has been put into operation since several months ago, but the level of the price of sugar has not gone up—in fact it has gone further down.

It is because of these facts that we, especially those of us who represent States whose economy would either survive or would sink based on the health of the sugar industry are very much concerned. And it is for this reason that we cosponsored this measure, S. 2990, to bring about a situation which would help our economy and not only help, but even save the economy from going bankrupt.

It was suggested—I do not know whether you were in the audience or not—by Senator Long that we place some kind of a control mechanism, a control over the escalation of the price, under S. 2990. If this was done, would you then change your mind and support the measure, or would you still be opposed to it?

Mr. TIPTON. No, sir, I think we would still be opposed. We are very much opposed to a quota system of achieving the price objective and that, of course, is what the bill is based on.

We do not believe it is necessary in order to accomplish the same purpose—that is, a price level that is commensurate with reasonable, viable domestic industry.

We suggest that that should be accomplished by the use of a fee system and would propose that the present limitation in the law on the amount of the import fee that can be charged should be removed so that the fee system could work. And so we would still be opposed to the bill because of its reliance upon quotas to achieve the price objective.

Senator MATSUNAGA. You realize, of course, that under present law the President has the authority to impose quotas on imports?

Mr. TIPTON. Yes, sir, but under this bill, if we understand it correctly, the direction is that the President must impose quotas in order to achieve the price objective. It would not be discretionary, if we understand the bill correctly.

Senator MATSUNAGA. Well, if, under the present law, the U.S. International Trade Commission makes a finding, as it did, that imports actually jeopardize, or tended to jeopardize local domestic industry then it would be compulsory for the President to lower the import quota.

Mr. TIPTON. Not by my understanding, sir. I think he has the option of imposing a fee or a quota.

Senator MATSUNAGA. He could reject the recommendation altogether, yes, of the International Trade Commission but then, of course, Congress could veto the President's action in that instance.

Mr. TIPTON. Yes, sir, but I think my point is, sir, that under the present law, under section 22, the President is authorized to impose either an import fee or quotas and under this bill he would be required to impose quotas as a means of achieving the price objective.

Senator MATSUNAGA. So it is because of the compulsory nature of the quota that you are opposed to the bill?

Mr. TIPTON. That is one of the features, yes, sir.

Senator MATSUNAGA. Senator Dole, do you have any questions?

Senator DOLE. Just briefly. I have had a chance to look over the summary of the statement by sugar users. I think it is fair to say that the two members who are on this side may have some

bias because we happen to represent States where sugar production is a factor, of course. At the same time, we want to be as objective as we can, and we are certain that you do.

I understand there has to be some limit, but when we talk about inflationary impact and the cost to consumers, we have just gone through that with the Emergency Farm Bill and they talked about how much it would cost the consumer. When we look at the ingredient costs of, say, wheat in a loaf of bread or sugar in a pint of ice cream.

Now, I assume that there are some figures, but it would seem to me that the cost of the ingredient itself, sugar in this case, is a very minor component of the total cost of a pint of ice cream or a quart of pickels or whatever. So how does it become so inflationary?

Mr. TIPTON. Well, I think that you are correct, that there is a varying amount of sugar used in different products and, therefore, sugar as a cost component of various products, varies from product to product.

However, when the price of a commodity such as sugar is increased, then it has to be recovered. It is a cost element to those who are using it. It must be recovered and that must be reflected in the prices. I think it is just a simple economic fact that as it moves through the economy, it has the impact of increasing prices.

Senator DOLE. It is hard for the producer to understand, and there may be a good, logical argument, but as I understand from reading your statement, you support the ratification of the ISA as a constructive means of obtaining that objective, which is a healthy domestic sugar industry. Now that has a world price, or free market price, range of what, 15 to 19 cents?

Mr. TIPTON. From 11 to 21 cents.

Senator DOLE. Is that inflationary, that range?

Mr. TIPTON. The 11-cent minimum in the ISA would translate, including the fees and the duties that were collected at the time it was negotiated, to a 13.5-cent domestic price and that is what our present support price is. So increasing the price above that level becomes the inflationary aspect of it.

Senator DOLE. You do not think that is going to happen?

Mr. TIPTON. Well, this bill, sir, would increase the price to 17 cents, which is a very substantial increase above the 13.5 cents under the present support price.

And, according to our information, and we have reviewed a number of financial statements of sugar-producing companies in Hawaii and Florida and in other locations, their cost is not anything near 17 cents. It is in the area of 14 to 14.5 cents, by their own financial statements.

That is why we were suggesting that number. We honestly want to maintain a viable domestic industry but we do not want to see a price set considerably in excess of that which is necessary.

Senator DOLE. Then you support just the minimum figure, the, in the ISA, 11 cents?

Mr. TIPTON. No, sir. The rest of the ISA, of course, the price objective of the ISA is to move the price to the midrange of the

11- to 21-cent range, but that is to be accomplished by supply-demand conditions. Nobody is setting a minimum price and saying that this is the only price at which transactions may occur.

It would control stocks and release stocks in an effort to balance supply and demand in order to accomplish that midpoint, but this bill would set a minimum under which transactions would not occur.

Senator DOLE. Well, I guess it is a question of how we define inflation and what is or is not inflationary. I can certainly understand the concern of the users if, in fact, the ingredient cost does have that impact, but so often, it seems, that once we can agree on some horribly high figure, of $2.4 billion in this case, or $5.7 billion the last time the farmers had a bill around here, it is not too hard to shoot down. If you put a high enough figure on it, you can scare enough consumers.

I guess what we are trying to find out is what are the alternatives? The alternatives, in your case, would be to support the ISA and, I assume, the administration proposal?

Mr. TIPTON. We had not seen the administration proposal until today. We have a slightly different proposition, that being to establish a support price in the 14- to 14.5-cent area and to protect that support price by the use of import fees, removing the limitation that presently exists in the amount of import fee that can be assessed against sugar so that you could impose whatever amount of import fee that is necessary in order to achieve the price objectives sought.

Senator DOLE. Do you advocate direct payments?

Mr. TIPTON. Yes. In the case—that would be for the 1978 marketing year and we would suggest that the Secretary be authorized to then adjust the price which the growers would receive in subsequent years and that that adjustment be in the form of direct payments or deficiency payments.

Senator DOLE. But getting back to the ISA, you support the 11 cents. If it got above 13.5 cents, then you would not support the ISA. Is that——

Mr. TIPTON. No, sir. What we are saying with respect to the ISA is that it provides a mechanism whereby we hopefully will prevent very low world market prices for an extended period of time, because our experience has been that when that occurs they are followed by a shortage, and it is that shortage that is a very devastating situation.

So we see the ISA as a means for preventing the very low prices from occurring, thereby encouraging or maintaining production to avoid the shortages that result in the very high prices.

So, as the prices improved by result of balancing supply and demand on up into the midrange of the ISA, we would support that, and that is a part of the ISA agreement.

That, of course, would also increase the price to the domestic growers because then it would not be necessary to support their prices, it would be coming from the market price, and that, we support.

Senator MATSUNAGA. One final question. Supposing we adopt your suggestion and, according to the growers, they cannot stay

in business and the domestic industry, which now provides 50 to 55 percent of our sugar needs go out of business, will this be disastrous to the users of sugar?

Mr. TIPTON. Yes; it would but, of course, you preceded your question by an "if" and I do not believe the "if" is at all likely to occur.

Again, I come back to we are honestly trying to determine what is a reasonable support price and we think that we have surveyed the situation and feel that some of the proposals that have been made are a little excessive in terms of their costs.

Senator MATSUNAGA. But you recall the days of boom and bust—maybe you are too young for that—prior to 1933?

Mr. TIPTON. I do not recall those, but I have heard of them.

Senator MATSUNAGA. You are much too young, as I said. But without the Sugar Act, and even since 1974 when the Sugar Act was permitted to expire we have seen the prices go up and then go down and this is what the Sugar Act did away with for a period of 40 years, practically, except for a few years, as you suggested.

Your statement that the thing that users fear most is the shortage and shortages occur, as you know when the price of sugar is so low that it is not worth it to be in business, and then the following year, you find that because growers refuse to grow sugar at the price that they are getting, you suffer the extreme shortage.

So I would think—and I am sure that you would agree with me on this—that the best insurance of a stable price is a viable sugar industry, a viable domestic sugar industry, do you not agree?

Mr. TIPTON. Yes, sir.

Senator MATSUNAGA. And if, as you have heard the growers themselves testify, that unless we have a program such as S. 2990, they cannot remain in business, do you not think that perhaps we ought to listen to it?

Mr. TIPTON. Yes, sir, except I have reviewed the statements of a couple of companies here that—the T. H. Davis Co. of Hawaii, a subsidiary of Jardines, in their statement indicated that they had made a profit this year from their sugar operations and it was a result of the price levels that were achieved under the new support price program.

We have reviewed the 1977 annual report of Alexander Baldwin, Inc. They commented, "We achieved a moderate profit as a result of the payment program."

Senator MATSUNAGA. That is right, but it was only because we had the payment program—and boy did we have to fight for that after the program was declared illegal by the Attorney General.

Mr. TIPTON. But Senator, that program provided a price, or the equivalency of a price, of 13.5 cents and they made money at 13.5 cents. That is one of the things that I think is very important.

Yes, it was as a result of the price support program, and we do not object to that, but we are trying to establish what is a reasonable price, and they made a profit at 13.5 cents.

Senator MATSUNAGA. We have been going for 1 hour now. I am sorry we took so much time. But, according to testimony by the administration, it would be about 20 percent of the growers who would be left out.

Would you agree to a program which would take into consideration the cost of production by different sections of the country and have the support program, if any, based on the cost in each section rather than, say, setting a fixed price?

Mr. TIPTON. We have discussed that only very, very briefly. I would be happy for us to discuss it and respond to them on that subject.

Senator MATSUNAGA. Well, I am just trying to throw out some of these questions, trying to figure out some way that the users, because the users are so important to a successful sugar program, where the users will come out and support the legislation.

We probably could pass the legislation without your support, but we would like to feel that we represent the users as well as the growers here.

Mr. TIPTON. Thank you. We appreciate that.

We do feel that, in terms of the objective that you are seeking, that what we have suggested would accomplish that in a much more simplified manner than what is in the present bill.

Senator MATSUNAGA. Well, thank you very much.

Did you have anything else, Senator Dole?

Senator DOLE. As I understand it, just from the summary statement, it says you are unalterably opposed to the use of quotas to obtain support price objectives. Is that just the general position, you have, to oppose quotas?

Mr. TIPTON. No, sir. This is not a general position. My organization has taken different positions on the dairy situation at different times, because it is quite a different commodity.

In this particular commodity where we are importing substantial quantities of our sugar, we feel that it would be quite harmful to the objectives of trying to expand world production to prevent the reoccurrence of the shortages that have occurred in the past.

Senator DOLE. Right. But shortages are not necessarily inflationary, then. It depends on who you represent.

Mr. TIPTON. It depends upon the objective sought by the quota. If the quota is for the purpose of establishing a 17-cent sugar price, then I would say that it is quite inflationary.

If the quota were for the purpose of some other thing, it might not be inflationary. But if it is for the purpose of enhancing the price substantially above what we think the cost of production is, then we would say it is quite inflationary.

Senator MATSUNAGA. Thank you very much, Mr. Tipton and Mr. Peterson.

Mr. TIPTON. Thank you sir. We appreciate it.

[The prepared statement of Mr. Tipton follows:]

STATEMENT OF THE SUGAR USERS GROUP, E. LINWOOD TIPTON, VICE PRESIDENT, SUGAR USERS GROUP; DR. DEAN PETERSON, DIRECTOR OF ECONOMICS, NABISCO; ROBERT DEVOY, COUNSEL, RAGAN AND MASON

My name is E. Linwood Tipton. I am the economist and executive assistant for the International Association of Ice Cream Manufacturers, and also Vice Chairman of the Sugar Users Group. I am accompanied by Dr. Dean Peterson, Director of Economics of NABISCO, as well as Mr. Bob Devoy, Counsel, with the law firm of Ragan and Mason.

The Sugar Users Group is an organization representing trade associations whose members are the major users of sugar in the United States. The company member of the association comprising the Sugar Users Group use over 60 percent of the sugar consumed in the United States. Our member associations are:

American Bakers Association,
American Frozen Food Institute,
Associated Retail Bakers of America,
Association for Dressings and Sauces,
Biscuit and Cracker Manufacturers' Association,
Chocolate Manufacturers Association of the United States of America,
Flavor & Extract Manufacturers Association,
International Association of Ice Cream Manufacturers,
Milk Industry Foundation,
National Bakery Suppliers Association,
National Association of Fruits, Flavors & Syrups, Inc.,
National Preservers' Association, Inc.,
National Soft Drink Association,
Pickle Packers International, Inc.,
Processed Apples Institute.

We appreciate the opportunity to appear before your Committee and share our views on sugar policy. Unfortunately, there are some who believe that industrial sugar users are only interested in buying sugar at the lowest price possible. I want to assure you that this is not the position of the Sugar Users Group. We have repeatedly testified not only before committees of the Congress but also before administrative agencies in support of a viable domestic sugar industry. We know this can be done only through policies which afford an adequate return to efficient domestic producers. However, we do not believe government programs should support prices at levels that would guarantee a profit to inefficient producers.

The Suger Users Group supports the concept of an International Sugar Agreement to encourage and maintain production of sugar throughout the world. We are concerned that the present low world market prices may ultimately reduce world production and result in extremely high sugar prices. This has been the scenario of events in the past. We believe the International Sugar Agreement which has been negotiated may well mitigate against repeating these situations.

The Sugar Users also favor the development of standby authority to protect the domestic sugar producing industry in the event that the objectives sought in an International Agreement are not obtained. However, we do not believe the domestic program should supplant the International Sugar Agreement nor should it be in conflict with its provisions. Unfortunately the entire thrust of S. 2990 is in direct conflict with the objectives of the International Sugar Agreement.

INFLATIONARY IMPACT

Not only are its provisions in conflict with the International Sugar Agreement, but they are also highly inflationary and therefore, in direct conflict, with the major economic policy objectives of the Carter Administration and the Congress.

The price objective under the Bill is considerably in excess of that necessary to support a viable domestic industry. As defined, the initial price of raw sugar is 17 cents, but when adjusted by the complex escalation formula in the Bill, it will, in all probability, exceed 18 cents by the end of the year.

This would provide a level of return for most growers far in excess of what their published statements have indicated they need to remain viable. It is an increase of about 4½ cents per pound, or 33 percent, over the present support price objective. There are a number of other provisions in the Bill which are designed to enhance the price, and are therefore, inflationary also. The quota provisions, in particular, have the purpose of restricting supplies available to United States consumers in order to enhance the price.

The Council on Wage and Price Stability has already called the Bill "highly inflationary," and noted it "would place sugar among our most highly subsidized commodities." In the Council's recent release it stated:

"The proposed 'Sugar Stabilization Act of 1978' would raise the price of sugar by over 100 percent above free market levels and would raise the costs to consumers for sugar subsidies to a total of $2.4 billion each year and add a full percentage point to the food CPI."

We would like to emphasize that the prices and the impact on consumers stated above are based on the minimum increases initially required by the Bill. However, the price objective would be indexed on a quarterly basis to reflect changes in parity and the wholesale prices. Mandatory indexing of prices by statute institutionalizes inflationary pressures contrary to the Administration's efforts to eradicate them.

Furthermore, it should be noted that the Secretary of Agriculture would not be required to take remedial action to reduce prices until the price level exceeds the then current price objective by 20 percent for a period of 20 consecutive market days. Thus, based on an 18 cents market price objective, raw sugar prices could rise to at least 21.6 cents per pound before consumers would necessarily obtain relief.

Mr. Chairman, in addition to the direct inflationary impact of the Bill, we are convinced its enactment would set in motion additional forces which would create even more serious inflationary pressures in the future. The inconsistent if not contradictory objectives of the International Sugar Agreement and this Bill might very well create sugar shortages in the future with the accompanying inordinately high prices.

Although it purports to support and complement the International Sugar Agreement, actually its provisions and intent are in direct conflict with both the spirit and the objectives of the agreement. Title II is designed to encourage and protect domestic producers to such an extent that it will discourage foreign sugar production contrary to the objectives of the International Sugar Agreement.

COMPLEXITIES AND EXCESSIVE REGULATORY CONTROL

We are disturbed that this Bill is so complex and would establish not only complete regulatory control over the quantity and price of sugar permitted to be sold in the United States, but also the authority to demand confidential records of all segments of the industry, from producer to sugar user. This is strikingly contrary to the many efforts of the Administration to simplify the regulatory process. The definitions set forth in Section 201 are extremely complex and are in regulatory, instead of statutory, form. We are confident that a domestic standby sugar program can be enacted in a much more simplified form, but still provide adequate assurance of price protection to the domestic industry.

Quotas Section 202

The Sugar Users Group is unalterably opposed to the imposition of quotas. Unfortunately, Section 202 mandates the use of quotas to obtain the price objective. We find this totally unacceptable. Quotas are widely regarded as the most objectionable of all trade restrictions. Our objections may be summarized as follows:

(1) Quotas are the most costly approach to protect the domestic industry.

(2) Quotas discourage the allocation of foreign productive resources to the most efficient production areas.

(3) Quotas interfere with the operation of the futures markets.

(4) Quotas introduce awesome problems of international diplomacy.

The quotas on foreign imports would be equal to the difference between estimated U.S. sugar needs and estimated domestic production. This would mean that U.S. sugar needs are always balanced out of world supplies. Domestic producers would be assured of a market for all sugar produced, but would have no obligation to supply the market, even for short periods, if other alternative enterprises appeared more attractive. This approach reduces foreign sugar producers, on whom we have traditionally relied for nearly half of our sugar requirements, to the role of residual suppliers. It is equally objectionable to the users, particularly in the northeast who are dependent upon such imports for the preponderant proportion of their needs.

The quota system would provide an umbrella price for domestic corn sweeteners, enabling them to capture a substantially enlarged share of the market. The quotas would be automatically reduced by the increased share of the market gained by corn sweeteners.

The foreign quotas would be administered on a quarterly basis. Apparently sugar from foreign suppliers would be entered by customs on a first come—first served, basis at the beginning of each calendar quarter. It would be extremely difficult to buy or commit forward because one could not be assured there would

30-306—78——8

be sufficient quotas remaining when the sugar actually arrived in port to permit its entry. This would be a most chaotic and devastating situation.

Also, the quarterly quotas would result in roller coaster prices. There would most likely be a rush to bring sugar in early during the quota period to make sure it was within the quota, but near the end of the quota period, if there were shortages or dislocations, (i.e. sugar not held by those who actually needed it that quarter) prices could increase substantially.

The users have consistently and emphatically described their need for forward buying. Any program which interferes with this requirement would create severe hardships and could jeopardize supplies. The quota provisions would most likely do just that.

Import Fees

The Bill also provides for the imposition of an import fee, which could be determined quarterly, but not more frequently. Because the Bill provides that the price objective is to be accomplished by a restrictive quota, the purpose of the fee would be merely to capture for the U.S. Treasury the difference between the domestic price objective and the prevailing world prices. Again this could and most likely would create severe problems. It would have a tendency to work against the objective of the ISA by exerting a downward force on world sugar prices, thereby reducing the incentive for foreign production and setting the stage for another dramatic escalation in world prices such as occurred in 1974 when raw sugar prices soared to 70 cents a pound.

As stated at the outset of this section, this Bill is complex and unnecessarily extends the regulatory authority of the Secretary of Agriculture. As an example of the extension, Section 304 provides authority for the Secretary to obtain any information he deems necessary to administer the provisions of the act. It further specifies that the information may be obtained from those persons engaged in "manufacturing, marketing or transportation or industrial use of sugar and other sweeteners, including those not derived from sugar beets or cane and any others having information the Secretary deems appropriate." This is a most objectionable provision, and is typical of the over-reach provided by the entire Bill.

Mr. Chairman, we are adamantly opposed to the Bill. We sincerely believe it would not be in concert with the International Sugar Agreement and might well create shortages instead of assuring a continuing adequate supply of sugar for U.S. consumers. As stated at the outset, this does not mean we are opposed to providing protective assurances to domestic producers in the event the world price objectives of the ISA are not obtained, and we'd now like to outline how we believe this might well be accomplished.

SUPPORT OF ISA

The International Sugar Agreement reflects the results of a cooperative international effort to stabilize world production and thereby prevent excessive fluctuations in the price of sugar throughout the world.

The United States participated in deliberations leading to its adoption and has provisionally ratified the Agreement. We consider this Agreement a rational and well conceived effort to address these problems. We support its ratification. We also support its ratification if combined with a reasonable domestic program which complements its provisions. However, we do not support its ratification if accompanied by a domestic program which would interfere or frustrate the objectives of the Agreement. We believe the domestic title of this Bill does just that.

SUGGESTED DOMESTIC PROGRAM

We support a domestic program which would provide protection for domestic growers of sugar beets and sugar cane at realistic support levels in the event the market fails to afford an adequate return. In our opinion, this can be accomplished with a far less complex law and one which permits sugar to move freely without quotas.

We believe an appropriate support price level for the 1978 crop year would be 14 cents per pound raw sugar. However, we would not object to a slightly higher price if one were deemed absolutely necessary, but in any event we do not believe a price in excess of 14½ cents can be justified for 1978.

The support price should be attained by the imposition of import fees to the extent necessary to equate world prices with the support price level. This would necessitate exemption of sugar from the 50 percent ad valorem limitation on import fees presently contained in Section 22 of the Agricultural Adjustment Act of 1933.

Although we are concerned over legislative efforts to index prices by the outmoded parity index, we realize some future adjustment in returns to producers may be warranted. Therefore we would suggest that the standby domestic program could provide for adjusting the effective price to domestic growers. However, rather than imposing such higher prices on all sugar consumed in the United States, we would urge that such increases should be in the form of deficiency payments made directly to domestic growers. This would avoid imposing such higher prices on imported sugar which accounts for about half of U.S. supplies, and would still provide income protection to domestic growers in the event the market prices are not at or above the support price level.

We would suggest the Secretary of Agriculture be authorized to make such adjustments in prices to domestic growers as are necessary in order to assure an adequate supply of sugar to meet current needs. The Secretary's determination should include consideration of changes in domestic consumption, world and domestic production and the level of income to domestic producers necessary to maintain productive capacity. In no event, however, should the adjustment exceed the annual rate of change in the "Implicit Price Deflator" for Gross National Product as published by the Department of Commerce's Bureau of Economic Analysis.

Because under our proposal, the price for the 1978 crop year would be set at 14 to 14½ cents, such payments would not be required until the 1979 crop year and only then, if necessary by the Secretary's determination. It should also be pointed out that no deficiency payments would be required if market forces operating within the context of the ISA provide a price to domestic growers consistent with the price objective.

As indicated earlier, we believe that the price objective could be most effectively accomplished through the use of a fixed fee on imports to be adjusted at periodic intervals, preferably on a six month's basis, but not more frequently than quarterly. The adjustment would reflect fluctuations in world market prices. Such a fee system is consistent with the continued effective operation of a global futures market for sugar. Also, such a fee, because it could be adjusted periodically would permit the domestic price objective to be closely correlated with changes in world market prices. We have developed a very specific proposal as to how this could be accomplished using futures market prices. This we believe constitutes a workable approach to the administration of a fee system. We have copies of our suggestions and would like to offer them for inclusion in the record.

Mr. Chairman, we have attempted to offer suggestions which could be incorporated in a much less complicated bill, which would be equally or more effective in supporting the domestic industry, and be consistent with the ISA. Very simply, it would provide a support price for sugar for the 1978 marketing year in the 14 cents–14½ cents range. It would provide authority for the imposition of fees on imported sugar up to the amount necessary to protect the price support objective. It would provide that any future adjustments in the price objective for domestic producers would be accomplished by deficiency payments.

We believe the standby domestic program should extend for a three-year period.

Such a program, in our opinion, will provide a reasonable return to domestic beet and cane growers; maintain an effective future's market price structure for forward contracting; is consistent with the provisions of an International Sugar Agreement; and will maintain a viable domestic industry. We believe it is a superior course than that contained in S. 2990.

Mr. Chairman, on behalf of the Sugar Group, let me thank you for the opportunity to present our views.

Senator MATSUNAGA. Our next panel of witnesses will consist of Mr. Kish Otsuka, president of the American Sugarbeet Growers Association; Mr. Rowland M. Cannon, president and chief executive officer, U and I Inc., accompanied by Mr. David C. Carter, president, United States Beet Sugar Association; Mr. Billy J.

Cleavinger, president of the Texas-New Mexico Sugarbeet Growers Association; Mr. Hoxsie Y. Smith, president, California Beet Growers Association Limited; and Mr. George Sinner, president, Red River Valley Sugar Beet Growers Association.

Will the named witnesses please occupy the chairs at the witness desk? As indicated earlier to the cane panel, each of you will be allowed 5 minutes and then after you are all through testifying, then we will pose questions to you.

Rather than going through your whole statement, unless you can read your statement within the 5-minute limitation, we will ask you to summarize, and your written statement will be printed in the record as though delivered in full.

So we will proceed in the order named. Mr. Kish Otsuka, president of the American Sugarbeet Association, will you state your name and capacity and proceed?

STATEMENT OF KISH OTSUKA, PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. OTSUKA. Mr. Chairman and members of the committee, my name is Kish Otsuka. I am a sugar beet grower and reside near Sedgwick, Colo. I am president of the American Sugarbeet Growers Association and am appearing in that capacity today. Our association represents sugar beet growers in 12 States. A list of the affiliated associations is attached to my prepared statement.

Mr. Chairman, the future of the domestic sugar industry very probably rests in the action which your committee and the Congress will take on long-term legislation. Quite frankly, we are at the crossroads on whether the domestic sugar beet industry can survive, let alone become a viable entity without positive action by the legislative branch.

We have supported and expect to continue to support the basic concepts embodied in the International Sugar Agreement despite the poor track record of commodity pacts in achieving success. However, we cannot rely solely on that instrument to maintain a viable domestic producing industry.

It is essential and crucial that a backup program be enacted to insure domestic producers of at least cost of production and a chance for some profitability.

I will not burden the record with a detailed description of the serious economic crunch sugar beet growers have undergone the last 3 years. The record pretty well speaks for itself and is well-documented—reduced production, closure of beet mills—one in the last month, and I understand one more guaranteed to close if we do not have some legislation—and the economic losses endured by the producers and also the rural communities who have lost forever the stability and income provided by the crop.

Suffice it to say that the industry cannot continue under the present conditions to supply a substantial portion of this country's sugar requirements.

We believe the answer to this serious situation in which producers find themselves is the bill which the members of this committee have cosponsored with Senator Church, S. 2990.

Mr. Chairman, the provisions of this bill are very similar to the conclusions reached and the recommendations which the International Trade Commission has made to the President after two in-depth investigations over a period of 18 months, that cheap and heavily subsidized foreign sugar being brought into this country constitutes a serious threat to the domestic sugar producing industry.

The price objective called for in S. 2990 is modest in terms of modest requirements of the producers. In actuality, the price will reflect only about 65 percent of parity. When the Sugar Act was in operation, the returns to sugar beet growers routinely exceeded 80 percent of parity. It is a minimum required for this industry to survive.

We know, Mr. Chairman, that there will be criticism of the small increase in price which this legislation provides for producers. However, under the circumstances, such attitudes must be categorized as uninformed or having complete disregard for the needs of the producer. It is indefensible on the one hand to publicly support a viable domestic producing industry and on the other hand to propose or take actions which completely negates that position. We find it inconceivable that the administration supports a 37-percent increase in wage rates in one industry which will trigger increases in the total industrial complex and then turn around and vigorously oppose some slight relief to basic industries such as agriculture and, specifically in this case, sugar.

The average price for imported sugar, duties and fees paid at New York in 1977, was 14.3 percent above 1973. The year before, the worldwide shortages sent sugar prices to record high levels. The 14.3-percent increase compares with at least a 40-percent cost increase, according to the prices paid index, during the same period.

With respect to the method of support, we believe a system of fees and quotas are the only viable and responsible method to achieve the proper returns to the producers. We understand direct payments to producers or processors continue to be popular options in some quarters. We are vigorously opposed to this method of support and sugar beets do not wish to have their problems solved by payments from general tax revenues.

In addition to our dislike for payments, limitation on payments would certainly follow and such limitations would signal the death knell of some of our major producing areas because of the very nature of their operations.

Sugar beet growers do not ask for handouts; all we ask is the right to achieve our returns from the marketplace. Mr. Chairman, the failure to enact S. 2990, the Sugar Stabilization Act of 1978, will severely endanger the likelihood of ISA to succeed. Without ISA and the Sugar Stabilization Act, consumers will be exposed to the instability of supply and extreme price gyrations that have characterized the world sugar market for many years.

Meanwhile, the ability of this Nation to produce a substantial portion of its own sugar requirements will continue to be reduced and in the not very distant future, disappear completely.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Otsuka.

I might, once again, point out—some of you may not have been here when I explained the light system. You have the green light, that means go; the yellow light, caution, you have 1 minute left; and when the red light comes on, the bell will sound and that means to stop, just like the traffic lights.

[The prepared statement of Mr. Otsuka follows:]

STATEMENT OF KISH OTSUKA

Mr. Chairman and Members of the Committee: My name is Kish Otsuka. I am a sugarbeet grower and reside near Sedgwick, Colorado. I am President of the American Sugarbeet Growers Association and am appearing in that capacity today. The Association represents sugarbeet growers in twelve states. A list of the affiliated associations is attached to this statement.

Mr. Chairman, the future of the domestic sugar industry very probably rests in the action which your committee and the Congress will take on long term sugar legislation. Quite frankly we are at the crossroads of whether the domestic sugarbeet industry can survive let alone become a viable entity without positive action through the legislative process.

Last year, we all had high hopes that the early negotiations of an International Sugar Agreement would not only be successful, but would create a proper balance between supply and demand protecting both consumers and producers. The failure of these negotiations last spring prompted the producing industry to seek an amendment to the farm bill, which later became known as the de la Garza amendment.

The necessity of the de la Garza amendment resulted from the totally inadequate actions of the administration in instituting a payment program by administrative fiat. Not only was the payment program inadequate but, it was declared illegal by the Justice Department. It became clear to us at the time that if proper and positive assistance was to be given to the industry the Congress would have to act and mandate such actions * * * thus de la Garza.

We have supported and expect to continue support of the concepts embodied in the International Sugar Agreement despite the poor track record of commodity pacts in achieving success. However, we cannot rely solely on that instrument to maintain a viable domestic producing industry. It is essential and crucial that a back up program be enacted to assure domestic producers of at least cost of production and a chance of some profitability.

I will not burden the record with a detailed description of the serious economic crunch sugarbeet growers have undergone the last three years. The record pretty well speaks for itself and is well documented,—reduced production, closure of beet mills, and the economic losses endured not only by the producers, but the rural communities who have lost forever the stability and income provided by the crop. Suffice is to say that the industry cannot continue under present conditions to supply a substantial portion of this country's sugar requirements.

We believe the answer to the serious situation in which producers find themselves is the bill which members of this committee have co-sponsored with Senator Church—S. 2990.

The provisions of the bill follow the general concepts of legislation which proved successful for over 40 years. It recognizes the conclusions of the International Trade Commission, who undertook two investigations over a period of 18 months,—that the impact of cheap, heavily subsidized foreign sugar being brought into this country constitutes a serious threat to the viability of the domestic industry. The bill provides a great deal of latitude for the Secretary of Agriculture in achieving the price objective—the same objective which is found in the I.S.A. He may use either quantitive import quotas or fees in applying the brakes to excessive imports which ever serves the National interest. Fees obviously would be the most cost effective, however proper administration will probably require a combination of fees and limited restrictive quotas.

The price objective provided for in S. 2990 is modest in terms of the actual requirements of the producers. In actuality the price will reflect only about 65 percent of parity. When the Sugar Act was in operation the returns to sugar-

beet growers routinely exceeded 80% of parity. Essentially the price objective in this bill is indeed a minimum under which the industry can survive.

We know, Mr. Chairman, there will be criticism of the small increase in price which this legislation provides for producers however, under the circumstances such attitudes must be categorized as uninformed and or/complete disregard of the needs of the industry. It is indefensible on the one hand to publicly support a viable domestic sugar producing industry and on the other hand to propose or take actions which completely negates that position. We find it inconceivable that the Administration supports a 37 percent increase in wage rates in one industry which will trigger increases in the total industrial complex and then turn around and vigorously oppose some slight relief to a basic industry such as agriculture and specifically in this case sugar.

For example, the New York Times has reoprted that the Teamsters Union will attempt to match the gain in wages and fringe benefits recently won by the United Mine Workers Union when teamsters contract negotiations start later this year.

Teamster, President Frank Fitzsimmons was quoted as saying the miners "got 37 percent increase". You think I'm going to the table for anything less? Somebody's got to be crazy?

S. 2990 does not provide for an increase of that magnitude nor does it compare to the increases which have occured in sugar containing products.

The average price for imported sugar in New York City, freight duty, and fees paid in 1977 was 14.3 percent above 1973, the year before worldwide shortages sent sugar prices to record high levels. The 14.3 percent increase compares with at least a 40 percent cost increase (prices paid index) during the same period.

Meanwhile, the composite price for sugar containing products, traced by the U.S. Bureau of Labor Statistics, increased 22.4 percent in 1974, was 44.6 percent higher in 1975 and by 1977 was 48.6 percent above the 1973 level.

We have noted with interest the profits and even record profits which some of the processors of sugar-containing products have been reporting. These processors account for nearly 85 percent of the sugar purchased for consumption in the United States. Prices for their products were raised in response to the high sugar price levels in 1974–75, but have not reduced them, except in isolated instances, as sugar prices receded to the 1973 levels.

Carol Tucker Foreman, Assistant Secretary of Agriculture in a speech just recently pointed out this fact by saying, "prices rose as sugar and wheat prices went up a few years ago, but have not followed the downward spirals of those raw materials".

In light of these facts, the clear conclusion is that the proposed slight increase in sugar prices can easily be absorbed by the industrial users of sugar and, for the most part, never passed on to consumers.

With respect to the method of price support for the industry, as we have previously stated, we believe a system of fees and quotas are the only viable and responsible method to achieve proper returns to producers. We understand direct payments to producers or processors continue to be a popular option in some quarters. We are vigorously opposed to this method of support.

Sugarbeet growers do not wish to see their problems solved by payments from the general tax revenues. The concept does not reflect any direct aspect of production and marketing, thus it is foreign to our business operations. Imported sugar can continue to flow into the U.S. while we rely on subsidy payments consequently, market conditions will tend to deteriorate further causing greater need for more subsidy. This constitutes a vicious cycle which undercuts stability. In addition to the general offensiveness of direct subsidy payments, a limitation on payments would certainly follow or become a part of the final legislation. Limitations would signal the death knell of some of our major producing areas * * * because of the very nature of their operations, and should cross compliance be involved it would effect practically all of the sugar producing areas of the United States. We are not asking for hand outs all we are asking is the right to achieve our prices—our returns—in the market place.

Mr. Chairman, the bill we are considering today is the fruit of a series of meetings held under the good auspices and leadership of Senator Stone. The meetings were public and with participation and input from all segments of the sweetener industry both sugar and corn. It is a bill we support and urge this

committee, and the full committee on Finance to report to the Senator for adoption.

Failure to enact S. 2990 (Sugar Stabilization Act of 1978) will severely endanger the likelihood the I.S.A. will succeed. Without the I.S.A. and Sugar Stabilization Act, sugar consumers will be exposed to the instability of supply and extreme price gyrations that have characterized the world sugar market for many years.

Meanwhile, the ability of this nation to produce a substantial portion of its own sugar demands will continue to be reduced and, in the not very distant future, disappear completely. As U.S. consumers become more and more reliant on foreign sugar suppliers * * * and our demands on the world market become greater, sugar prices will undoubtedly increase * * * and there will be no means of controlling them * * * a situation not unlike this nations experience with foreign suppliers of cocoa, coffee and crude oil.

ASSOCIATIONS AFFILIATED WITH THE AMERICAN SUGARBEET GROWERS ASSOCIATION

Arkansas Valley Beet Growers Association,
Big Horn Basin Beet Growers Association,
Central Nebraska Beet Growers Association,
Elwyhee Beet Growers Association,
Goshen County Cooperative Beet Growers Association,
Farmers and Manufacturers Beet Sugar Association,
Idaho Beet Growers Association,
Lower Snake River Beet Growers Association,
Montana-Dakota Beet Growers Association,
Mountain States Beet Growers of Colorado-Kansas,
Mountain States Beet Growers Association of Montana,
Nebraska Non-Stock Cooperative Beet Growers Association,
Nyssa-Nampa Beet Growers Association,
Southern Colorado Beet Growers Association,
Utah Sugar Beet Growers Association,
Washakie Beet Growers Association,
Washington Sugar Beet Growers Association.

OUTLINE OF OTSUKA TESTIMONY

I. Representation—12 states—17 state and regional Associations to prepared statement.

II. Future of the Industry rests with action Congress will take on long term domestic legislation, including the I.S.A.

III. Failure of the early negotiations of I.S.A. required the de la Garza amendment.

IV. The inadequacy and delay of implementing de la Garza.

V. Support of I.S.A. in concept but, cannot rely solely on it as the answer to problems of the domestic producers.

VI. Brief description of economic problems of domestic producers—cannot continue under present price levels.

VII. Provisions of S. 2990—follow in general the recommendations of the International Trade Commission—use of fees and import controls.

VIII. Price objective modest—approximately 65 percent of parity (Old Sugar Act growers received around 80 percent).

IX. Price increase modest in relation to actual costs of production increases. A major portion of price increase could very easily be absorbed by Industrial users who purchase 80 to 85 percent of the sugar.

X. Opposition to direct subsidy payments—payment limitation factor.

XI. Fully support the bill.

XII. Failure to act will endanger the International Sugar Agreement and expose the consumers and producers to instability of supply and extreme price gyrations. Domestic producing industry would be severely crippled and eventually go out of existence.

Senator MATSUNAGA. Next, Mr. Cannon. Will you identify yourself for the record and proceed?

STATEMENT OF ROWLAND M. CANNON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, U AND I INC.; ACCOMPANIED BY DAVID C. CARTER, PRESIDENT, U.S. BEET SUGAR ASSOCIATION

Mr. CANNON. Mr. Chairman, my name is Rowland M. Cannon and I am president and chief executive officer of U and I Incorporated, a Utah Corp. I reside in Salt Lake City.

The principal business of our company is the manufacture and distribution of beet sugar produced by our factories in Idaho, Utah and Washington.

I appreciate the opportunity to appear here today as a spokesman for all, except one, of the beet sugar processing companies in the United States including both publicly held stock companies and also grower cooperatives.

I will briefly summarize the testimony which we have prepared for the hearing record.

The sugar processors which I represent most urgently request that the committee and the Senate give prompt, favorable consideration to the Sugar Stabilization Act of 1978. We believe this act will be an effective backup to the International Sugar Agreement.

It is keyed to the philosophy and intent of the ISA, and its price objective is precisely at the midpoint of the free range for international traded sugar.

We want the International Sugar Agreement to work, but we are very much aware of the generally unsuccessful record of such agreements in the past and we stress the need for backup domestic legislation.

This bill is very important to us. Each of the firms is in serious financial straits—indeed, jeopardy—because of the current situation. Our published reports tell the story.

Just to take three: Poly Sugar Corp. suffered a net loss of $6.1 million in its last fiscal year. In my own company, in recent weeks we reported a net loss of more than $2 million. American Crystal Sugar Co., a grower-owned cooperative, reported zero earnings last quarter.

It is very clear that financial results like this cannot continue.

An increase in price of 1 cent per pound, from 14.2 cents under the formula now in effect to the 15.2 cents suggested this morning by Mr. Hjort would not have erased these losses and would certainly result in substantial reductions in domestic production of sugar.

Most likely it is not necessary to point out to the committee that, of the 50 processing plants which our various companies utilized in processing beets from 18 States, almost all are located in rural communities. In most cases, they are the heart of a community.

If an automobile factory in Detroit lays off 200 workers the effect is small. If a beet sugar factory in Sydney, Montana goes out of business, the community suffers a crushing economic blow with the loss of its principal employer, and the farmers in the area lose a market for millions of dollars of crop production.

The acreage must then go into wheat or other crops already in surplus.

Gentlemen, it is important that the United States be capable of producing a significant portion of its sugar supply. Remember, we are an importing Nation, and the oil situation all too graphically portrays what can happen if we become too dependent.

Already an attempt has been noted in foreign sugar-producing areas to form a cartel. It must be remembered that the American beet sugar industry is an efficient producer. We do not take a back seat to other sugar industries of the world.

However, in a number of cases, we do not compete with other growers and processors but rather with their governments. The International Trade Commission record is replete with evidence of this. The President has said he will not tolerate dumping, but the problem remains.

The fact that some exports to this market sell their products at prices with which we cannot compete has nothing to do with efficiency. Rather, it has to do with the need for dollars. It has to do with export subsidies. It has to do with keeping workers busy rather than in revolution and it has to do with wages and fringe benefits far below our rates.

There is a vast difference between free trade and fair trade. Import restraints on sugar already exist worldwide. A 1976 World Bank study show so-called free market exports in 1973 accounted for only 14.4 percent of world production. In fact, under the ISA, the total of basic export tonnages totalled only 17.4 percent of anticipated 1978 world production.

American producers prefer and expect to obtain a price for their product on the marketplace, not from tax dollars. Administration of last summer's sugar amendment has been an utter disaster. Offshore sugar was allowed to end at a tremendous rate, and still overhangs the market.

This has prevented the De la Garza amendment from functioning as intended.

Mr. Chairman, we are firmly of the belief that the Sugar Stabilization Act of 1978 will go a long way towards returning to the sugar industry the stability that consumers deserve and which the industry desperately needs. We urge its support.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Cannon.

Mr. CANNON. Mr. Chairman, may I comment that the agenda for today lists Mr. Cleavinger as being associated with me. Actually, Mr. Cleavinger appears as another member of the panel.

Senator MATSUNAGA. Thank you.

[The prepared statement of Mr. Cannon follows:]

STATEMENT OF ROWLAND M. CANNON, U & I INC.

Mr. Chairman: My name is Rowland M. Cannon. I am president and chief executive Officer of U and I Incorporated, a Utah corporation. I reside in Salt Lake City. U and I's principal business is the manufacture and distribution of refined sugar produced from sugarbeets grown in Utah, Idaho, and Washington.

I appear here today, however, as a spokesman for and representative of all but one of the beet sugar processing companies operating in the United States.

Sugar beets are grown in 18 States from Ohio to California, from the Canadian border to Mexico. The more than 50 processing facilities are generally located in smaller, rural communities, where their contribution to the local economies is a significant contribution to our national economy.

The firms on whose behalf I appear are both publicly held corporations, and grower-owned cooperatives. Irrespective of the financial structure, each and every one of the Nation's beet sugar processing firms is in serious financial straights—indeed jeopardy—because of the current sugar situation. One need only look at the published reports issued by those beet sugar processing companies for calendar year 1977, and even worse, for the first quarter of 1978 to recognize immediately that the future of the industry is in serious question if the situation persists.

Citing only three examples, the Holly Sugar Corp., which has been in the sugar business since 1916, sustained a net loss of $6.1 million for its fiscal year ended March 31, 1978. Board Chairman John B. Bunker in his statement to stockholders said that dumping of imported sugar into this country at prices below production costs contributed directly to this loss, which equals $3.87 per common share on revenue of $152.9 million.

My own company posted a net loss for the fiscal year ended February 28, 1978. If we were an up and down operation or a so-called "high flyer," huge losses or profits might be commonplace. But U and I Incorporated is not a speculative company. And despite our best efforts, it was absolutely impossible to operate a beet sugar processing company in the black under current conditions.

Another beet sugar processing company, American Crystal, headquartered at Moorhead, Minn., is a farmer-owned cooperative. It represents a sizable part of our industry, operating seven processing facilities.

There is a common misconception that a cooperative cannot go broke, but I assure you American Crystal shares in the same financial difficulties facing all beet sugar processors. In their most recent financial statement, for the second quarter of the current fiscal year, American Crystal reported earnings of zero dollars. This means, of course, that losses experienced were passed on to the grower-shareholders who must assume the burden of their cooperative's indebtedness. As a matter of fact, on their 1976 crop, American Crystal failed to meet its contractual obligations to its grower-owners by more than $14 million. A continuation of this situation will most certainly mean the end of American Crystal and the destruction of the farmers' investment in this cooperative venture.

We are not crying wolf. As an industry we are on the brink of disaster. Indeed, eight beet sugar processing plants have been shut down permanently since 1974. Unless positive steps are taken, the beet sugar industry, which has supplied American consumers with a dependable, home-grown source of this basic commodity since 1890, will go out of existence with all of the attendant losses that catastrophe entails.

As you and members of this subcommittee are well aware, an amendment to the 1977 Food and Agriculture Act was designed to assist in the maintenance of viable domestic production capacity until the International Sugar Agreement was in place and working. I need not recount the problems attendant to passage of that simple amendment last summer. But for the record it should be noted that the administration of the program called for by the Congress was an utter disaster. Subsidized, off-shore sugar at prices below the cost of production anywhere poured into this country at an unprecedented rate last year—particularly in the fourth quarter. This large inventory overhanging the market has thus far prevented the so-called De la Garza amendment from functioning as intended. Even so, that amendment expires under its own terms by the end of the 1978 crop year. Its minimal, protective features will thereupon vanish, and domestic producers along with it, unless something is done immediately.

As an industry we are proud of our history of supplying American consumers during good times and bad. Perhaps our greatest achievements in carrying out that responsibility are recorded during times of war or when weather, pestilence, labor strikes, political upheavals and other actions beyond the control of U.S. citizens interrupted offshore supplies.

But beyond providing a basic commodity vital to the national interest, the beet sugar industry is a generator of wealth in many parts of rural America. Our economic and social contributions should be weighed along with our contributions to the strategic well-being of the country. The hundreds of millions

of dollars that accrue annually in the form of payments to growers for crop purchases, to members of organized labor for wages, and to stockholders in the form of dividends is created from seed and soil and sunshine. All of that money circulates through the economy of this country in the form of purchases for goods and services on the farm and in the factory—for fuel, for transportation, on incoming raw materials and outgoing finished products—circulating a minimum of seven times to almost every nook and cranny of this nation. Thousands of small businessmen from service station operators to janitorial services can trace their productivity and cash flow directly to the beet sugar business.

If General Motors lays off 200 workers in Detroit, it is of rather small significance to the economy of that city. But if 200 workers in a beet sugar factory—the principal employer in Sidney, Mont.—lose their jobs, it is a crushing economic blow to that community. Lost are not only the jobs and the incomes they produce, but also the considerable value of the sugarbeet crop which, it is said, multiples sevenfold as it turns over in the local economy. The land remains in production, of course, but its yield will be wheat or feed grains—crops characterized by surpluses and attendant low prices.

So, Mr. Chairman, we are talking not just of the assurance we provide this nation's consumers with our commodity. It is self evident that if there is no domestic sugar production, Americans would be totally dependent on the whims of foreign exporters and their international cartels—indeed such cartelization is already formed by such as GEPLACEA (a 22-member Group of Latin American and Caribbean Sugar Exporting Countries organized in 1974 to "foster technical and economic cooperation"). Rather we are also talking about the added economic strength that this industry provides to the states, towns and rural communities wherein we operate.

We believe that the Sugar Stabilization Act of 1978, which you co-sponsored along with Senator Church and 30 other distinguished Members of the Senate, will go a long way in returning the necessary stability in prices consumers want at levels this industry desperately needs in order to survive. Its provisions are workable. It will at a minimum allow producers and growers of the beet sugar industry to make long-range plans which are so necessary for our survival. It effectively insulates U.S. consumers *and* producers from surplus and shortage—real and artificial—supply conditions on the world market which have led to the instability of prices in the past. Much is made of the fact that the sugarbeet grower has alternate uses for his land, but little notice is given to the fact that virtually all of the alternate crops are already in surplus while the U.S. remains a deficit-producer of sugar. It is further, an oversimplification dreamed up by someone who knows little of the forward planning necessary to produce sugar. For example, the capital expenditures that must be made each year to ready a beet processing facility are sizeable. I could not, for example, commit my company to those expenditures on a hit-or-miss proposition with respect to the acreage necessary to operate our plants. We must go out months in advance and gain assurance from the farmers that they will indeed provide the necessary raw material to operate that plant at some optimum level. Similarly, the sugarbeet grower has a sizeable investment in specialized equipment, needs to plan for his labor force and follow his crop rotation. It is because of this need for forward planning by both the processor and the grower that the Sugar Stabilization Act is needed now.

The key elements of the Sugar Stabilization Act of 1978—a price objective for sugar at a level that will maintain domestic production; import fees to achieve that price objective; and import controls sufficient to meet U.S. consumption needs—interlock and are vital to the success of the program.

Understandably the Administration is reluctant to impose import controls on sugar. The dedication to free trade is an historic and laudable philosophy to which Americans have long suscribed. In the case of sugar, however, there is a vast difference between free trade and fair trade. Opening our ports to the free flow of sugar at prices below world costs of production is, as I have detailed, driving the American industry to bankruptcy. No other nation with a sugar industry of its own permits such free access and indeed the General Agreement on Tariffs and Trade recognizes that sugar is entirely different from other world-traded commodities. Import restraints on sugar exist world-wide, and reciprocal trade barriers are not erected with respect to any one nation's sugar program.

Supply management was the key to the successful sugar program that existed in this country for 40 years prior to 1974. Indeed supply management is the key

to the International Sugar Agreement which will strive to bring world sugar prices up to a price objective that will sustain the world's sugar exporters.

It has been proposed that direct payments be substituted for import restraints. I do not have to tell you, Mr. Chairman, that a direct payment does not fit with the traditional farming operations in sugar production. It is unrealistic to think that legislation embodying such payments could be enacted without a payment limitation at the $50,000 level or below. Even if the payment limitation were defeated in initial legislation, a limitation would be offered on the Agricultural Appropriations Bill each year thereafter.

American producers prefer, and indeed expect, to obtain a price for their product out of the marketplace and not from taxpayers' dollars. A combination of fees and supply management will achieve the price objective without such direct government payments. The cost of the program will therefore be borne by the consumers of sugar—principally industrial users who purchase some 75 percent of all sugar consumed in this country—and not borne by non-sugar users, as is only fair and equitable.

Of late we have heard much of the "least cost to society" theory which mathematically concludes that direct government payments to U.S. producers has a bottom line figure lower than if those same U.S. producers achieve their returns from the marketplace. This theory assumes that the rest of the world's producers are more efficient than their American counterparts—an assumption that is patently false by every measurement of efficiency. The fact that exporters to this market sell their product at prices with which we cannot compete has nothing to do with efficiency. It has to do with the need for U.S. currency, it has to do with blended prices and export subsidies, it has to do with the need to keep their workers busy rather than in revolution, and it has to do with foreign manufacturers who do not meet U.S. wage rates, achieve U.S. pollution standards, work health and safety conditions, and welfare benefits.

As this bill moves through the Congress much may be made of an ill-advised press release issued by the Wage and Price Stability Council that indicates the increased costs accruing from the Sugar Stabilization Act of 1978 amounts to $2.4 billion each year. That statement is so erroneous it is difficult to know where to start correcting it.

The purpose of the Sugar Stabilization Act of 1978 is to insure a price for sugar in the marketplace equal to the average cost of production. In 1977, there were some 209,000,000 hundredweight bags of sugar delivered in the United States. To raise the price of sugar by a total of $2.4 billion as the council says, would mean an increase of 11.48¢ per pound—and bring the price up to some 24¢ per pound, not the 17¢ price objective envisioned by the bill.

(The Council says the price objective is 17.5¢, by the way, when it is actually 17¢. That is not a fatal error, to be sure, but it is indicative of the inaccuracies in their press release.)

The Council totally ignores the fact that 45 percent—almost half—of the sugar consumed in this country is produced overseas and the difference between the world price and the domestic price objective on sugar imports is to be turned over to the U.S. Treasury.

The Council expresses concern that, according to their calculations, the bill would mean a full percentage added to the Consumer Price Index for food. They chose to ignore the needs of sugar producers in this country which are clearly demonstrated by the fact that, while the CPI for food in 1977 stood at 192.2, the index for retail sugar prices was at 178.

Take the "Market-Basket" price for food, a statistic everyone understands. In 1977 it stood at $1,936.51 for the year. Adding 3.5¢ per pound to the price of sugar—and that is what the price objective in the bill would do—will increase the annual Market Basket price for food by only one-tenth of one percent.

The Council's press release tells about "subsidies" in the Sugar Stabilization Act as though it contains some kind of direct payment program to domestic sugar producers—which it does not. It refers to "levels of support" as though the proposal contains a loan and purchase program with the government using tax dollars to buy sugar off the market in order to drive up the price. This program does not do that, either.

This program simply provides that the buyers of sugar in this country—and about 75 percent of all sugar purchases are made by industrial users—will have to pay a price about equal to the average cost of production of this basic commodity. The difference between the world price and the domestic price objective, if they buy foreign sugar, will go principally to the U.S. Treasury. If users buy

sugar from U.S. sources, sugarbeet and sugarcane growers will earn enough from their crops to just about break even.

The Sugar Stabilization Act of 1978 will be an effective back-up for the International Sugar Agreement. Enactment of our domestic program keyed to the philosophy and intent of the International Agreement will demonstrate to the rest of the world that this country is intent upon making the Agreement work.

The price objective in the Sugar Stabilization Act is precisely at the midpoint of the free trade range for internationally traded sugar. The international pact aims to bring sugar prices up to that free trade range by use of export quotas. The Sugar Stabilization Act involves import controls—quotas fees or a combination of both—to achieve the price objective.

Enactment of the Sugar Stabilization Act of 1978 will mean that the International Sugar Agreement is going to work, in principle, in this country no matter what happens elsewhere. And, of course, if the International Agreement is effective in achieving the free-trade range for sugar prices, then the objectives of the Sugar Stabilization Act of 1978 will also have been achieved.

Mr. Chairman, much will be made of the fact that a domestic sugar program is unnecessary because the International Sugar Agreement will protect U.S. consumers and the producers. We sincerely hope, Mr. Chairman, that the ISA does indeed work, but we cannot place our entire future on that foundation. We believe, however, that the Sugar Stabilization Act of 1978 will be a key factor in ensuring the achievement of the pact's objectives for U.S. consumers and producers.

As is documented, the U.S. International Trade Commission, in 1975, undertook a study of the experience of the United States with international commodity agreements.

The Commission held public hearings focusing on five commodities: tin, coffee, cocoa, wheat and sugar. In its report to the Committee, dated November, 1975, the Commission broadly defined a "successful" agreement as one which achieves the stabilization of prices, the maximization of producers' earnings, and the delivery of steady, adequate supplies to consumers.

The Commission noted that international agreements employ the mechanisms of stocks, long-term multilateral contracts, and quotas. Stocks and contracts are designed to achieve price stability. Quotas are used mainly as a device for upholding price levels. The Commission found however that supply shortages and the concomitant upward pressures on price have generally exceeded the capacity of all three types of control mechanisms to maintain prices within negotiated ranges, ultimately resulting in the breakdown of the agreements.

In its study of sugar specifically, the Commission noted that such world-wide agreements had been negotiated in 1937, 1953, 1958 and 1968. Those agreements, however, had not included that large part of the international sugar trade covered by preferential arrangements. The Commission concluded therefore that "free market" sugar prices often remained below costs of production.

It was these factors that led the Commission to conclude that sugar agreements were "generally unsuccessful" in achieving their price objectives.

According to a 1976 World Bank study, total "free market" sugar exports in 1973 accounted for only 14.4 percent of total world production. In negotiating the newly proposed International Sugar Agreement, the total of the Basic Export Tonnages (BETs) assigned to exporting nations totalled only 17.4 percent of an anticipated 1978 world production.

In conclusion we would urge the Congress to act forthwith in a favorable manner on the Sugar Stabilization Act of 1978 (S. 2990). The future of our industry is at stake.

Thank you.

Senator MATSUNAGA. Next, Mr. Cleavinger, we will hear from you now.

STATEMENT OF BILL J. CLEAVINGER, PRESIDENT, TEXAS-NEW MEXICO SUGAR BEET GROWERS ASSOCIATION

Mr. CLEAVINGER. Thank you, Mr. Chairman. I appreciate this opportunity. We have filed a written statement and I will try to cover it as briefly as I can.

I am Bill Cleavinger, president of the Texas-New Mexico Beet Growers Association. We have producers in both of these States.

I am a farmer, and have been for 25 years. The basic crops I produce are wheat, corn, maize, and sugar beets. All these have one thing in common. Mr. Hjort testified this morning that he wanted consistency in his farm programs, and I see consistency—they are all completely inadequate.

Senator DOLE. They are all bad.

Mr. CLEAVINGER. I agree. Thank you, sir.

Senator DOLE. That may be a biased view.

Mr. CLEAVINGER. Well, it is shared by a lot of farmers, I guarantee you.

There seems to be some trouble with this escalation clause. It seems that the farmer has not been affected by inflation and they do not intend that he should be affected by inflation.

Mr. Hjort testified before the International Trade Commission that this 13.5 cents, that we are supposed to be getting along with now, was the cost of production in 1974. Inflation has taken its toll quite freely since that time and if 13.5 cents would break even in 1974, I would hate to think what it is now. I do not really understand where he can get 15.2 as the cost of production, if he found that figure in 1974.

Farmers have been affected by inflation as much, or more, as anybody else. Many of my neighbors have come to Washington and appeared before the committees here and they have documented, time and time again, the cost of fees, the cost problem and so on, and I am not going to go into that, because I think it would be very repetitious.

There is one thing that the farmer has painfully learned and that is the system of direct payments has hurt us and has hurt the agricultural industry very deeply, because the general public cannot ascertain the difference between a subsidy to the consumer and a subsidy to the producer, or to the farmer. They seem to think that if there is a check directly to the farmer, then that has got to be all directly on his part and, as you know, this is not so.

One of the things that is hard for us to understand as farmers, there is a protection agency for most segments of the economy in the United States and there is one named the Department of Agriculture, and yet this morning in the testimony, it was clearly evident that the Department of Agriculture was not looking out for the good of the farmer, and this has been clearly evident for some time.

I was present in Washington on October 18, 1977, when Mr. Bill Diamond, representative of the Irish Sugar Beet Industry—he was representing the Common Market—he stood up and told Mr. Bergland:

> Mr. Bergland, I would not attempt to tell you how to run this fine country of yours because it is a great and powerful nation. But, Mr. Bergland, you are not treating your farmers right.

He went on to tell Mr. Bergland, you pay your farmers one-half of what we receive in Ireland for sugar beets. This is not good for the American farmer and it is not good for the Irish farmer because, sooner or later, it will bankrupt the Nation; it will bankrupt the world.

Following him, a representative from France got up and told the same story and a representative of the Netherlands corroborated his statement and this was the fear of the Common Market nations and they came over to the United States to tell us this story today.

It seems that it is very evident that we are the dumping point for sugar in the world today and it is—for the present time, anyway. The rest of the nations are protected by treaties and subsidies and trade agreements and yet we are saddled with the free trade theory.

If this continues to go on, then we will add sugar to the list of coffee, cocoa, and crude oil and we all know what that story is.

Maybe we should learn from the beef industry. Not too many years ago there was a beef boycott; there was a resistance. The price went high and then the beef industry struggled and there were many bankruptcies and many hard times in the beef industry and now, today, the beef prices are coming back and there is no end right now to see where this is going to lead to; this very same thing that happened in the sugar industry.

I do not think that we can experiment any longer. Inaction and indecision has cost billions in revenues and they cannot be recovered in the United States from the inaction and slowness to enact the legislation that has been presented, and it has driven our industry to the brink of destruction. We support this act and we feel like it is very much a necessity for our industry.

Thank you, sir.

[The prepared statement of Mr. Cleavinger follows:]

STATEMENT OF BILL J. CLEAVINGER, PRESIDENT, TEXAS-NEW MEXICO SUGAR BEET GROWERS ASSOCIATION

Mr. Chairman and Members of the Committee: We file this statement and give our oral testimony today on behalf of all the members of the Sugar Beet Growers Association of both the States of Texas and New Mexico. The membership in Texas has in the past exceeded 750.

IMPORTANCE OF THE INDUSTRY

The industry is very important to the farm areas of Curry County, New Mexico, and the counties of Sherman, Moore, Hartley, Oldham, Randall, Deaf Smith, Castro and Parmer in Northwest Texas. The factory capable of slicing in excess of 6,000 tons per day of sugar beets employs in the peak season in excess of 400 employees. The average or desired production is 150 million pounds of refined sugar for the consumer market, chiefly in Texas, New Mexico and Oklahoma. Hundreds of farm workers are provided employment in the growing and harvesting of sugar beets. The financial stability of many farmers depends upon this industry. The growing of sugar beets has become, since the 1962 amendment to the Sugar Act, a viable and most important crop in this area in crop rotation and with huge investments of the farmer in machinery and equipment. If the domestic industry should be bankrupted, hundreds of people, employees in the factory, in transportation, labor in growing and harvesting, will be left without employment, and the unemployment rolls will be increased as an unnecessary expense to the government. It would cost in the neighborhood of 70 million dollars to replace the plant, and this investment would be useless and worthless. The county, the state, the independent school districts, and the city would be injured by decreased real estate values, and the government would suffer in loss of income taxes.

IMPORTANCE ON A NATIONAL BASIS

Although the States of Texas and New Mexico are only a small part of the total sugar beet industry in the approximate 23 sugar beet growing states, it certainly is of great importance to Texas and New Mexico. Considering the

additional states of Florida and Louisiana and Southern Texas in the production of domestic cane sugar, even though our domestic sugar provides only 55 percent of the domestic sugar requirements of our great country, sugar production in America is a very important industry. It involves in excess of 18,000 farmers and farm owners, in excess of 27,000 processor employees, and tens of thousands of farm workers. If all the sugar beet processors were required to close plants, millions of dollars would be taken from the tax rolls, and many thousand stockholder investors in all of the sugar processing companies, all of which are publicly owned by public shareholders, would suffer untold losses. It would be unthinkable and unbelievable that our Administration or our U.S. Congress would even consider permitting this long time viable industry to become bankrupt and the many, many citizens affected thereby to be damaged and injured in such a course of action that would result in the bankruptcy of the industry. However, we have been headed in this direction for several years. The result is inevitable without legislation.

CONSUMER INTEREST

It is known by all students of the sugar industry from experience in the 1920s through the early 1930s to this date that if our domestic sugar industry is bankrupted, we will become completely reliant on imports, and the consumer would likely suffer the same results that the consumer is presently experiencing with coffee, cocoa and crude oil. Not only does the consumer suffer and is required to pay high prices, but the balance of trade is affected so that every single American suffers in the devaluation of the dollar which has happened when the balance of payment has been so greatly affected in recent years by the importation of oil from the Midwest and other foreign countries. How can we afford for the protection and benefit of the consumer and for all American citizens to permit what has happened in the oil industry to happen in other important industries such as the domestic sugar industry?

THE ADMINISTRATION POLICY

We believe that since the Administration has had some 16 months of experience and history to observe what has and what is taking place, that the Administration is now well aware that this country, the United States of America, must maintain a viable domestic sugar industry in that President Carter as recently as January 20, 1978, has declared:

"The dumping of imported sugar on our domestic market will not be tolerated."

THE UNITED STATES INTERNATIONAL TRADE COMMISSION

After a long and lengthy study, the International Trade Commission made its first report recommending to the Administration that quotas be placed on the importation of sugar into this country. Again recently, within the last few weeks, the second time in the last 18 months, after lengthy and thorough investigations and the taking of testimony throughout the country, this very competent Commission has determined and so reported and again recommended that the impact of cheap, heavily subsidized foreign sugar being brought into this country constitutes a serious threat to the viability of the domestic sugar industry. The Adminisration and the Department of Agriculture have not in the past followed the recommendations of the United States International Trade Commission, nor the advice of those with long years' experience dating back from the 1920's to the present time. Knowledgeable persons of what is both important to and necessary for the protection of the consumer and the financial stability of so large a segment of this country engaged in the domestic sugar industry as well as the stability of the U.S. dollar and the government itself, have recommended in connection with the preservation of the domestic sugar industry the placing of quotas on the imports of foreign sugar into this country, and this failure to understand the warnings of the Commission and of these interested people has resulted in serious injury up to this date. Except for the temporary passage of the de la Garza Amendment in the latter part of 1977, the impact of imported sugar was so great that the domestic industry could not be expected to survive but a very short time without the further protection afforded by the legislation now under consideration, which this industry has

to have which is similar to legislation which is afforded the consumer of sugar and the producers of sugar in practically every foreign country such as Ireland, England, the Netherlands, Belgium, Germany, France, Spain, Austria, Switzerland and Italy, many of whom are combined together with the C.I.B.E. of the common market countries of Europe. These nations all realize the importance of this industry in their country to their consumers and to their farmers and producers and to their governments, and they support their respective domestic sugar industries. The growers of these countries, intelligent men and women, who have traveled the world, fail to understand why our government has been so slow in recognizing that the American sugar industry should have the support of its government. This is well expressed in a meeting on October 18, 1977, when growers from these foreign countries met with Secretary Bergland in his office in Washington, D.C., accompanied by representatives of the producers in the United States. Mr. Diamond with the Irish Beet Growers Association rose to his feet to inform Secretary Bergland that from his study, the beet farmers in the United States were being paid about one-half the amount the Irish were paid for their beets in Ireland, and further expressing himself as believing it was not good for the American farmer to receive less for his beets than the farmer in Ireland received for his beets, and further that this was not even good for the Irish farmer for his neighbor in American to be treated in this manner, and he urged Secretary Bergland to use his influence to correct the situation. This sentiment was further backed up by statements to the Secretary by members of the French delegation and by members of the Netherlands delegation. This sentiment was approved by all the representatives of the growers of the foreign countries present.

CONSUMERS BENEFIT

The many American farm farmers, the thousands of processor employees, the tens of thousands of farm workers, the thousands of stockholder owners of processor facilities of the public processing companies, the thousands of in-between operators and employees of transportation, storing, distribution and marketing of sugar, are all consumers. They buy the same sugar products as the banker, the steel worker and the government employee. Manufacturers of machinery, of trucks and their employees, the producers and manufacturers of fertilizers, herbicides and pesticides and their employees, all selling goods to sugar producers and their employees interested in the well being of the sugar industry, are consumers. These consumers, as well as all other consumers, cannot afford to be without legislation that will insure a viable domestic sugar industry. They would be faced with the likely results that they are now experiencing with coffee, cocoa and crude oil. It is conceivable that the consumer would be in a much more favored position if instead of our farmers, our farm laborers, our sugar processors and the processor employees only providing 55% of the domestic sugar requirement, that domestic sugar production would supplant the 45% of the domestic sugar requirements now coming from imports, but to eliminate the present domestic sugar production would leave all users and consumers of sugar wide open and subject to the foreign world traders in sugar that would result in the condition with which this country was faced in the 1920s and the early 1930s when the Jones-Costigan Sugar Act was first enacted. They would be faced again with what has taken place since the 40-year-old Sugar Act was allowed by the Administration and the Congress to expire on December 31, 1974, when sugar rose at one point in time to in excess of 70¢ per pound, and like a yo-yo fall back to a disastrous .08¢ per pound. These uncertainties in our economy cannot be tolerated. Our consumers, as well as our producers, are entitled to enlightened and remedial legislation that will provide a sure source of supply of sugar in this country at reasonable prices, fair to the producer, the processor and the consumer alike. It is hoped that the current legislation referred to as the Sugar Stabilization Act of 1978 with the complementary domestic sugar program will prevent these tragic occurrences, as well as form a basis to insure the achievement of the International Pact's objective, and without which the signature to the treaty documents would amount to a complete sell-out to the American consumer, as well as the American producer. The experience of knowledgeable persons in the sugar industry in observing the ability of a few foreign traders to monopolize the world sugar

and make the American consumer pay unrealistic high prices, should not again be permitted and tolerated. The experience of the Sugar Act that worked so well for 40 years under both Republican and Democratic administrations, should afford some meaningful guidelines. The fact that the foreign countries, many of whom are willing to enter into the International Sugar Agreement, first provide for their farmers and producers and their consumers and their people a sugar law for their protection, should tell us that such a domestic law as is proposed by this legislation is a predicate and a condition precedent for the very existence of an International Sugar Agreement or treaty among the world sugar producing countries.

IMPORTANT CONSIDERATION

The current world sugar price in the .07¢–.08¢ range is well below the cost of production anywhere. Certainly it should now be well known that with the cost of machinery, taxes, interest, energy and labor in this country, that it is inconceivable and impossible that sugar can be produced in this country at these prices. The only way that foreign countries can continue to produce and market sugar at below cost of production is because of huge government subsidies and control in most sugar exporting nations after the producer has first been paid for the total sugar consumed in those countries a price which will afford the producer a profit. These present price levels will soon totally destroy this nation's ability to produce any sugar whatsoever. The ways and means of getting this sugar into this country seems variable and without our government being able to ascertain that it has happened until it is too late. This is established by the huge excessive imports into this country in the last days of 1977, and we are still faced with this excessive sugar. It is hoped that this legislation will assist the President in what we assume is his January 20, 1978 statement that this country must maintain a viable domestic sugar industry, and at which time he declared:

"The dumping of imported sugar on our domestic market will not be tolerated."

It is a shame that he could not have done something about this in 1977 before the dumping occurred. Slowness in action when the result is clear is inescapable. We appeal to this Congress, both the Senate and the House, that a viable domestic sugar industry be maintained, and that dumping of imported sugar on our domestic market will be stopped, prohibited and not tolerated by the taking of affirmative legislative action. Studies have been made, as pointed out above. The industry has already suffered and this is well known. The only daylight and the only chance for us to have a sugar industry, even for the 55 percent of our domestic production, is through effective legislation that will curb the import of sugar and provide a price to the producer that will enable him to make a profit instead of losses, thereby in the end resulting to the benefit of the consumer, as well as to various and numerous segments of our industry who sell to the producer, the processor and all others connected therewith.

We cannot overlook the fact that the composite price of 14 sugar-containing products traced by the U.S. Bureau of Labor Statistics increased by 22.4 percent in 1974, with 44.6 percent higher in 1975, and 48.6 percent above 1973 levels in 1977. These product manufacturers, for 85 percent of the sugar consumed in the United States, should certainly be able to absorb a slight sugar price increase without passing it on to the consumer. If, however, they do pass it on, the consumer should know that he should complain against someone else other than the producer, and that the consumers' position would be much worse off if the domestic producer is eliminated through bankruptcy, and we urge that in our sincere belief the consumer does not want this to happen to the domestic sugar producer.

THE ALL INCLUSIVE PROVISION OF THE PROPOSED SUGAR STABILIZATION ACT

It is well to note that the legislation involves no payment to producers and no controls on domestic production of sweeteners from sugar beets, sugar cane or corn. The National Corn Growers Association favors this legislation, and by its representatives are this day testifying before this Committee in favor of the passage of this Act.

BENEFITS TO THE UNITED STATES TREASURY

For every .01 cent per pound fee collected on sugar imports, there will be added at least 80 million dollars annually to the United States Treasury. Anyone with the desire to balance the budget cannot fail to realize this benefit, even though it is small with relation to the total billions now required to maintain the activities of our government. At the same time, the cost of the Sugar Stabilization Act of 1978 will be borne by sugar purchasers, primarily industrial users, and will not cost the taxpayers any money except a small amount for administering the program.

PROTECTION AFFORDED UNDER THE SUGAR STABILIZATION ACT

This Act will bring about an assured home produced supply of sugar. The protection to the consumer of this certain production is most significant. Not only is the supply of sugar assured in times of disaster which can occur around the world by miraculous weather conditions, by wars and other circumstances beyond the control of anyone, but in addition thereto the consumer is afforded a price protection for sugar consumed. In the event the domestic price for sugar exceeds the price objective by 20 percent for 20 market days, the Act provides for suspension of all import controls and fees. The Act is written so that a repeat of 1975 prices will not take place. It will likewise prevent the complete destruction of the domestic sugar industry of which this country should be proud, and we feel that consumers throughout the country who really understand the production of sugar are proud and know what it has meant to the consumers and to this government and all citizens.

Imports in 1976 were expensive to the Treasury of the United States. It cost our country 1.173 billion dollars. This amount was equal to over 12 percent of the balance of trade deficit. We do not need trade deficits. If we could do without the deficit in the oil business because of oil imports, our dollar would be respected throughout the world, and it would not have sunk to the low place it now occupies in the money markets of all countries. In the year 1977, even at depressed sugar prices, imported sugar accounted for a total outflow of 1.024 billion dollars. Let us avoid the reoccurrence of these conditions by realizing that we must have a viable, healthy domestic sugar industry in the United States, and that this can only take place by the farmer and the producer making a fair return on all of his expenditures, time and investments in land, equipment and in operation. The International Trade Commission has pointed up in two reports over 18 months' hearings what has to be done. Everyone connected with production who has studied the history of the sugar industry and what took place in the 1920s and early 1930's at the time of the passage of the first Sugar Act in 1934 and what has taken place since it expired on December 31, 1974, cannot help but recommend and actively support this legislation for the benefit of this country and all of its citizens. The sugar industry is woven into many other industries, and to eliminate our sugar industry would affect many other industries other than the sugar producer and the sugar factories.

THE ADMINISTRATION'S REQUEST

The Administration has requested the Senate ratification of the International Sugar Agreement (ISA). As Senator Church has so well pointed out, this Agreement could not help the United States, its producers or consumers, without first having a domestic Sugar Act which will provide the basis for entering into such ratification of such Agreement. Many countries had their domestic agreements first. We have worked with the representatives of foreign countries for many years, looking forward to an International Sugar Agreement, starting back at the time when we had a Sugar Act in this country, which was permitted to expire on December 31, 1974. Although the ISA provides basic export quotas for the world's exporting countries, as well as a price floor to protect exporters and price ceiling to protect consumers, its basic objective, however, is to achieve a free trade price range permitting the uninterrupted flow of sugar between the countries to the Agreement. We have recently, and are now suffering and sustaining the results of a glut of foreign sugar overhanging the world market, and we have seen what this excessive imported sugar has done to our own market, and this would prevent world prices from achieving the free trade range. For the United States to be a

member of this International Pact, it is absolutely necessary that we first have, as a condition precedent, the United States Sugar Stabilization Act. With this foundation, it is possible that the International Sugar Agreement might work, but without it, this country and the domestic sugar industry would be ruined. We have 45 percent of the sugar consumed in this country to play with or to be served by the International Sugar Agreement and what flows from it. It is inconceivable that we should be subjected to a foreign treaty with foreign countries for the total protection of our consumers and our domestic sugar industry.

If our sugar industry does not have this protection, hundreds of rural American towns from Michigan to the State of Washington, from Florida to Hawaii, from Nebraska, Kansas and Texas to California, where they depend on the wealth created by the domestic sugar industry for their economic livelihood, will suffer in untold numerous ways.

We urge that there be no looking back or further experimentations or delays permitted which will place our people in the position of continuing operations resulting only in further financial losses. We urge that this legislation which has been cosponsored by so many Senators who have studied the report of the International Trade Commission, the Sugar Act of 1934 effective to December 31, 1974, the laws of foreign countries which protect foreign producers and consumers, be given the full support of our total Congressional members, and that our Congress will demand action by the Agricultural Department hereafter which, under the law of the land, will protect the citizens of this country from the abuses which have fallen upon them in the past.

Senator MATSUNAGA. Thank you very much, Mr. Cleavinger. Our next witness is Mr. Smith.

Will you identify yourself for the record and proceed.

Mr. SMITH. Mr. Chairman, I have with me Mr. Malcolm Young, who is the executive manager of the California Beet Growers Association.

STATEMENT OF HOXSIE Y. SMITH, PRESIDENT, CALIFORNIA BEET GROWERS, ASSOCIATION; ACCOMPANIED BY MALCOLM YOUNG, EXECUTIVE MANAGER, CALIFORNIA BEET GROWERS ASSOCIATION

Mr. SMITH. My name is Hoxsie Y. Smith. My home is in Brawley, Calif. My sons and I operate a family farm in Imperial Valley. We grow sugar beets, cotton, alfalfa, and grain. I appear here today as president of the California Beet Growers Association, Ltd., on behalf of more than 2,400 sugar beet grower members of our statewide association.

The first commercially successful production of beet sugar occurred in California in 1870. For most of the intervening years, we have been the leading beet sugar producing State, accounting for between 25 percent and 33 percent of the total U.S. beet sugar production.

Sugar beets play a key role in crop rotation on our diversified farms. They have been contributing $400 to $500 million to our State's economy annually.

The demise of the Sugar Act in 1974 put us on the roller coaster of the so-called "world prices" which are not conducive to the price stability needed for long-range planning and investments to grow beets.

The ruinous price for the 1976 and 1977 crops resulted in our acreage declining almost one-third, from 320,000 acres in 1976 to 225,000 acres in 1977 and less than 222,000 acres in 1978.

Growers are turning to cotton, wheat, beans, and feed grains. Unless this trend is reversed, more factories will close and these closings will have a severe impact on the small communities where factories are located.

We support S. 2990, as introduced, and urge its acceptance because it will enable this country to be a full participant in the International Sugar Agreement.

Also, it will provide stable and reasonable prices to consumers and maintain a viable domestic sugar industry capable of continuing to provide a major portion of this country's needs.

We urge the committee to consider the following points: One, in two separate cases the International Trade Commission has found that the domestic sugar industry has been, and still is being injured, by foreign imports. Their latest recommendation is to increase the import fee and impose quantitative limits on imports if needed.

Two, the United States is the world's largest consumer of sugar and importer of sugar. The United States vies with Cuba for the position of being the world's third largest producer of sugar.

Three, sugar beet production costs have escalated with inflation and will be in the range of $28 to $30 per ton for the 1978 crop.

Four, on average, sugar beet growers losses have ranged from $30 to $100 per acre in 1976, 1977, and 1978.

Five, prices for refined beet and cane sugar have always been lower than refined cane sugar prices in the Northeast, which is very dependent on imported sugar.

We believe that our price for sugar beets should be realized from the marketplace and we vigorously oppose any program that involves government payments to the domestic industry.

We urge prompt and immediate action and hope that this legislation may be out of the Congress so that the United States can be a full participant in the International Sugar Agreement on July 1, 1978 and that the domestic program provided for can go into effect shortly thereafter.

Thank you, Mr. Chairman, and I have submitted a copy of my full statement to the committee.

Senator MATSUNAGA. Without objection it will appear in the record as though delivered in full.

Thank you very much, Mr. Smith.

You are from California and we certainly appreciate your coming all that distance, next to Hawaii, to testify before this committee, and just so that you will not go back confused, I am not Senator Hayakawa. [General laughter.]

[The prepared statement of Mr. Smith follows:]

STATEMENT OF HOXSIE Y. SMITH, PRESIDENT, CALIFORNIA BEET GROWERS ASSOCIATION, LTD.

My name is Hoxsie Y. Smith. My home is in Brawley, California. My sons and I operate a family farm in Imperial Valley. We grow sugar beets, cotton, alfalfa and grain. I appear here today as President of the California Beet Growers Association, Ltd., on behalf of more than 2,400 sugar beet grower members of our state-wide Association.

California is in its 109th year of sugar beet production and is the location of the first successful beet sugar factory in the United States, which started

operation in 1870. Throughout the intervening years, we have been a major producer of sugar beets with our production ranging between 25 and 30 per cent of all of the beet sugar produced in the United States.

Sugar beet production has been a cornerstone of many of our farming operations in the State and is threatened with extinction unless your Committee approves legislation which will protect us from burdensome world surpluses and unfair foreign competition.

With the demise of the Sugar Act in 1974, we were subjected to a tremendous upswing in prices, followed by a continual downward trend. This situation has not provided the stability necessary for the long range planning of crop rotation and financing required to stay in the sugar beet business.

Throughout California, and most of the U.S. beet area, sugar beet growers are paid on the basis of a participating contract, i.e., they participate in approximately 60 percent of the processor's net returns for refined sugar marketed, after deduction of certain agreed to selling expenses.

The net return is computed on the average for a sales year which starts fairly close to the start of harvest and ends 12 months later. This results in a grower not knowing what his returns for beets will be until approximately 18 months after he plants his crop. Without a stable market, no one can risk the $700 per acre it costs to grow a crop.

Ruinous prices for sugar, during the past three years, have resulted in an erosion of our beet acreage from about 320,000 acres in 1976, to about 225,000 acres in 1977, and even less than that for 1978.

Unless prices are stabilized to give us a fair return, more sugar beet factories will close in our State, one has already done so. There will be a reduction in factory employment and the many service industries associated with the growing and processing of sugar beets. Sugar beet growers are already turning from sugar beets to low labor input crops with a consequent reduction in employment opportunity for farm workers.

The Bill which you have under consideration (S. 2990) is fully supported by our organization and its members. Its purposes are two-fold. It includes legislation necessary to implement the International Sugar Agreement and, at the same time, provides for a Domestic Sugar Program for sugar beets and sugar cane.

We believe that the objectives of the International Sugar Agreement are worthwhile and if fully carried out, can lead to the eventual stabilization of world sugar prices over the next two or three years. However, price levels in the International Sugar Agreement are based on production, in tropical or sub-tropical countries, with labor rates and conditions that are in no way comparable to our own. Also involved in the disparity of production costs is the fact that our crop is grown and processed under American standards of living and environmental and other restrictions which are costly.

The proposed Bill provides for what we believe to be a reasonable price objective of 17 cents per pound, raw value, for sugar delivered to New York with duty paid. It provides for an annual consumption estimate and gives foreign producers the residual market on a gloval basis, after the determination by the Secretary of Agriculture as to what portion of the market will be supplied in any year by domestic production. It further provides for an adjustment in this consumption estimate and foreign quotas and the imposition of fees to achieve the price objective.

As we understand this Bill, the Secretary of Agriculture does have some options. He could use the consumption estimate and limit imports, on a global basis, in order to achieve the price objective. Alternatives available to him include achieving the price objective entirely by fees, if he makes a fairly generous consumption estimate, or to make a consumption estimate low enough to influence price to some extent and use a smaller fee to attain the price objective.

The record is clear as to the injury being done to our domestic sugar industry through expanded importation of foreign sugar and the lack of control on it.

Last spring, the International Trade Commission issued a ruling to the effect that the domestic sugar industry had been injured and continued to be injured because of excessive foreign imports. They recommended that an import quota of 4.25 million tons be established on imported sugar. The President chose to do otherwise and came up with a payment program to producers which was later ruled illegal.

This was followed by the de la Garza Amendment to the Farm Bill which, among other things, provided for the support of sugar beets and sugar cane at a range of 65 to 52.5 percent of parity, but not less than a raw sugar equivalent price of 13.5 cents per pound. Delays in fully inaugurating this program resulted in a flood of foreign sugar in November and December. This legislation has proven inadequate and expires with the 1978 Crop. It should be replaced as soon as possible with legislation that is specific in its mandate for prompt action by government.

The recent findings of the ITC, in connection with a Section 22 Hearing related to Farm Bill Sugar Program, are to the effect that import fees should be increased and import controls be imposed if the increased fees are ineffective.

The wide-open importation of sugar last winter, in the face of added tariffs and duties to be imposed on January 1, 1978, led to the importation of nearly 2 million tons of foreign sugar in excess of our needs. This sugar has hung over the market and continues to depress prices. This can happen again, any time, unless corrective measures are taken by the Congress.

COST AND INCOME

The USDA recently released the results of its survey of 1976 Crop sugar beet production cost for the U.S. Beet Area. It indicates that, for the 884 sugar beet growers surveyed:

	United States	California
The average tons per acre was	19.4	29.6
The average cost per ton was	$24.33	$23.11
The average cost per acre	$471.73	$683.07

Other data for the 1976 Crop indicates an average price of $21.00 per ton for the U.S. Beet Area and $22.00 per ton for California.

Compared to income in 1976, the U.S. Beet Area average loss was $3.33 per ton or $64.60 per acre and for California the average loss was $1.11 per ton or $32.86 per acre. The lower California loss is accounted for by the fact that our 1976 Crop broke all yield records and exceeded our five-year average by about 3 tons per acre. If we had had a normal crop in 1976, our loss per acre would have exceeded the national average loss, because cost per acre declines very little if the yield at harvest is low.

The figures are one reason for the decline in U.S. harvested beet acreage from 1,479,000 acres in 1976, to 1,218,000 acres in 1977. California harvested 312,000 acres in 1976 and 217,000 acres in 1977. There will be even less acreage for harvest in 1978.

Another reason for the decline in acreage is the continued inflation in cost which increased about six percent in 1977, and will, no doubt, increase by at least eight percent in 1978, if the current trend of the Index of Prices Paid By Farmers continues.

In the meantime, sugar beet prices have shown no indication of following the upward spiral of cost, in spite of the Administration's commitment "to maintain a viable domestic sugar industry in this country." We estimate that returns for the 1977 Crop will be in the range of $23 to $24 per ton, in spite of the fact that the floor price of 13.5 cents per pound, raw sugar equivalent, in the Farm Bill Sugar Program should have developed a price of at least $25 per ton.

Under present conditions, California growers need prices in the range of $27 to $30 per ton for the 1977 and 1978 Crops, if our industry is to survive. The Bill before this Committee can accomplish this and also provide price protection for future inflation through its indexing of the Price Objective.

ECONOMIC FACTORS

In 1976, the United States beet sugar processing industry provided employment for approximately 13,400 factory workers, and we estimate that the employment created by the nation's sugar beet growers was over 70,000 farm workers. This employment declined in 1977, a situation that will remain unchanged in 1978.

As for California:

1. A full sugar beet acreage in 1976 of 312,000 acres harvested provided employment for approximately 4,000 factory workers and 20,000 to 25,000 farm workers.

2. In 1977, acreage was reduced 30 percent to about 217,000 acres, and as a result:

(a) Factory payrolls were down over 30 percent, and unemployment rolls increased.

(b) The demand for farmworkers was reduced as farmers replaced sugar beets with crops that required less labor.

(c) Small independent truckers hauled about 6 million tons of sugar beets, as compared to 9 million tons in 1976.

(d) The local economy in towns where factories are located was affected.

3. Over 100,000 acres of prime farmland which produced sugar beets is now growing low labor imput crops such as: feed grains, cotton, beans and other crops, most of which are already being overproduced.

4. As a result of low sugar prices, inflated freight rates and environmental factors, the Holly Sugar Corporation has discontinued beet processing at its factory near Santa Ana, California. It is being converted into a cane refinery with an estimated annual production of 2.0 million cwts. of refined sugar.

5. Additionally, low sugar prices and inflated freight rates have caused processors to reduce or eliminate acreage in areas distant from factories.

6. Unless sugar prices are stabilized to give growers and processors a fair return, California's acreage will shrink and never be able to fill the remaining factory capacity which we estimate as sugar from 280,000 acres of sugar beets.

The Western United States is almost wholly dependent on the domestic sugar industry for all of the sugar it consumes. There is virtually no additional cane refining capacity available to replace the 4.5 million tons of domestic sugar regularly supplied to this market. Unless we maintain a viable domestic industry, all consumers may be faced with paying unreasonable prices for foreign sugar refined at distant points and shipped to this market.

Over the years, the fact that the Western United States produces more beet sugar and Hawaiian cane sugar than is consumed in the producing states has provided competition that has been favorable to consumers. This is exemplified by the following comparison of average annual quoted wholesale refined sugar prices in the Pacific Coast and Chicago/West markets, where this domestic sugar is sold, and in the Northeast market, which is normally 100 percent refined cane sugar, mostly from imports:

[Cents per pound]

Year	Pacific coast	Chicago/West	Northeast
1970	10.80	11.08	11.97
1971	11.37	11.59	12.48
1972	11.65	11.82	13.09
1973	12.38	12.38	14.07
1974	31.90	32.07	34.35
1975	27.87	27.61	31.42
1976	17.48	16.93	19.20
1977	15.95	15.08	17.28

A phaseout of the Domestic Sugar Industry would eliminate important competition factors in the Chicago/West, Pacific Coast and other markets where beet sugar is sold. Further than that, nearly 100 percent of the sugar sold in the Pacific Coast market is California beet sugar and Hawaiian cane sugar, and approximately 60 percent of the sugar sold in the Chicago/West market is beet sugar. There are no conveniently located cane refineries that could supply the over 3,600,000 tons presently supplied by the beet sugar industry. This fact in itself would indicate that the consumer would pay dearly for imported raw sugar refined at coastal facilities, shipped inland at high freight cost and with virtually no competition in the market place.

The maintenance of a healthy domestic sugar industry, capable of protecting this country's consumers from unstable high price caused by weather, political or other factors in foreign countries is imperative when consideration is given to the fact that:

Sugar is the only essential food commodity which must be imported in substantial amounts. Sugar imports have ranged from 40 to 50 percent of annual consumption.

The U.S. is the world's largest sugar consumer—10.5 to 11.5 million short tons annually.

The U.S. is the world's largest sugar importer—4 to 6 million short tons annually.

The U.S. is the fourth, and sometimes the third, largest sugar producer—6 to 7 million short tons annually.

SUMMARY AND RECOMMENDATION

We fully support this Bill as presented to the Committee and also the statements of other sugar beet growers and processors at this Hearing and hope that it may be subject to minor modifications only.

Sugar beet growers believe that our price for sugar beets should be realized from the market place and vigorously oppose any program that involves government payments to the domestic industry. We ask that the Committee give this position the fullest consideration during its deliberations on this Bill.

We urge prompt and immediate action and hope that this legislation may be out of the Congress so that the United States can be a full participant in the International Sugar Agreement on July 1, 1978, and that the domestic program provided for, can go into effect shortly thereafter.

Senator MATSUNAGA. Our next witness is Mr. George Sinner. Will you identify yourself and proceed?

STATEMENT OF GEORGE SINNER, PRESIDENT, RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION

Mr. SINNER. Mr. Chairman and Senator Dole, I am going to summarize briefly. My name is George Sinner. I am president of the Red River Valley Sugarbeet Growers Association of North Dakota and Minnesota.

Our growers and the growers of two other small cooperatives, single mill cooperatives, have a total investment in plant and machinery of about $2.5 billion in North Dakota and Minnesota. It seems to me that there are two serious problems that have not really been addressed yet today that I want to touch on. One of the areas of misunderstanding, it seems to me, is the rapidly rising cost of processing raw beets and raw cane.

Now, the refiners have insisted, on several occasions, that it costs them 5 cents to launder a product that is already 96-percent sugar. Our domestic industry must start with raw vegetable, mixed with earth and rocks and containing only about 15-percent sugar.

My guess is—and I insist that it is a guess—but my guess is that today it costs nearly twice as much to get marketable sugar from raw beets than it does from foreign raw sugar.

This is one of the reasons why the 17-cent figure in this bill is so crucial.

I hasten also to add that producers and processors alike must share in whatever protection is arrived at. Producers cannot market cane or beets without a processor and a processor cannot manufacture cane or beets from the air. Both must survive, or neither can.

There is another serious misunderstanding that, it seems to me, has been going on here all day. When we are talking about 17 cents

as a support price, we are talking about a domestic raw. Now, that 17 cents, when put into the range of the 11 to 21 cents of the International Sugar Agreement is actually 14.5 cents on the world market. It is actually slightly below the free market range of the International Sugar Agreement.

It is incredible to me that the administration can insist so vehemently that the ISA is so great and that it will work so well and to insist that it will eventually bring prices to the free range, free market range, and even recognize the urgency to do that, and then so adamantly oppose this act which achieves even less than the free market range for our own domestic industry.

We, too, want the ISA to achieve the midrange. What we cannot understand is why they would deny the same thing to us here when the ISA's success is so uncertain and when there is documented proof that virtually every signatory country to the ISA does, in fact, protect its own producers at levels far in excess of those set out for us in this act.

There has been much made about the inconsistency of quotas wish the ISA. Again, the facts are that almost every signatory country does, in fact, have stringent import restrictions and import quotas for the protection of their own producers and that quotas are—import quotas are—ipso facto a part of the International Sugar Agreement.

I submit to you, Mr. Chairman, that unless we do, in fact, pass this kind of bill, the International Sugar Agreement is doomed. Mr. Katz said this morning that the United States does not even want to deny a market to the evaders of the ISA.

In other words, if the pressure really comes on internationally, we will end up the same old dumping ground again and it will not only be the domestic industry but the ISA that will fall.

I also cannot understand how we can be so wild about increasing oil imports because of the inflationary force they create on the U.S. economy and then at the same time seek to orchestrate a diminution of domestic production of sugar with the argument that that, somehow, is antiinflationary.

Mr. Chairman and members of the committee, I just do not understand that sort of logic.

[The prepared statement of George Sinner follows:]

STATEMENT OF GEORGE A. SINNER, RED RIVER VALLEY SUGAR BEET GROWERS ASSOCIATION

Mr. Chairman and Members of the Committee: My name is George Sinner. I am the President of the Red River Valley Sugar Beet Growers Association. I live and farm with my brother, brother-in-law, a son and two nephews at Casselton, North Dakota. My father before me raised sugar beets from the early 1930's on. In 1973 farmers in the Red River Valley bought the American Crystal Sugar Company. Other farmers in the area cooperatively put up three new mills at Hillsboro and Wahpeton, North Dakota and Renville, Minnesota. Adequate world sugar supplies were doubtful at that time—the U.S. Balance of Trade was not good (although it was much better than it is now). Approaching self sufficiency in sugar seemed to be an accepted national goal.

Sugar production was a desirable crop alternative for us in our northern climate where there are not a lot of viable alternatives. Barley and wheat stocks had been more often in long supply than in short—corn and soybeans provided only mediocre yields in that area. So even though the investment and

indebtedness seemed staggering, the whole area economy, with the help of the bank for cooperatives, dug in and built the industry to what it is today.

The value of this investment in buildings and equipment alone runs in the neighborhood of $2.5 billion. God alone knows what indebtedness rides on this investment—all we know is that on the processing end alone we owe several hundred million dollars. And local bankers tell us that beet growers as individuals are in more shakey financial condition than they have known since the great depression.

All of which is to say, Mr. Chairman, we desperately need help—the perennial paradox is standing harshly before us. Free markets do not really exist however much we wish they did. The American Government must protect its own free enterprise system from foreign governmental dumping and manipulation. Producers and consumers alike have been whiplashed by this manipulation as the left-over world sugar stocks went from scarcity to abundance. Unless our government can bring some reason into this chaos the domestic industry will have to be abandoned.

And if we in North Dakota and Minnesota must give up all of the investment that we've made, what then? To whom do we sell seven sugar mills? Who wants the farm equipment we must abandon? To what commodities do we turn this rich farming area? To barley—to wheat—to soybeans? You all know that these commodities are already in horrendous over-supply. What happens to an already staggering imbalance in foreign trade? Another 1.5 billion dollars added to it? What happens to inflation if we suddenly find ourselves even more deeply at the mercy of left-over world sugar? Another 65-cent skyrocket that would make the normalcy of even 20 cents look impoverishing?

Rural sociologists and economists have repeatedly pointed out that stability came to our upper midwest farming area with sugar production and the Sugar Act that accompanied it for 40 years. At a time when all of agriculture is agonizing with over-supply, must we now give up the one crop that we import in huge quantities?

Mr. Chairman, our growers support this legislation. We are committed to getting it passed. At the same time we are fully aware of the reservations about it that some people in the Administration have. It is our belief that these reservations derive principally from the fact that documentation of skyrocketing industry costs is still not adequately clarified. These rising costs are the major problem for both producer and processor, but they are probably the most serious for the processor because, in part, of the environmental demands. It has been the failure to recognize these sharply higher costs of growing and processing the totally raw product in this country that spawns Administration questions. Refiners insist that they must have five cents to launder a product that is already 96 percent sugar. The domestic industry must start with raw vegetable, mixed with earth and rocks, and containing only about 15 percent sugar. My guess is that today it costs nearly twice as much to get marketable sugar from raw beets as it does from foreign raws. This is the reason why the 17-cent figure in this bill is so crucial.

Producers cannot market cane and beets without a processor—a processor cannot manufacture cane or beets from the air. Both must survive, or neither can. Survival must mean making some money. To pretend otherwise is to play games with all of us.

Thank you Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Sinner. I think you have joined many who fail to understand why one policy should apply to oil imports and not to sugar.

Has everyone testified now? Mr. David Carter, is he—he is with Mr. Cannon. Fine.

Now, some of you were here, I am sure, when representatives of the administration testified and it was the fear which they expressed that passage of S. 2990 will encourage new growers and the present growers to grow more to an undesirable extent.

What is your feeling about this? Is this a well-founded fear, in your experience? Do you think that this will happen if S. 2990 is passed?

Mr. Otsuka, how do you feel about that?

Mr. OTSUKA. Well, it depends upon what you mean by real expansion. I think there is a movement for between 3 and 7 percent because we have, in the area that I represent, there might be that much left in capacity. But beyond that, there would be no new mills. Nobody is going to invest in a new mill as far as sugar beets are concerned.

So it would be less than 7 percent; I would think around 3 percent.

Senator MATSUNAGA. Mr. Cannon?

Mr. CANNON. Mr. Chairman, speaking from the standpoint of beet sugar processors, let me point out first that over the last 3 or 4 years, eight beet factories have been closed down out of a total of some 50-odd beet sugar plants.

I think that the real problem that the processors have is one of keeping in operation the plants that are there now. I see no inclination at all in the direction of building new beet sugar processing plants.

Senator MATSUNAGA. Mr. Cleavinger?

Mr. CLEAVINGER. Mr. Chairman, the increase in production is directly tied to the capacity of the plant. Our own plant is one of the latest ones in the United States to be built. It was built at the cost of $27 million. To replace it would in excess of $100 million; unless sugar got to be a whole lot better than it is right now it would be out of the question.

Senator MATSUNAGA. Mr. Smith?

Mr. SMITH. Mr. Chairman, in California we have a built-in acreage limit, and that is the processing capacities available. We have now in excess capacity for the acreage that we have so, as I reported in my report, we dropped about 100,000 acres, maybe more. Yes, we do have that capacity to pick up that 100,000 with the exception of one plant which is closed. But no, we would not expand except for our normal acreage.

Senator MATSUNAGA. Mr. Sinner?

Mr. SINNER. Mr. Chairman, there is not any question that there would be no expansion. We have one new mill in Minnesota that has been in operation for 2 years, has not paid 1 single cent of interest on the money that it took to build the mill nor has it paid 1 single penny on the principal on that mill.

The corn people have said repeatedly that there will be no increase in HFCS unless sugar gets to something over 25 cents. Anyone that knows the cost of a sugar mill these days and what has happened in recent years is in no way going to invest in any more of this.

Senator MATSUNAGA. Now, there is some controversy about what the actual cost of sugar production is, cane sugar, beet sugar. It appears that the administration has placed it at 15.2. The users have placed it at 14 cents.

Cane growers, processors, testified that the range is anywhere from slightly below 15 cents to 17 cents a pound.

What has been the experience of the beet growers and beet processors? Mr. Otsuka?

Mr. OTSUKA. I cannot speak for everybody but I just happened to bring my cost study with me on my own operation. Unfortunately, I do not have 1976, but I have 1975 and 1977 and because of Mr. Tipton related to a per-acre figure, that is what I am going to speak on because I do not want to go down on a raw basis.

In 1975, we were spending $554 an acre on a total of 463 acres. As I recall, in 1976 we dropped our production costs—we had to in order to survive. It was somewhere around 530.

Again, in 1977 we dropped our production costs down to $519 per acre on 299 acres of beets.

That relates to $25.90 a ton in 1977 because we had a 20-ton crop. That is a little bit low for our production. If it had been a 22-ton crop, which is normal for us, we probably would have made a little money.

But this does not include land costs, and I cannot figure out how the Department got such a low figure and Mr. Tipton got such a low figure including land costs.

The only land costs involved in this is taxes on that portion of the acreage that we grow sugar beets on and the interest on the mortgage that we have on the total farm which would be about 15 percent. So the only land costs would be those two items.

Senator MATSUNAGA. So, considering all the expenses, what would you say was your cost per pound?

Mr. OTSUKA. I would think that it has to be 15 cents.

Senator MATSUNAGA. Fifteen cents.

Mr. Cannon?

Mr. CANNON. Speaking again from the standpoint of the beet sugar processors, as I pointed out in my statement, most of the beet sugar processors whose beet sugar operations can be identified in their annual reports have reported a loss during this past year or during the most recent reporting period. I know of one who was very marginally profitable.

Mr. Hjort this morning suggested that the administration position might be one of increasing the target price for sugar from—it would be adjusted from 14.2 cents at the present time up to 15.2 cents. And I made a mental calculation, a quick mental calculation as to what that would do to our State and applied that to some of the others and, as I mentioned, in most cases it would not erase the deficits.

My feeling is that the 17-cent figure with escalation features that are proposed in this particular legislation would not provide—would hardly provide adequate return, if that, for beet sugar processors.

Senator MATSUNAGA. Thank you.

Mr. Cleavinger?

Mr. CLEAVINGER. I think Mr. Sinner made a very valid point awhile ago. When we are talking about cost of operation we are looking at the world price, the New York raw spot, the wholesale price, if I am seeing today what I am afraid refers to several different forms, at what point you want to set the price.

In our area we determined in the 1977 crop that our cost of production—not taking into consideration land costs, land depreciation, machinery depreciation—was between 17 and 18 cents was placed

on the wholesale price in our area. There are other costs that are not figured into this, so looking at the New York raw spot, it would be, say, it would come out to about 16 or 17 cents there on the 1977 crop.

Senator MATSUNAGA. Thank you.

Mr. Smith?

Mr. SMITH. Mr. Chairman, in California I am estimating that the current cost per pound raw value is in the neighborhood of 16 cents. Now, of course, this is increasing yearly.

Our acreage costs, our cost per acre, is over $700 in the State of California, per acre.

There was some statement made about land costs and, if I can use myself as an illustration, I leased some of my sugar beet grounds and I pay $134 per acre rent for the ground that I lease for my sugar beets and certainly that is a cost that I would think would have to come out. That is about what I lost, incidentally, last year, per acre, on my sugar beets.

Senator MATSUNAGA. Mr. Sinner?

Mr. SINNER. Mr. Chairman, I think that in 1978, as nearly as we can estimate, we could probably break even at 15 to 15.5 cents, domestic raw value.

I think it should be also clarified that there has been a lot of talk here about break-even prices. Now, you are talking, it seems to me here, about what actually we are going to be looking at for the foreseeable future. I do not think anybody in this room honestly thinks that the market is, of its own accord, going to get up to where anybody can make any money by itself in the foreseeable future.

Now, if we are talking about keeping everybody that is in this business in the domestic industry lingering on a thin umbilical cord that is half blocked and hardly going to feed us, you are not going to keep us alive, Mr. Chairman, and if we are not going to talk about a little bit of income, I think we should just forget it.

Mr. CANNON. Mr. Chairman, may I add one point to that?

Senator MATSUNAGA. Yes; certainly.

Mr. CANNON. I meet with the stockholders of our company on June 21 out in Salt Lake City in our annual meeting. After listening to Mr. Tipton this morning, I would like to invite Mr. Tipton to come out and join me and point out to our stockholders how well we and our competitors are doing in this business.

Senator MATSUNAGA. Well, maybe Mr. Tipton will accept your invitation, if he is still in the audience.

Thank you all for coming and for your testimony and we certainly appreciate your taking the time out to be with us here today. Thank you very much.

Our next witness is Mr. Gregg R. Potvin, president of the U.S. Cane Sugar Refiners' Association.

Will you identify yourself?

Mr. POTVIN. Mr. Chairman, my name is Gregg R. Potvin. I am the president of the U.S. Cane Sugar Refiners Association. The membership for which I speak is set forth in exhibit A attached to the statement.

I would like to thank you and your colleagues for this opportunity to appear and testify. I am accompanied by Mr. Nick Commanus, a colleague from my office.

STATEMENT OF GREGG R. POTVIN, PRESIDENT, U.S. CANE SUGAR REFINERS' ASSOCIATION; ACCOMPANIED BY NICK COMMANUS

Mr. POTVIN. Title I of the bill, in essence, provides the required enabling legislation for the International Sugar Agreement, in the main appears both appropriate and necessary. It should be noted, as the State Department mentioned this morning, that in section 101(a) of S. 2990, the absolute prohibition against imported sugar with nonmember countries is in conflict with article 57 of the agreement which simply places limits and various price ranges on such imports. At least some members of the Senate, I am sure, would want to be aware that Taiwan would be the principal victim of the prohibition contained in the section cited.

Senator MATSUNAGA. What section is that?

Mr. POTVIN. 101(a), sir.

Senator MATSUNAGA. 101(a). Please proceed.

Mr. POTVIN. It was interesting listening to the flow of testimony during the hearings at this point. It would appear, after hearing the administration witnesses, that we have witnessed an almost total polarization. I was a little surprised at the spectrum of difference between the proponents of S. 2990 and the administration spokesmen.

Basically the disagreement would appear to consist of two factors. A level of price, and the method by which you arrive at that price. The proponents of S. 2990 have come in with the primary mechanism of mandatory quotas.

Mr. Chairman, I think we do this committee no service if we back away from the fact of the matter here. The President has said that he wants the ISA as the keystone of domestic sugar policy. What does that mean?

I submit, sir, that it means simply this: The United States thereby has become part of the world market. S. 2990 goes in precisely the opposite direction. By erecting barriers and protectionist quotas, it would seek to remove us from the world market, and I would remind you, Mr. Chairman, that in section 58 of the ISA that this country, if it becomes a full signatory, will enter into the following pledge:

> Every developed importing member undertakes to insure access to its market for imports of sugar from exporting members and shall adopt such measures compatible with its domestic legislation as it deems appropriate to its own circumstances to insure such access to its markets.

A strange type of access, Mr. Chairman, the building of quotas which, by the very language of S. 2990, could go down to zero in any given quarter.

We would favor—predictably, I suppose—the use of fees rather than creating an artificial shortage to drive the price up through quotas. We feel, too, that there is merit in the proposal that you produce the revenue desired for producers with the fee, and then go up above that with payments.

Your thought about looking at the various realities peculiar to different production areas may well have merit. I submit, too, that under the old Sugar Act there was a sliding scale for payments. You take a large, efficient producer, a Castle and Cook, an Alexander & Baldwin, a U.S. Sugar, the number at which they will make a reasonable profit probably is not the same number that will insure survival for the smallest producer.

Conversely, the number that would be satisfactory to the smallest producer, would, I submit, constitute unjust enrichment or, as they say in my native State of Idaho, a bird nest on the ground for the largest and most efficient producers. It makes no sense.

Now, what we have here is a situation in which you can only artificially raise the price of sugar so high before you are going to divert demand to corn sweeteners. Their new technology enables them to compete, quite effectively we find, across a distressingly large percentage of our clientele.

It is as though you are trying to drive up the price of lemonade by cutting down the supplies when water is free. And I must say, the prior witnesses said that 25 cents was the figure that would increase use of HFCF is at least a dime higher than any reputable expert that I have heard. I just do not think the facts support that, Senator.

The fact of the matter is that the present price being paid today in this country is about 14.10 to 14.25 cents per pound of raw sugar. That would be, say, in Louisiana, in Florida, that sort of thing.

So the de la Garza amendment, which will extend well into 1980 in its operations, has achieved its goal and then some.

Now, there are some curious aspects to this. Mr. Cannon and some other witnesses were explaining how bad finances were, but yet when you look at the plantings of beets for this year, you find a very curious thing. Texas complained. Well, they are planting 151 percent of last year. Utah and Idaho complained. They are at 140 percent of last year.

Senator Church's Idaho, I assume would have complained had they been at the table. They are at 115 percent. Senator Dole's Kansas is at 115 percent.

It does not seem entirely compatible with their thought that they will simply dry up and blow away because these gains are in response to the current market price.

Now, the marketplace really is a great teacher. I think these plantings are part of what we can learn from the marketplace, but there is another thing that we can learn.

When we look at the national average price data accumulated by USDA, it consists of two parts—the cane price and the beet price. The beet price has consistently run about a penny and a half a pound under the cane price. These people are not even selling to recoup the price that the present program gives them.

I submit that if they are undergoing the fiscal agonies that they claim—and I have no reason to dispute their word—that part of that pain, to be precise, 1.5 a pound, is darn well self-inflicted, Mr. Chairman.

Incidentally, I think that you have to look at the structural realities here. An absolute inordinate percentage of the sugar in this

30-306—78——10

country is produced by a relatively small number of very large companies, some of them billion dollar conglomerates.

There has been a lot of talk about profitability. It seems to me that the way to lay it to rest is simply to request some P. & L. statements, put them in the record, and they will show what the facts are.

Now, this other thing about balance of trade, as I think that you are already aware, sir, we do have a very substantial multibillion dollar favorable balance of trade with sugar exporting nations. Of the 12 largest, we sell $1 billion worth of our own agricultural products so that if you deprive them of the dollars to help the sugar farmers, who number about 14,000, you are going to take a billion dollars out of the pockets of the rest of American agriculture.

It seems to me, too, that the bill has some very bad technical problem. They are in my statement; I am not going to subject you to sitting and listening to all of them, but there is one that I find just extraordinarily disturbing. That is because of the inherent nature of a quota, you are going to have overkill. Mandatorily, when you first make your consumption estimate, you put a quota on. If it has not helped in 20 days, then you have to put another quota on, if it is 5 percent under the market objective, and if it is under at all, you also have to put a fee on.

So now you have got quota cut 1, quota cut 2 and a fee. You cannot take them off until you are more than 20 percent above the market objective. Well, this is not a 17-cent bill. This is a 20- or a 21-cent bill, to my eyes, sir.

Senator MATSUNAGA. Thank you very much, Mr. Potvin.

Had you intended to testify also?

Mr. COMMANUS. No, sir.

Senator MATSUNAGA. You are no doubt familiar, Mr. Potvin, with the old Sugar Act which expired in 1974.

Mr. POTVIN. To a degree, Mr. Chairman. I came to the industry oh, perhaps 7 or 8 months prior to its demise and was in the House gallery watching you and your colleagues at that very moment. Yes, sir.

Senator MATSUNAGA. I see.

Of course, you refer to S. 2990 as a "monstrosity." Would you have referred to the Sugar Act which expired in 1974 as a monstrosity also?

Mr. POTVIN. It never became pertinent for me to comment on it one way or the other. I would remind you that FDR, at the time it was passed, said it was a bad bill, he did not like it, but he guessed he would have to go along with it, and FDR is a memory we mutually revere.

Senator MATSUNAGA. As I recall, the Cane Sugar Refiners Association did support that act at one time?

Mr. POTVIN. Yes, and of course, that was prior to the new HFCS technology which completely changes it. It is an entirely new ballgame and I am sure that you would concede that, Mr. Chairman.

Senator MATSUNAGA. Looking at S. 2990 and looking at the old act, and having had the experience of seeing your support of the old act, and looking at the complexities of the quota system of the old Sugar Act, I find that S. 2990 might be less of a monstrosity than the old Sugar Act was.

Mr. POTVIN. Different problems frequently require different solutions, Mr. Chairman. What I am saying is, I think it is now a different problem because of the corn sweeteners.

Senator MATSUNAGA. I grant that, with the passage of time, most problems do change, and we must be flexible and adjust to the changes, but I don't think the theory is applicable to the issue before us.

You also raise some question as to the constitutionality——

Mr. POTVIN. Only in echoing the points made by some Members of the House. I am not a constitutional scholar, Mr. Chairman. It is a question which will obviously be asked by some of the House Members at some stage of the proceedings.

Senator MATSUNAGA. Are there any amendments which you would propose which would make S. 2990 acceptable to your industry?

Mr. POTVIN. I am sure that, you know, if you change the bill enough it then becomes a different bill. In that sense, of course.

Mr. Chairman, there is a point before we get too much further down the road, that you brought up that I think requires some elaboration. You were likening S. 2990 to what would have been title II, basically of the old Sugar Act and they are quite similar and for that very reason, I think that you should have your staff check this out. If you will read the headnote language of the tariff on sugar it states, very explicitly and very specifically and very clearly, that if any legislation similar to the old Sugar Act is on the books, the duty snaps back to the old level which was .625. It would be rather less than a third of the present tariff—so, from the point of view of your constituency, that much of it would appear to be somewhat counterproductive.

Senator MATSUNAGA. I wish we had the time to go into further questioning, but if we do have further questions we will submit them to you in writing and we would appreciate your responding.

Mr. POTVIN. Certainly, sir.

If I might be permitted one 10-second observation in leaving, we do not wish to appear negative. We have tried desperately to sit down and talk with the producers. We have gone to meetings at the request of the Senate Agriculture Committee. They have had meetings that they did not invite us to.

After promising us that they would leave payments on at least the discussion list, they struck it. This bill is—they have a monopoly on the thinking of it. It includes no other groups.

We are most anxious to be for something. There are other measures in the House we are perfectly willing to discuss, that sort of thing.

Senator MATSUNAGA. Do you think it is too late, at this stage, for perhaps the producers to make some kind of an overture toward winning you over?

Mr. POTVIN. To support S. 2990 in its present form? I would think it is too late for that, sir.

Senator MATSUNAGA. It is too late.

Mr. POTVIN. Yes.

Senator MATSUNAGA. Senator Dole has requested that this question be put to you, and I have not seen it before, so I will try to do as best I can.

Mr. Potvin, you support the ISA. Therefore, you support export controls by ISA members. You support import controls from non-ISA members. You support building stocks to raise world prices above the 11-cent minimum. Is that correct?

Mr. POTVIN. No; not really.

First of all, we supported ISA because it seemed to represent the least erosion of free market forces that could deal with the problem and there is a problem, of course.

Secondly, the stocks function is not to drive up the price. The stocks function is precisely the opposite. It is to overhang the market. As you know so well, as the price goes up, they will start releasing stocks in the hope that they will drive the price back down.

Export quotas help with the world glut. If we keep sugar out, it adds that sugar to the world glut so, again, those are opposite.

Restrictions against import from nonmembers, as I said earlier, we do not favor the language in your bill that would absolutely prohibit such imports the ISA allows you to buy 55 percent—and this is 55 percent in the current price range. That is 55 percent of a very small number, Senator, very small.

Senator MATSUNAGA. Would you support raising prices above the ISA's 11-cent minimum?

Mr. POTVIN. Well, are you asking me that as a function of domestic prices?

Senator MATSUNAGA. No; as a representative of the refiners industry and that is, in your capacity that you appear before this subcommittee. And I might add this also: If the various activities by the ISA should raise the world price to 15 cents a pound, would you still support ISA?

Mr. POTVIN. We are willing to accept whatever free market price occurs. Now, when you say 15 cents, I am at a loss to know what that means. Does that mean the .625 tariff or the present tariff? Would there be import fees?

You could be talking about it being literally 15 cents here as well, or you could be talking—you want to remember that, at the present time, what you are advocating in S. 2990, Mr. Chairman, results in an additional dime a pound on the entire 11 million tons of sugar over the world price. That is to say that U.S. sugar farmers, all 14,000 of them, would be receiving, by my pencil, $2.2 billion.

Senator MATSUNAGA. The question is rather simple, I think: Would you support ISA if ISA should end up in the process to raise the price of sugar to 15 cents a pound?

As you know, ISA provides a range from 11 to 21 cents. Assuming that it comes forth with 15 cents a pound, would you still support ISA?

Mr. POTVIN. I had hoped I had been responsive to that, Mr. Chairman. Excuse me. What I was attempting to say was simply that we, of course, as a corrolary to supporting the ISA must, thereby, accept any price that results within that range. Exactly.

Senator MATSUNAGA. Well, thank you very much. We certainly appreciate your being here.

Mr. POTVIN. It is my impression that I need not request to have the full statement submitted in the record, but that it will automatically appear?

Senator MATSUNAGA. It will automatically appear in the record as though delivered.

[The prepared statement of Mr. Potvin follows:]

STATEMENT OF GREGG R. POTVIN ON BEHALF OF THE UNITED STATES CANE SUGAR REFINERS' ASSOCIATION

Mr. Chairman, my name is Gregg R. Potvin. I am the president of the United States Cane Sugar Refiners' Association, the membership for which I speak is set forth in exhibit "A" attached to this statement. I would like to thank you and your colleagues for this opportunity to appear and testify.

Title I of the bill, which in essence provides the required enabling legislation for the international sugar agreement, in the main appears both appropriate and necessary. It should be noted that in section 101(a) the absolute prohibition against imported sugar from non-member countries is in conflict with article 57 of the agreement which simply places limits in various price ranges on such imports. At least some members of the Senate, I am sure, would want to be aware that Taiwan would be the principal victim of the prohibition contained in the section cited.

Title II, the domestic program proposed by this bill, is outrageous. It is terribly inflationary and anti-consumer. It is not compatible with the international sugar agreement. And, it is not in the long-run interest of sugar producers or the rest of the sugar industry in that the high prices it dictates will accelerate the growth of corn sweeteners at the expense of sugar.

If adopted, S. 2990 would immediately up the price of sugar by over 4 cents a pound, or 30 percent. And because of the indexing in the bill, the price would continue to climb.

It is estimated that the bill would add at least $1 billion a year to the cost of sugar to the consumer. The present subsidy program is already costing consumers $1.2 billion a year.

Thus, the total cost to the consumer in Government-mandated higher sugar prices would be at least $2.2 billion a year. Costs could be even higher if corn sweetener prices go up, as expected, because of the "umbrella" the bill provides.

Massive further increments of cost would likely occur as a result of the quotas and fees imposed by this measure not being removed until the price exceeds the price objective by more than 20 percent.

These sums are most impressive, given the small number of producers involved. Sugar beets are produced on around 12,000 farms, and sugarcane is produced on less than 2,000 farms—in the aggregate—less than 1 percent of the nation's 2,700,000 farms.

There are additionally, as I will note in some detail later, a substantial number of technical problems presented by the bill.

I realize that the very distinguished members of this body who have placed their name on the bill were not directly responsible for its drafting. The members of our association would join with the sponsors of the bill in support of the general thesis that there should be a domestic sugar program designed to assure the continuance of a healthy and efficient production sector of the domestic sugar industry.

Mr. Chairman, I make no pretense toward being a constitutional scholar but I am advised that there is an extremely serious question, based on constitutional grounds, as to whether S. 2990 may appropriately originate within the Senate, since the measure includes revenue raising provisions which the constitution requires be commenced in the House.

The mechanisms of the bill are most complex. Initially, the price objective, as defined in section 202(B) would be 17 cents per pound, raw value. It would jump almost at once to at least 17.7 cents per pound. This is scarcely the full impact of the pricing measures of the bill, however. Prior to each calendar year, the Secretary of Agriculture must impose a global quota. Quotas are notoriously slow in having pricing impact. Therefore, it is extremely probable that in line with the provisions of section 203(B) that at the end of twenty consecutive market days the secretary would mandatorily have to comply with the requirement that a further limitation on imports be imposed, for the reason that the market price would still be five percentum or more below the price objective.

This must be read in concert with the provisions of section 205, which states that whenever the New York harbor price (with transportation and tariff and import fees paid) is below the price objective, for twenty consecutive market days, the secretary shall establish an import fee equal to the difference between the market price and the price objective.

While much of the language of the bill remains a mystery to many who have read it, at least a majority of those studying its complexities seem to agree that for each subsequent twenty consecutive market days that the market price remained five percentum below the price objective, the secretary would have to again consider whether to further reduce the quota and, if circumstances required, perhaps even add an additional import fee at the beginning of each quarter if the price objective had not been attained.

It appears none of these can be removed until the market price exceeds the price objective "by more than twenty percentum". In the long run, it would appear likely that this bill could produce a price of 20 cents to 21 cents per pound, raw value.

Section 204 of the bill provides that quotas may be adjusted only when the secretary determines that there is a domestic shortfall, as compared to the estimate of domestic production he had made under section 203 in determining the quota initially. To compound the confusion, section 204 directs that the quota, which is described by section 203 as being "global" and "for foreign countries as a group", shall be "allocated".

Another problem inherent in the bill is that while section 202(A) calls for a price objective on an "annual average" basis, this is in sharp conflict with the requirements of subsequent sections that prices be monitored on a twenty-day basis.

A further complication arises since title II of S. 2990 appears to be "substantially equivalent" to title II of the Sugar Act of 1948. This is true because the headnote to part 10, subpart A, no. 2 (III) of schedule 1 of the tariff schedules of the United States covering sugar; cocoa; and confectionery, states that: "The January 1, 1968, rates shall resume full effectiveness, subject to the provisions of this headnote, if legislation substantially equivalent to title II of the Sugar Act of 1948 should subsequently become effective". The result of this headnote provision would be that the tariff rate upon implementation of this bill would "snap back" from the current rate of 2.8125 cents per pound to the old rate of .625 cents per pound. Further, since the provisions of section 205 of S. 2990 provides for the imposition of import fees, which permit setting of a fee equivalent to the full difference between the market price and the price objective, it would appear that the present import fee, as authorized by section 22 of the agricultural act of 1933, would have to be discontinued.

Since the bill does not abrogate or explicitly supersede the de la Garza amendment, the two would seem to co-exist for the remainder of the life of de la Garza. The de la Garza amendment could be effective well into 1980. In light of the omissions in drafting—the final word on the subject would seem to be that, alas, no one can ascertain what the relationship, if any, between the two measures would be.

The utilization of restrictive quotas as the primary mechanism of a domestic sugar program is highly incompatible with the provisions of the international sugar agreement. As an example, article 58 of the agreement makes the following pledge, "every developed importing member undertakes to ensure access to its market for imports of sugar from exporting members and shall adopt such measures compatible with its domestic legislation as it deems appropriate to its own circumstances to ensure such access to its market". Since a treaty, once ratified, is the supreme law of the land, it seems S. 2990 and the restrictive quota it proposes is in direct conflict with the ISA.

Restrictive import quotas would also have an adverse impact upon the domestic industry, including sugar producers. Creating artificial shortages through the use of quotas to drive up prices to unrealistic levels would simply shift demand to competitive corn sweeteners. Furthermore, the bill would create situations in which there would be substantial uncertainties of supply. Successive quota cuts could deprive many customers served by refiners from supplies essential to serving the nation's consumers.

It is our considered judgment, Mr. Chairman, that there is available to this committee and to the congress a much simpler approach to the sugar problem—

and one which would produce far more desirable results: The use of import fees to attain a market price and the use of those fees to finance payments to growers at the desired producer revenue level. If quotas are to be used, they should be confined to a subsidiary backup role only.

It is much less costly to society to use payments rather than import fees or quotas.

Every one cent increase in the price of sugar brought about by an import fee or quota would cost the consumer around $225 million a year because it adds to the cost of foreign as well as domestic sugar. A comparable adjustment in corn sweetener prices would cost consumers another $76 million. Thus, for every one cent increase the total exposure could be around $300 million.

On the other hand, a one cent payment would cost the taxpayer only $120 million because it would only be made on domestic sugar, and not foreign sugar nor corn sweeteners.

Basically, the current sugar problem arises from a global glut resulting in depressed prices. The situation in the world market has not yet attained the 11 cent ISA floor price. Clearly the world price is better off than it would have been had the international sugar agreement not been adopted. This is true because since April substantial export quota cuts have been implemented by exporting nations. On the domestic front in recent days prices paid for raw cane sugar have been on the order of 14¼ cents per pound. The de la Garza amendment has more than achieved its goal of 13½ cents per pound.

Imports are not the cause of domestic price problems. Upon the demise of the old sugar act we became part of the world market. We require imports to meet our needs. The world price comes in with the first ton of imported raw sugar. Realization of this has grown in recent months. The international trade commission in its recent decision abandoned its former advocacy of restrictive import quotas and instead proposed import fees as the primary mechanism of a domestic program. The administration has also consistently opposed any program primarily based upon use of import quotas as have those concerned with maintaining our export markets for other agricultural commodities. In 1976, we had a favorable balance of payments with the twelve largest sugar-exporting nations of nearly $3 billion. Exports of our agricultural products to those nations were valued at nearly $1 billion.

The large imports of late 1977 (triggered by the predictable race by exporters to beat both the deadline on the new ISA export quotas and the imposition of the new U.S. import fee) have been offset by unusually small imports thus far in 1978. More importantly, total domestic stocks at the end of April, 1978, were over 200,000 tons *less* than a year earlier. The department of agriculture estimates that raw cane sugar imports in 1978 will total only 3.4 to 3.8 million tons. This compares to a normal level of well over 5 million tons per year. Since this low level of imports is the result of natural market forces and not caused by a quota (the current quota level being 7 million tons per year) this proves that raw cane sugar imports are, as we have consistently maintained, purely residual. There simply could not be a less appropriate time for the adoption of restrictive quotas than the present, since we have a combination of lowered domestic stocks and exceptionally low levels of imports.

The exporter members of the international sugar agreement in April cut their exports by 17½ percent—some by as much as 18½ percent. This has had some firming effect on the world market and will have a continuing cumulative effect. Sugars denied access to our markets by a restrictive import quota would thereby remain in the world market and offset any effect on the supply-demand balance caused by the export quota cuts.

The only permanent solution to the sugar problem—worldwide or domestic—is a worldwide adjustment in production. This can be achieved only through the ISA in conjunction with a domestic program which complements the agreement—not as in the case of S. 2990—one which would weaken or even destroy it. Ways must be found to assure domestic growers of necessary revenues for assuring the continuance of an efficient domestic production sector without recourse to programs or devices which worsen the global problem. Otherwise, the use of an inappropriate "cure" simply worsens the disease from which relief is sought.

The domestic sugar grower would have no limitation on his production, unlike his brethren growing other corps who do, at times, have to restrict acreage in

order to receive support. The amount of sugar imported, on the other hand, would be sharply curtailed. This would have an unduly harsh impact upon many regions of the country, but particularly the populous northeast quadrant which is virtually wholly reliant on imported sugars. The uncertainties inherent in further quota cuts after a period of only 20 intervening days, together with quarterly adjustments of an import fee, virtually destroy the ability to hedge in the futures market by both refiners and the large industrial users which they serve. This would necessitate the creation of "self-insurance" programs which would constitute an additional increment of cost to consumers.

For the reasons above stated, we feel that S. 2990 is an inflationary monstrosity and it should be rejected by this subcommittee as an answer to the current sugar situation.

Amstar Corporation, 1251 Avenue of The Americas, New York, NY 10020.

Imperial Sugar Company, Sugar Land, TX 77478.

The National Sugar Refining Company, 405 Lexington Avenue, New York, NY 10017.

North American Sugar Industries, Inc., P.O. Box 1646, Mobile, AL 36601.

Revere Sugar Corporation, 120 Wall Street, New York, NY 10005.

Savannah Foods & Industries, Inc., P.O. Box 339, Savannah, GA 31402.

The South Coast Corporation, P.O. Box 8036, Houma, LA 70360.

Southdown Sugars, Inc., 1820 Canal La Salle Building, New Orleans, LA 70112.

Senator MATSUNAGA. We will, inasmuch as I have an appointment which would make it practically impossible for me to hold hearings tomorrow, if there are no objections, I would like to go right ahead and finish the hearing today.

Is there anyone here who was listed who will not be able to testify today if we go on until about 6:30? I think we should be able to finish before 6:30; maybe sooner.

If there are objections—if any of you have any specific reason for not being able to stay after 6 o'clock, then I will make a special effort to continue the hearings tomorrow, but if not, we will proceed with the next panel of witnesses, consisting of: Mr. Robert C. Liebenow and Mr. Donald E. Nordlund. Mr. Liebenow is the president of the Corn Refiners Association, Inc. Mr. Donald E. Nordlund is chairman of the A. E. Staley Manufacturing Co.

Mr. Donald J. Schlichte, executive vice president, National Corn Growers Association accompanied by Mr. Carl King, National Corn Growers Association.

Are you here?

Mr. SCHLICHTE. Two of us, Mr. Chairman.

Senator MATSUNAGA. Who is missing here?

Mr. KING. Mr. Chairman, I am Carl King. I do not know—this is Mr. Schlichte, to my right. I do not know about the rest of the gentlemen.

[The prepared statements of Robert C. Liebenow and Donald E. Nordlund follow:]

STATEMENT OF ROBERT C. LIEBENOW, PRESIDENT, CORN REFINERS ASSOCIATION, INC., AND DONALD E. NORDLUND, CHAIRMAN, A. E. STALEY MANUFACTURING COMPANY

SUMMARY

Mr. Chairman and distinguished members of the subcommittee. We are pleased to be here today to present the views of the corn refining industry on S. 2990—the Sugar Stabilization Act of 1978. For many years we have been associated with the sugar industry as a supplier, customer and competitor. Therefore, our industry feels qualified to testify here today, expressing sympathy for the plight of domestic sugar producers and joining them in support of S. 2990.

We, too, have sufferede at the expense of heavily subsidized foreign sugar dumped in the U.S. market, resulting in unrealistically low sweetener prices.

There is no doubt that the domestic sugar industry faces disaster unless Congress provides meaningful relief from the price depression caused by the massive importation of subsidized foreign sugar.

The Corn Refiners Association has agreed upon several principles which would dictate its stance on any sugar legislation:

(1) We support the principles and objectives of the International Sugar Agreement;

(2) Sole dependence upon the ISA to solve domestic sugar problems would not be in the best interests of the United States;

(3) Any legislation should provide a true market support and not rely on producer or processor payments; and

(4) It is in the best interests of the American consumer that legislation should contain no restrictions on the production or marketing of any domestic sweetener, whether from sugar beets, sugarcane or corn.

The Corn Refiners Association supports S. 2990 because it fully meets each of these principles, and the formal entry of the United States into the International Sugar Agreement.

Title II, the Domestic Sugar Program, complements and strengthens the U.S. participation in the Agreement. The goal of the ISA is to create a more sensible supply-demand equilibrium in world sugar. The import management program contained in Title II would contribute significantly toward this most desirable objective. At the same time, the support level contained in the bill is consistent with the price corridor of the ISA. In negotiating the Agreement, the Administration joined other nations in attempting to establish a free trade price range of 15 cents to 19 cents per pound for world sugar.

S. 2990 not only is positive for the domestic sweetener industry but for the American consumer/taxpayer as well.

The operating features of Title II call for the Secretary of Agriculture to manage sugar importation and avoid the kind of situation experienced late last year, when sugar imports literally flooded this country. The quota and import fee provisions insure that the U.S. will remain an open and attractive market for sugar exporters. At the same time, it signifies we will not be a dumping ground for subsidized foreign sugar. In addition, the import fees will benefit the American taxpayer by bringing substantial revenue to the Treasury, thereby helping to reduce the government's deficits, a major cause of inflation.

Finally, S. 2990 is in the best long-term interests of the American consumer. By strengthening the domestic sweetener industry, it gives the consumer more independence from the vagaries of foreign sugar supply-and-demand.

Some recent publicity on this bill refers to a "free market" sugar price of 8 cents per pound. Nothing could be more grossly mislabeled. There is no semblance of a "free market" at 8 cents per pound. Most exporting countries today are selling their sugar at less than production costs and aiding their producers through massive government subsidies. Surely our domestic sweetener industry should not be expected to compete in such a difficult environment.

STATEMENT

MR. LIEBENOW. Mr. Chairman and Members of the Subcommittee. I am Robert C. Liebenow, President of the Corn Refiners Association, Inc. (membership list attached). With me today is Mr. Donald E. Nordlund, Chairman of A. E. Staley Manufacturing Company. We appreciate the opportunity to speak for the corn refining industry on current proposals concerning sugar.

Our Association represents producers of corn syrups, starches, feeds and oil. As you know, newly developed corn syrups compete vigorously in the marketplace with sugar. The sweeteners produced by this industry offer American consumers a high degree of self-sufficiency and economy in their sweetener supply—the long-term goal of S. 2990.

It is obvious to all knowledgeable observers that the U.S. sugar industry has suffered serious injury. A variety of proposals have been advanced to remedy this situation. Mr. Chairman, we appreciate your leadership role in evaluating these proposals. With that brief background, I would like to ask Mr. Nordlund to fully document our position.

Mr. Nordlund. Mr. Chairman and distinguished Members of the Subcommittee. We are pleased to be here today to present the views of the corn refining industry on S. 2990—the Sugar Stabilization Act of 1978.

For many years we have been associated with the sugar industry as a supplier, customer and competitor. Therefore, our industry feels qualified to testify here today, expressing sympathy for the plight of domestic sugar producers and joining them in support of S. 2990.

The CRA supports this legislation because we, too, have suffered at the expense of heavily subsidized foreign sugar dumped in the U.S. market, resulting in unrealistically low sweetener prices. Last year, one member of our industry was forced to close its doors permanently, two others were unable to open newly constructed plants, and many of us have had to reduce our production levels—at a cost of many hundreds of American jobs.

There is no doubt that the domestic sugar industry faces disaster unless Congress provides meaningful relief from the price depression caused by the massive importation of subsidized foreign sugar.

Your Committee recognized this situation 21 months ago when it requested the U.S. International Trade Commission to study the problems of the domestic sugar industry. The ITC has since issued two reports, both concluding that the U.S. sugar industry is imperiled by imports, and recommending a sugar import management program.

Some months ago, Senator Talmadge requested that the Corn Refiners Association assess its position on possible sugar legislation in 1978. At that time, our organization agreed upon several principles which would dictate its stance on any legislation.

First, we support the principles and objectives of the International Sugar Agreement. We believe that an effective ISA can bring stability to the world sugar market, benefiting both consumers and producers.

Second, sole dependence upon the ISA to solve domestic sugar problems would not be in the best interests of the United States. We share the view that a domestic sugar support program is necessary to assure that the objective of the ISA is achieved.

Third, any legislation should provide a true market support and not rely on producer or processor payments. Such payments in effect would spread the present international problem to this country.

Finally, it is in the best interests of the American consumer that legislation should contain no restrictions on the production or marketing of any domestic sweetener, whether from sugar beets, sugarcane or corn.

The Corn Refiners Association supports S. 2990 because it fully meets each of these principles.

Important also, this bill provides for the formal entry of the United States into the International Sugar Agreement, the success of which depends upon ratification by this nation.

Title II, the Domestic Sugar Program, complements and strengthens the U.S. participation in the Agreement. The goal of the ISA is to create a more sensible supply-demand equilibrium in world sugar. The import management program contained in Title II would contribute significantly toward this most desirable objective. At the same time, the support level contained in the bill is consistent with the price corridor of the ISA. In negotiating the Agreement, the Administration joined other nations in attempting to establish a free-trade price range of 15 cents to 19 cents per pound for world sugar.

S. 2990 not only is positive for the domestic sweetener industry but for the American consumer/taxpayer as well.

The operating features of Title II call for the Secretary of Agriculture to manage sugar importation and avoid the kind of situation experienced late last year, when sugar imports literally flooded this country. The quota and import fee provisions insure that the U.S. will remain an open and attractive market for sugar exporters. At the same time, it signifies we will not be a dumping ground for subsidized foreign sugar.

In addition, the import fees will benefit the American taxpayer by bringing substantial revenue to the Treasury, thereby helping to reduce the government's deficits, a major cause of inflation. Further, Treasury funds would not be needed for unemployment compensation and adjustment assistance for U.S. workers who might otherwise lose their jobs to foreign competitors.

Finally, S. 2990 is in the best long-term interests of the American consumer. By strengthening the domestic sweetener industry, it gives the consumer more independence from the vagaries of foreign sugar supply-and-demand. We need only recall the steep run-up in sugar prices in 1974–75 to see the need for stable consumer prices and prevention of "boom or bust" cycles. The bill also contains the flexibility to allow removal of import controls should there ever be a domestic sugar shortage, another important measure of consumer protection.

Some recent publicity on this bill refers to a "free market" sugar price of 8 cents per pound. Nothing could be more grossly mislabeled. There is no semblance of a "free market" at 8 cents per pound. Every sugar producer in the world would be bankrupt in one year if its total return were only 8 cents. The current world price of 8 cents is the result of an artificial market created by foreign governments in order to move their burdensome supplies. It has no relationship to world production costs. In fact, most exporting countries today are selling their sugar at less than production costs and aiding their producers through massive government subsidies. Surely our domestic sweetener industry should not be expected to compete in such a difficult environment.

Gentlemen, the Congress and the Finance Committee in particular are to be commended for recognizing the inequities in this situation and for exercising strong leadership in pursuit of a fair domestic sweetener policy. Last year, Congress took the lead in establishing a workable price support program for sugar. Again this year, it is Congress which is providing the impetus. We know you are well aware that each day of delay in establishing a U.S. policy dims the hopes of achieving an effective International Sugar Agreement.

Again, we thank you for the opportunity to appear here today and voice our support of the Sugar Stabilization Act of 1978. We will be pleased to answer any questions you might have.

MEMBER COMPANIES

ADM Corn Sweeteners, P.O. Box 1445, Cedar Rapids, Iowa 52406.
Plants:
Cedar Rapids, Iowa 52404.
Decatur, Illinois 62525.

American Maize-Products Company, 250 Park Avenue, New York, New York 10017.
Plants:
Hammond, Indiana 46326.
Decatur, Alabama 35601.

Amstar Corporation, 50 California Street, San Francisco, California 94111.
Plant: Dimmitt, Texas 79027.

Anheuser-Busch, Inc., P.O. Box 1810, Bechtold Station, St. Louis, Missouri 63118.
Plant: Lafayette, Indiana 47902.

Cargill, Incorporated, P.O. Box 9300, Minneapolis, Minnesota 55440.
Plants:
Cedar Rapids, Iowa 52406.
Dayton, Ohio 45414.
Memphis, Tennessee 38113.

Clinton Corn Processing Company (A division of Standard Brands Inc.), Clinton, Iowa 52732.
Plant: Clinton, Iowa 52732.

CPC International Inc., International Plaza, Englewood Cliffs, New Jersey 07632.
Plants:
Argo, Illinois 60501.
Pekin, Illinois 61554.
North Kansas City, Missouri 64116.
Corpus Christi, Texas 78408.

The Hubinger Company, Keokuk, Iowa 52632.
Plant: Keokuk, Iowa 52632.

National Starch and Chemical Corporation, P.O. Box 6500, Bridgewater, New Jersey 08807.
Plant: Indianapolis, Indiana 46221.

Penick & Ford, Limited (A subsidiary of Univar Corporation), Cedar Rapids, Iowa 52406.

Plant: Cedar Rapids, Iowa 52406.
A. E. Staley Manufacturing Company, P.O. Box 151, Decatur, Illinois 62525.
Plants:
Decatur, Illinois 62525.
Morrisville, Pennsylvania 19067.
Lafayette, Indiana 47902.

Senator MATSUNAGA. Will you identify yourself for the record and proceed?

Mr. KING. Thank you, Mr. Chairman. I want to thank you for the privilege of appearing before your committee.

STATEMENT OF CARL KING, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. KING. I am Carl King, president of the National Corn Growers Association of Dimmitt, Texas. Our interest in the stabilization of sugar prices is understandable and I thank you for this opportunity once again.

I am also a member of the National Corn Growers Association and I am happy to represent Mr. John Curry, the president who is in Southeast Asia, along with my cohort to my right, Mr. Don Schlichte.

I am also a sugar beet producer as well as a producer of mylo, cotton, wheat and some vegetables, plus corn. Our two Texas Senators have joined in the sponsorship of this Sugar Stabilization Act of 1978 together with the two Senators from our neighboring State of New Mexico. I represent the State of Texas; the producers who farm approximately 1.6-million acres of corn. We do produce some 9 percent of the total food consumed in this country, including the production of 2-billion pounds of meat and I wholeheartedly agree with the statement made previously by Mr. Bill Cleavinger, who represents the Texas-New Mexico Sugar Beet Association, and I join with him in the advocacy of the adoption of this legislation.

Amstar Corp., the largest sugar producer, I believe, that we have in the world today and a division of Spreckler Sugar has a capital investment in my hometown of some $45 million in the Dimmitt facility which is presently running at about 55-percent capacity because of the low price of sweeteners.

They do employ, at the present, some 182 people, thereby contributing to the overturn of the dollar many times within our small trade area.

Amstar uses 6 billion bushels of corn per year as sweetener in the Dimmitt plant. Their daily grind for high fructose syrup now is 13,000 bushels and they could be grinding some 22,000 bushels daily if they had a decent price for these corn sweeteners.

Holly Sugar, to whom I deliver my sugar beets to, is located in Hertford, Tex. and I would like to say, Mr. Chairman, that I have heard many discussions on the cost of production here this morning and this afternoon and, of course, you know, these costs of production do vary in different areas of our country. We do have a very high cost of production in our area due to the high cost of natural gas to pump underground water to supply these sugar beets and other crops.

Based on an 18-ton plant average at the Holly plant that was produced last year in 1977, we come up with a growers cost of

exceeding $450 an acre and, at the same time, we received about $20.78 a ton based on 15-percent sugar content and I think you can readily see that we are losing, or I personally lost some $50 an acre on my own operation. Of course, those tonnages do vary, Mr. Chairman, and I try to raise somewhere around 22 to 26 tons of beets, but we are just hoping that we will get this act through that you people have proposed so that we can, maybe, maybe break even and hope for better prices.

We need to protect the sugar producer as well as the consumers of this country from fluctuation in the high and low price of sugar; irregardless of the international sugar pact, we need legislation in the United States first.

Senator Church understands this fact, as well as all other members of this committee. We are interested in a healthy agricultural situation in this country which has to be different from the last 3 years. With the Sugar Stabilization Act, hopefully we can give some relief to corn growers who also produce sugar, since we produce only 55 percent of our own domestic sugar.

The Sugar Stabilization Act will be beneficial in many ways. It will help our balance of trade, insure a good domestic supply of sugar and improve the value of the dollar throughout the world.

I truly feel that the corn sweetener industry will be benefited by all of these inclusions in legislation, as well as producers of cane and beet sugar. We need to maintain a constant market to protect us from low priced imported sugar.

We do not—and I think I speak, Mr. Chairman, for 95 percent of the American farmers when I say that we do not want a direct subsidy. We would rather not have it. It may be that we will end up with it. We would rather not have it.

I would like to say that the Sugar Stabilization Act would have the effect of protecting the consumer and the producer. The lack of such legislation contributes to nonprofits for the producer and leaves the consumer in jeopardy as to whether he will be paying a wild, high price one year and a cheaper price the next year.

We need this stabilization effect for the producer and the consumer as well.

I might add that we are not happy with the administration's thinking on this. I think, as Senator Long so ably stated this morning, that people who are going around supporting the President probably would be in a dangerous position, and I am one of those people.

Thank you, sir.

Senator MATSUNAGA. Thank you very much, Mr. King.

Mr. Schlichte, will you then present your statement?

STATEMENT OF DONALD J. SCHLICHTE, EXECUTIVE VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION

Mr. SCHLICHTE. Thank you, Mr. Chairman.

My name is Don Schlichte. I am executive vice president of the National Corn Growers Association. You have already heard from Carl King of Dimmitt, Tex., president of the Texas Corn Growers Association who is both a corn grower and a beet grower and a

member of the board of directors of the National Corn Growers Association.

On behalf of our national association, I am submitting a statement for the record which I will briefly summarize here.

Our members are farmers growing and marketing corn in 47 States in this Nation. Approximately 10 percent of our cash sales go to corn refineries for processing, including the making of corn-based sweeteners.

Use of corn for such processing amounts to around 318 million bushels a year and is significant enough to have a decided impact on prices of all corn sold.

Any increase in corn demand by refiners contributes to stabilizing our corn prices at higher levels. Any curtailment of corn used by refiners has just the opposite effect, a downward pressure on corn prices.

This level of disappearance of corn into the refinery market has a price impact of at least 25 cents per bushel. This means an increase, Mr. Chairman, of between $1.6 billion and $2 billion per year for total corn sales above what would be the case if we did not have the refinery market.

You can see why corn growers have an important, pocketbook stake in any Government policies or programs on sweeteners.

As corn growers we have no quarrels with our fellow farmers producing sugar cane or sugar beets. We want them to have fair prices in the marketplace, just as we want fair prices for corn producers. We do not feel that we are in competition with them. We feel we are in competition, Mr. Chairman, with foreign imports and that any growth in our sector of the sweetener industry could lessen our country's dependence on heavy sugar imports and not penalize other domestic producers of cane or beets.

For that reason we welcome and support Senate bill S. 2990, the legislation before you. We believe it will protect and equally benefit all segments of agriculture producing for the sweetener market—cane growers, beet growers and corn growers.

We believe it achieves its objective in the right way by an import management program designed to reach fair and reasonable prices in the marketplace. Past attempts of the administration to use an alternate remedy of direct payments and allow continued unrestricted imports were not only a costly failure for beet and cane growers but directly discriminated against corn growers. As a result, Mr. Chairman, we welcome this chance to join with the beet and cane growers in support of Senate bill 2990, just as we did last year for the de la Garza amendment.

We object to criticism that it is inflationary. We are tired of having farm producers of this Nation becoming the whipping boys for inflation when farmers have been getting depressed prices far behind the other sectors of our Nation's economy.

Thank you very much, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Schlichte. We certainly appreciate both of you being here.

I have a few questions here for you; either of you may answer.

How much unused capacity, expressed in pounds raw sugar equivalent, is there for the production of corn sweeteners, particu-

larly high fructose corn syrup and what price level for raw sugar would it take to bring this unused capacity onstream?

Mr. KING. Mr. Chairman, you have asked me something that I certainly could not give you those direct figures. I have heard different figures, but I certainly would not want to say. I am afraid I would be out of the ballpark on them.

I did not bring those with me. I know that it is competitive, we are competitive with beet and cane sugar, the corn refiners are, in some areas. It depends on would it be canning purposes or for ice cream, confectionaries, and so forth. They did have a bigger demand.

I think they can manufacture it somewhat cheaper, but I would not want to give those figures.

Mr. SCHLICHTE. Mr. Chairman, I, too, would not be equipped to give you that specific answer at this time. As a producer organization, I would have to do some checking but I am sure I would be more than willing to try to get that answer for you, if you would like, Mr. Chairman.

[The following was subsequently supplied for the record:]

CORN SWEETENER OUTLOOK

U.S. GRIND UP

The U.S. corn refiner grind will likely total a new record of around 400 million bushels in calendar 1978 and is expected to top 425 million bushels in 1979. Based on recent trends, the annual U.S. corn grind could exceed 600 million bushels by the early 1980's. Trade sources indicate the U.S. corn grind was about 375 million bushels (±—5 million) in calendar 1977, up from around 350 million in 1976. In calendar 1972, the U.S. grind only totaled about 265 million bushels. Much of the expanded grind last year reflected increased high fructose corn sirup (HFCS) shipments. Both corn starch and glucose corn sirup shipments were also up significantly in 1977.

CORN REFINER SHIPMENTS EXPECTED TO INCREASE AGAIN IN 1978 [1]

Based on recent trends, HFCS shipments—virtually all for domestic food use —will likely range from 1.2 million to 1.3 million tons (dry basis) in calendar 1978, up from around 1 million tons (dry basis) in 1977.[1] Conventional corn sirup shipments for food use are expected to total nearly 2 million tons this year, up slightly from the 1977 level of 1.95 million tons. Dextrose shipments for food use in calendar 1978 will probably remain near the 1977 sales level of 500,000 tons (dry basis), possibly increasing modestly.

Corn refiners report that first quarter 1978 shipments of corn sweeteners picked up slowly. Conventional corn sirup sales were only slightly higher than a year ago, while dextrose sales were moving slowly. HFCS sales also increased.

PRICES CONTINUE MIXED

Corn sweetener price changes were mixed in recent months. Dextrose prices recently increased, glucose corn sirup prices remained relatively unchanged, and high fructose corn sirup prices declined in the first quarter. Dextrose prices increased in response to increases in sugar prices and relatively stable demand.

Modest increases in corn prices were not enough to result in any increases in glucose corn sirup prices before April 1. Also there is much less excess processing capacity for conventional corn sirup than for HFCS, a condition likely to

---

[1] Corn sweetener estimates for domestic food use are shown on a dry basis. Conversion factors used to convert commercial weights to dry weights are as follows: glucose corn sirup (conventional or regular) 0.803; dextrose (refined corn sugar) 0.92; and HFCS or fructose corn sirup) 0.71. Dry weight estimates may be reconverted to commercial weight by dividing the relevant data by the specified conversion factors. Values shown in the U.S. Corn Sweetener Situation are short tons (2,000 pounds per ton). To convert short tons to metric tons multiply short tons by 0.9072.

prevail for some time. (See table S-15 for more details on recent changes in monthly corn sweetener prices.)

HFCS prices declined in the first quarter while sugar prices increased, reflecting increasing price competition between HFCS producers. Trade sources report HFCS is substantially discounted below sugar prices to encourage industrial food and beverage users to replace sugar where technically feasible, thereby bringing about fuller utilization of existing HFCS capacity.

In April, wholesale prices of all corn sweeteners increased 50 to 80 cents per cwt. (dry basis), likely reflecting increased seasonal demand. For example, after declining from $12.89 per cwt. in January to $10.94 in March, HFCS list prices in the Chicago West Marketing Territory increased to $11.65 per cwt. in early April. With slightly higher domestic sugar prices likely in 1978, current dextrose and HFCS price levels (and possibly glucose corn sirup) indicate some further price recovery may occur in the second and third quarters.

CURRENT SWEETENER PRICES COUPLED WITH SUBSTANTIAL EXCESS CAPACITY ARE CREATING PROBLEMS FOR THE U.S. CORN SWEETENER INDUSTRY

Even excluding the two wet-milling facilities which can produce HFCS but that have yet to open, reports indicate there is still considerable excess capacity within the wet milling industry, particularly for 42 percent HFCS. Corn refinery firms have lowered both starch and HFCS prices in recent months in an attempt to increase market shares, and thereby more fully utilize existing capacity. However, other firms lowered prices and maintained both their starch and HFCS company market shares.

Current low prices make it difficult for wet-milling firms to produce starch, glucose corn sirup, and HFCS profitably. One firm closed its wet-milling, bulk starch, and glucose corn sirup operations last year. There are now 11 U.S. firms manufacturing corn starch, of which only 3 to 5 offer a complete line of modified starches and dextrins since the market is limited.

The industry is also having to face another problem. People close to the sweetener market report that "first generation" 42 percent (fructose) HFCS has nearly reached its U.S. market potential with sales of around a million tons in calendar 1977. Over half of the prospective 250,000-ton increase in HFCS sales in 1978 is now expected to come from the "second generation" 55 percent product. It was originally thought by some in the industry that the 42 percent product market would eventually total 1.5 to 2 million tons.

HFCS sales are reportedly slow in the first quarter this year. The apparent failure of the 42 percent product to capture as large a market as originally thought suggests the possibility the eventual size of the 55 percent fructose product market could fall short of current expectations.

But there are signs that economic conditions could improve over the next few years. HFCS sales are expected to continue to grow at a minimum rate of 200,000 to 250,000 tons per year for the next few years. Domestic sugar prices are expected to average significantly higher this year and next year. U.S. corn supplies are expected to remain adequate if not abundant. The second and third quarters are the large shipment quarters, and HFCS sales can be expected to increase seasonally to supply market needs this year. Further expansion in building new facilities is expected to be delayed.

Senator MATSUNAGA. Now, you have heard testimony as to the cost of price for sugar. Assuming that the target price of 17 cents as stated in S. 2990 is adopted, would this permit you to compete with sugar?

As you say, you are not in competition with domestic sugar, but with foreign——

Mr. KING. You know, Mr. Chairman, when we built this plant, for example, in Dimmitt, it is a $45 million plant some 10 years ago, I predicted I would be in competition with myself, but that is a healthy climate. You raise a little more corn or you raise a little more sugar beets.

But I do not think that, if we had this stabilization act, this Senate bill, I think that the refiners and corn processors of the high

fructose syrup as a whole would welcome it. I do not think that it would really be discriminating against either one of the two commodities, because it is all sweeteners.

There will be some areas where there will surely be competition but I think, by and large, I am not too worried about it, and the people I have visited with.

I would like to say that the testimony of Mr. Potvin, I believe it was, that he was insinuating to some extent that the large corporation farmers could do this at a lower cost of production, well I would sure disagree with that. I think that I could put my cost of production figures up against any corporation and survive, as a family farmer, and survive a lot longer than the corporation. I think that has been tried before. Gates Rubber Co. is an example.

I do not think that corporations need to take over in this country in any way because I think the consumer would begin to pay for prices of not only sugar, but other foods, when they do. We need to preserve the family farm system.

Mr. SCHLICHTE. Mr. Chairman, yes. We believe that figure that we can live with and it would not put one group at a discrimination of the other group.

Senator MATSUNAGA. What about 15 cents?

Mr. KING. This is a minimum, that we feel like, as a sugar beet raiser. 15 cents would certainly be a minimum. We would hope that we would get better markets and not have to resort back to the bill because you really could not make any money, down in my country, at 15 cents. You might break even. You have your equipment, you have your depreciation and at the same time, you are losing equity by not being able to meet your commitments to land payments and taxation et cetera.

So, you know, when you look at these costs of production as you have heard many times, I am sure, Mr. Chairman, and many of the Senate and House Ag Committees have heard, they vary quite a bit. You have the Wet Belt, Wet Corn Belt, like Mr. Schlichte comes from that does not have quite as much out of pocket itself as we do in the corn area of West Texas where we have to irrigate it and pay for high-price natural gas. But with the taxation that they have in that area, they pretty well stabilize themselves on the cost of production as far as these two people are concerned.

But we feel like we need this bill very badly, Senator and I do not care what these other guys say. I am a farmer and I know what my costs are. I write those checks.

Mr. SCHLICHTE. Yes, we do need that bill very badly.

Mr. Chairman, I would like to make one comment, that is, this also needs to be made—farming is like every other profession. If you operate in a profession and you do no more than break even you will not be around very long. So when figures are tossed around that are just breakeven figures, those figures are such that the guy will not be in business very long if he does not do any better than that and I think that point needs to be very clearly made.

Senator MATSUNAGA. Thank you very much. I am sure that the sugar producers are happy to have you on their side.

Mr. KING. Thank you, sir. We appreciate the opportunity of being here.

Mr. SCHLICHTE. Thank you, Mr. Chairman.
[The prepared statements of the preceding panel follow:]

STATEMENT OF CARL L. KING, REPRESENTING THE MEMBERS OF THE NATIONAL CORN GROWERS ASSOCIATION

Mr. Chairman and Members of the Committee: My name is Carl L. King. I reside in Dimmitt, Tex. I am State Chairman of the Texas Corn Growers Association. I am a member of the Board of Directors of the National Corn Growers Association. I have been requested by the President of the National Association to make this appearance for and on behalf of the members of the National Association in the absence of our President, Mr. John Curry, who at the present time is in Southeast Asia.

I am pleased to appear before this body concerning sugar legislation, which is a most important subject throughout our whole country.

I am most pleased that the two Senators of my State have joined in the sponsorship of the Sugar Stabilization Act of 1978, and also that the two distinguished Senators from our adjoining Sunshine State of New Mexico are likewise co-sponsoring this most important legislation. The members of the Texas-New Mexico Sugar Beet Growers Association are thus represented by the four Senators of these two states who are co-sponsoring this legislation.

Sugar beets grown in Texas and New Mexico are considered by the farmers generally as one of the best and most important crops in crop rotation and in good husbandry and good farming practices. Without the opportunity to grow both crops at a reasonable profit to the producer, both the sugar industry and the corn industry of this country will suffer. I say suffer because if the producer goes broke, the country is injured. No one is helped. The consumer will pay the same price, whether the farmer sustains heavy losses or not, but if the producer is bankrupted, the future for the consumer is bleak in that then his prices can be higher than could possibly be anticipated, as has been the case in the past since the expiration of the Sugar Act which worked so well and for the betterment of the consumer, as well as the producer for 40 years.

I am pleased to represent from my state, farmers who farm approximately 22,000,000 acres of crop lands, all of which are capable of growing sugar beets, and all of which are now growing corn as the main crop. The other crops used in farming this land are milo, wheat and cotton, and some vegetables. The total food produced from the area in which I live in the great State of Texas produce approximately 9 percent of the total food consumed in this country. The most concentrated meat production in the world is in this area, with Hereford and Dimmitt, Texas as the center of this production. Two billion pounds of meat, beef, lamb and pork, is produced annually in this area.

I represent, as the President of the State organization, approximately 10,000 growers. I do not mean to say that these people grow only corn, but corn is an important annual crop for the farmers in Texas, along with the other crops mentioned above.

I have been a member of the Texas-New Mexico Sugar Beet Growers Association since our factory was first built in Hereford, Texas in the year 1964. I can speak firsthand for the people of my area on the subject of food production, as I have been engaged in this business all of my life.

I have read in detail the statement submitted by Mr. Bill J. Cleavinger in this hearing on behalf of the Texas-New Mexico Sugar Beet Growers Association, and I join with him in every utterance and statement made by him in the well reasoned advocacy of the adoption of this legislation. The conclusions which he sets forth are not only well reasoned, but founded on facts, and the results expressed are unescapable results. I could add very little to this comprehensive report which he, as President of the Texas-New Mexico Sugar Beet Growers Association, has propounded, but I do wholeheartedly support these statements and these conclusions. The members of the National Corn Growers Association, as well as the members of the Texas Corn Growers Association, have and do now fully and completely support the passage of the enactment of the proposed legislation referred to as the Sugar Stabilization Act of 1978 with the provisions therein contained, which are absolutely necessary in order for this country and the producers in this country to have any benefit from or protection in any participation of this country in the International Sugar Agreement.

There is no way on earth that this country can protect the citizens and the producers and the consumers of this country from undue excessive high prices of sugar and undue excessive low prices of sugar irregardless of an International Pact, without first having legislation in the United States which will protect the producer and the consumer. When this has been accomplished, then the world sugar, which in the past has only been a very small amount of sugar, but regardless of the amount in the future, can be effectively dealt with by the International Sugar Agreement. Senator Church has so well understood this fact, and I feel sure that all members of this Committee understand this fact, especially those who have taken the time to study the history of sugar and sugar legislation, not only in this country, but in all the foreign sugar-producing countries, and the fine, thorough investigation and report which the International Trade Commission has so made and reported to the Administration, the results and details of which are accessible to not only the members of our Congress, but to all interested citizens. The fact that the Administration may not have followed the suggestions of the International Trade Commission in its two previous reports nevertheless does not weaken or diminish from the study that these learned men appointed by our government have determined and recommended.

Needless to say, because I represent farmers and producers, I am interested in a healthy agricultural situation in this country which has to be different from what it has been in the last three years when farmers throughout the whole United States are being bankrupted each and every year for the reason that the cost of production exceeds the returns. We have noted, and I know that it has been called to your attention, the American Farm Movement which has been going on now for a number of months, is the result of the condition existing where the producers have suffered such severe losses each year that they cannot continue in business. When a man is drowning, he grasps at straws. When a farmer goes broke and is bankrupt, he finally wakes up to the fact that he must have help from his government, and this is the reason for the American Farm Movement which we have heard and felt in recent months. We appreciate the efforts of our Congress in trying to meet this situation, but the relief afforded may be insufficient to accomplish a solution of this most serious problem. The loans which have been extended to producers will probably keep some of the farmers who have suffered financially so greatly, in business a few years longer, but the fact remains that unless the prices the producer receives for his goods is in excess of his cost and gives to him a fair and reasonable return on his investments, the problem will still be there, and will still have to be resolved in the future by more appropriate legislation.

I will be most happy to report to all members of the National Corn Growers Association that this Congress does enact the Sugar Stabilization Act of 1978 which hopefully will give some relief to some of our corn growers who also produce sugar. It is true that some of our corn growers produce sugar cane, and they will like to know that one of their crops has been favored with good, sound, logical legislation.

As Mr. Cleavinger has pointed out, this country could so easily produce all of the sugar consumed in this country by expansion of the cane sugar and beet sugar production. The possibilities and the opportunities are there, and if we could become an exporting country of sugar, we could then be on par with those foreign countries which export sugar, but certainly when we are producing only 55% of our sugar, we can partially limit the balance of payments by protecting this industry and thus prevent another 55 percent of our consumption to be imported which would then put this production on a basis similar to coffee, cocoa and crude oil which recent experiences have shown how the dollar is eroded, inflation is increased, and respect for our fiscal condition throughout the world has deteriorated.

I cannot close my statement without insisting and urging that the proposition that the corn sweetener industry which uses a portion of the corn which the corn grower produces will be benefited by this all-inclusive legislation. It will be most beneficial to the corn growers in maintaining a market for a small portion of their corn and the use of corn sweeteners that this industry be protected from low priced imported sugar, the same as the domestic sugar industry. For one not to realize the results as pertaining to sweeteners from corn, as well as from sweeteners from cane and beets, would be shortsighted. The growers and producers urge the passage of this legislation.

I wish to thank you gentlemen for the consideration which you have given me and those whom I represent in extending this privilege for my expression to you of our thoughts as producers, and we are sincere in what we have to say to the effect that if we can maintain a viable production industry, we as consumers and all consumers will be benefited thereby.

STATEMENT OF DON SCHLICHTE, EXECUTIVE VICE PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, DES MOINES, IOWA

Mr. Chairman: I am Don Schlichte of Des Moines, Iowa, executive Vice-President of the National Corn Growers Association. With me is Carl King of Dimmit, Texas, President of the Texas Corn Growers Association and a director of our national association. He is both a corn grower and a beet grower.

The National Corn Growers Association, Inc., is a corporation organized under the laws of the state of Iowa. Our members are farmers engaged in the business of growing and marketing corn in 47 states. They grow and market corn for a variety of purposes, including marketing to refining companies for use in making corn-based sweeteners.

Mr. Chairman, we appreciate the opportunity to testify here on the stake our producers have in this legislation because it is generally less well understood than the stake of cane and beet growers.

According to January's estimate by the U.S. Department of Agriculture, United States corn production in 1977 was approximately 6.3 billion bushels grown on 70 million acres. Our market is primarily for animal feed use, in this country and for export, but in recent years, corn refiners have offered an increasing share of market opportunity for corn utilization.

USDA data on corn utilization by corn refiners or wet millers shows 295 million bushels used in 1973; 315 million bushels in 1974; 345 million bushels in 1975; and 365 million bushels in 1976. While final official figures have not been released for 1977, USDA estimates indicate it will run around 380 million bushels.

This level of corn utilization is about 10 percent of all corn sold by farmers as a cash crop, instead of being fed to their own livestock.

While in total amount the corn going to the refiners, to process products like corn sweeteners, may appear small, it is significant enough to have a decided price impact on prices of all corn sold.

The steady expansion we have had in recent years in utilization and demand for corn by the refiners has kept the prices farmers receive for their corn higher than they would otherwise have been. Any increase in corn demand by the refiners contributes to stablizing our corn prices at higher levels; likewise, any curtailment of corn used by refiners has just the opposite effect, a downward pressure on prices to growers.

It is estimated conservatively by agricultural economists, including several in USDA, that the current level of "disappearance" of corn in the refinery market has a price impact of at least 25 cents per bushel. Applying that figure to total corn sales would mean between $1.6 billion and $2 billion per year earnings above what would be the case if we didn't have this market.

That should indicate why corn growers have a very important pocketbook stake in any government policies or programs that would disrupt or interfere with the normal trends of the corn refinery market.

The growth in corn demand by corn refiners is primarily the result of increasing use of corn sweeteners. However, the demand for corn sweeteners is directly related to the price of other sweeteners, such as cane and beet sugar, which brings us to why we are here today.

Heavy and unrestricted imports of foreign sugar, driving down prices in the United States, not only punish domestic beet and cane growers by providing unfair competition, selling below domestic cost of production, but also threatens to further depress already seriously depressed domestic corn prices by curtailing the part of our market normally going to the corn refiners.

For example, last year's total sugar imports were about two million tons higher than the U.S. International Trade Commission had recommended be allowed to protect the domestic cane and beet sugar industry. I can't speak for what harm that did to domestic beet and cane producers, but the impact of such heavy imports on corn sweeteners deprived our corn growers of a potential market for another 100 million bushels of corn. That level of additional dis-

appearance of corn that we lost due to sugar imports would have likely translated into an increase of at least seven cents per bushel in the price for our corn—which we didn't get.

Mr. Chairman, just as we testified before the U.S. International Trade Commission, I want to emphasize that as corn growers we have no quarrels with our fellow farmers producing sugar cane or sugar beets. We want them to have fair prices, in the market place, just as we want fair prices for our producers. We don't feel we are in competition with them. We feel we are in competition with foreign imports, and that the growth of our sector of the sweetener industry could lessen our country's dependence on heavy sugar imports, not penalize other domestic producers of cane or beets.

For that reason we welcome and support S. 2990, the legislation before you. We believe it will protect and benefit equally all segments of agriculture producing for the sweetener market: cane growers, beet growers, and corn growers, thereby protecting and preserving the normal economic relationships between these commodities and gradually increasing the domestic share of the total U.S. sweetener market. We believe it achieves its objectives in the right way, by an import management program designed to reach fair and reasonable prices in the market place.

Past attempts of the administration to use an alternate remedy of direct payments and allow continued unrestricted imports discriminated against corn producers and failed to provide adequate economic protection for beet and cane growers.

As a result our corn growers worked with other producer groups, including beet and cane growers, to seek from the Congress a better remedy last year. We endorsed the de la Garza amendment to the Agricultural Act of 1977 for a loan and storage program for sugar cane and sugar beet growers, because it was designed as a price support program aimed at getting a fair price in the market place, instead of through government payments. Members of Congress from corn producing states voted for this legislation with the understanding that it was to be implemented through an import management program that would avoid costs to the government, yet bolster market prices for sweeteners so as to be equitable to beet, cane, and corn producers alike.

We still feel that would have been done if Administration officials had moved in August, when the Conference on the legislation was reached, to immediately implement the intent of the legislation and head off the huge influx of imports that was virtually invited by the Administration's inaction. In fact, the Conferees warned at that time that immediate implementation would be needed to make the program effective, and from what Members of Congress have said publicly, they apparently thought they had pledges for such immediate implementation.

Instead, there seemed to be a continuation of footdragging that was finally broken somewhat in November when members of Congress threatened to override the President's rejection of earlier U.S. International Trade Commission recommendations. Even ever since then, the attitude has appeared to farmers that more time is spent trying to develop ways to avoid an effective market place price support program than in really trying to make the legislation work for the benefit of producers.

That is why we welcome this legislation spelling out more specifically how it is to be implemented—by law, not by conference understandings.

We would like to see the International Sugar Agreement approved in an attempt to end the world sugar price chaos, but we could support such ratification only if similar protection was extended to domestic producers as this legislation does.

We believe this legislation is correctly designed to achieve its objectives of protecting a viable domestic sweetener producing industry in our national interest, and is correctly termed a stabilization act with safeguards for consumers as well as producers.

We object to criticism that it is inflationary. We are tired of having farm producers become the whipping boys for inflation, when farmers have been getting depressed prices far behind the rest of the economy. We believe the staff of the President's Wage and Price Board picked the wrong target when it attacked this legislation aimed at protecting domestic producers.

They must know that 85 percent of sugar is purchased by industrial users, not retail consumers, and should focus their inflation concern on the prices of

products of such industrial users, compared to costs of farm-produced ingredients. They must know that the Consumer Price Indicies of the Bureau of Labor Statistics show that prices of cola drinks and other carbonated drinks, heaviest users of sugar, are higher now than they were in 1974 when raw sugar prices peaked at 57 cents per pound.

We are pleased that labor unions with jobs at stake in corn refining plants are joining us in supporting this legislation. We think they reflect consumer concern and understanding better than industrial sugar users do.

Mr. Chairman, on behalf of corn growers in 47 states we urge your approval of S. 2990, and its quick enactment by the Congress.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Our next witness is Mr. Jack B. Powell, chairman of the board of the Great Western Sugar Co., accompanied by Dr. Clarence F. Davan, Jr., vice president for corporate services and international business development of the Great Western Sugar Co.

I note that you have another member with you, Mr. Powell. Will you identify yourself for the record, and proceed?

Mr. POWELL. Mr. Chairman, I am Jack Powell, chairman of the Great Western Sugar Co. Also with me is Mr. James Mark, president of the Great Western Sugar Co. Dr. Davan will present our testimony in this hearing.

Senator MATSUNAGA. All right, fine.

Mr. Davan, you may proceed.

STATEMENT OF JACK B. POWELL, CHAIRMAN OF THE BOARD, GREAT WESTERN SUGAR CO.; ACCOMPANIED BY CLARENCE F. DAVAN, JR., VICE PRESIDENT FOR CORPORATE SERVICES AND INTERNATIONAL BUSINESS DEVELOPMENT, GREAT WESTERN SUGAR CO., AND JAMES MARK, PRESIDENT, GREAT WESTERN SUGAR CO.

Mr. DAVAN. Mr. Chairman, we certainly appreciate the opportunity to be here with you today to present our testimony. We have written testimony that we would like to make part of the record, but I want to use a few charts to summarize my materials today which I would also like to make a part of the record.

Senator MATSUNAGA. Without objection, your written testimony will be made a part of the record, as though delivered in full, and you may proceed.

Mr. DAVAN. Great Western generally supports S. 2990. We certainly recognize a tremendous need for some domestic legislation.

GW has developed a concept which has been introduced as a bill into the Senate yesterday afternoon, Senate bill 3055 by Senator Haskell, which is the national sweetener program. This bill is not meant to take the place of the S. 2990, it is only to complement it.

We feel that we are definitely in a position to judge the overall industry. We are presently refiners of raw sugar in Louisiana and Ohio. We process sugar beets in six States, and we have announced the construction of a high fructose corn sirup plant in Colorado. We are the second largest sugar producer in the United States.

Today we are here to focus on the S. 2990. This bill provides for residual global quotas, variable import fees, and a price objective of 17 cents.

However, S. 2990, as drafted, would create what we think are some serious problems. I will move over to the chart here. [Note: The charts are shown at the end of the written statement.]

Chart No. 1 shows the production of domestic sweetener crops as a function of price, that is, the expansion of domestic production as prices increase.

Let's look at the 13.5-cent level at which prices are being supported today. Here is how much cane is being produced today; here is how much sugar beets are being produced, and corn sirup. Now, this includes high fructose and the other corn sirups. The total is up to about 9 million tons on a raw price basis at 13.5 cents.

Now, at anything above 13.5 cents, we will get expansion in acreage here. As you will see later, we have got the capacity to increase here on the corn sirups.

There would not be any capital investment, but as you get out here to about 18 cents on corn sirups, then you would see capital investment.

On beets, we would not see any expansion in the acreage until about 14.5 cents. We would see an expansion of acreage out to about 19 cents and then for further expansion, capital investment would be required.

On cane, you would not have hardly any increase until about 19 cents, and the minimal increase would represent only an increase in acreage. No capital investment itself would be made until around 19 cents.

Next chart, please.

One thing I might point out on this chart is that we have total domestic consumption today at about 14.5 million tons. So if we went out here to what is being recommended, 17 cents, we still have to depend on imports into the United States to satisfy domestic consumption.

Now, taking a look at the second chart, the present bill would bring the price up to about 20 cents refined. The cane—the supply cost here, this solid part would be the supply cost, and the lined part up here would be returns to pay administrative costs and profits, and so on.

As you see, beets and corn could both lower their prices down to the point where cane could be forced out of production or out of existence. When you increase the price up to the 25-cent level, you keep the prices of beets and corn approximately the same all the way across the line. However, now cane prices would go up because you would have to buy it from the world market. Therefore, beet and corn could lower the price down and you would be driven out.

Whereas at prices we have today, this is about 18 cents for refined sugar, again your beets are sitting here with a fixed cost and 18 is below it, so we do want to have to watch programs that we develop to be able to account for this.

Next chart.

Supply sources in the world today. We have refined sugar in the world today that could be imported into the United States between 6 and 7 million tons. There are 17,000 domestic corn growers that produce 100 percent of the input that goes into the processing capabilities of corn sirups today. All of them will fight for that 1-million-ton capacity.

Last year, they produced 3.4 million tons, or 23 percent of the total sweetener consumption in the United States.

Eighteen thousand domestic beet growers again produce 100 percent of the raw material that goes into a 4.2-million beet sugar capacity. Last year, they only produced 3.3 million tons, 23 percent of the total of the 14.5 million tons consumed.

Now, getting down to the refiners' side. There are a little over 2,000 cane growers that produce 32 percent of the domestic raw cane sugar. That goes into an 11-million-ton capacity for the cane refiners, who last year produced 7.8 million tons or 54 percent of the total sugar consumed in the United States. Sixty-seven percent of that total came from imports.

As is obvious, we, as refiners, are dependent upon imports of raw cane to keep our refining capacity efficient. Any time the refining turnover falls down below 4.5 million tons, it starts to get inefficient. When this inefficiency occurs, what happens? A number of the cane refiners would have to go out of business, which means that the cane growers would have no place to sell their cane with the exception of C. & H. in Hawaii and that is all grown in the United States.

So we would have a problem in this area here.

Next chart please; flip it over.

As we would move on into the future here, one of the things that we would have to do if the refiners went out of business as prices rise in the United States or if we had decreased production because other competing crops, particularly corn, expanded rapidly, then we would have to import refined sugar. Refined sugar then would come into the United States at prices less than we could produce from beets and start forcing the beet people out of business—about 18,000 people and a number of them would be forced out. Likewise, it would be highly competitive with corn. We could get into the oil situation that we see in the United States today, which is this: Becoming dependent upon foreign refined sugar after our refining industry and cane growers went out of business; foreign refined sugar moving in totally to U.S. consumption and forcing out the rest of the industry.

If we become dependent upon imports of refined sugar, these are the factors that we see happening here. Exorbitant costs to the U.S. consumers, elimination of cane growers, closure of U.S. cane refineries, substantial reduction of the U.S. sweetner industry, reduced income to the Treasury, reduced jobs in the United States, uncontrolled and untaxed profits to foreign refiners, and increased trade deficits.

Now, to avoid this problem, we have made a number of recommendations here in our national sweetner policy program, including, marketing quotas. We feel that everybody has to participate in this and that means cane, corn sirups, beet, and the raw sugar imports.

All would participate on the basis of marketing quota. This would not limit growth in our segment of the industry if it was efficient and could stand on its own—such as corn sweeteners. We would have import licenses, not assignable or transferrable. These import licenses would be the import license for the raw sugar imports, given to the refiners in the United States and large industrial users. They would be on a percentage of what they refined during the past year, similar to what the marketing quotas in the other areas would be.

Pull my chart over here, please, and I will continue on that one over there.

Let's take a look at what that would mean to us here. The import license is not assignable. We would have global imports under license versus what it is under S. 2990—a first-come-first-served quota. We would have no quotas based on the country of origin, same as the S. 2990. We would have the control with the domestic refiners, the flow of the supply of sugar would be geared to the need, not according to S. 2990 where you leave control with foreign producers and where you may get all your imports in the first quarter, which is a serious problem. Also, there could be countries which would ship to the United States, get it by Customs, and be able to regulate the supply coming into the United States.

The licensing system would help stabilize prices because you would have an even flow and there would be a minimum impact on international sugar prices.

We recommend this all be handled by the National Sweetener Board composed of all segments of the industry. This would be the beet growers and processors, the cane growers and refiners, corn processors, users—the entire sweetener industry in the United States today.

Now, I have gone over this rather quickly given my time limits. If there are any questions you might have, this does conclude our testimony. We definitely feel that the present bill, with some amendments to it, we could definitely support, as a beet processor, as a refiner and as a future producer of high fructose corn sirup.

However, we do feel that there are some amendments that do need to be made to appease some of these others—or, I believe the word this morning that was thrown around was compromise, some of the things in the bill.

This concludes my remark and I thank you very much for letting us make the presentation. My colleagues and I are ready for questions.

Senator MATSUNAGA. Thank you very much, Dr. Davan. You are an expert in making charts. That is very impressive.

Mr. DAVAN. I also hope that they have some content in them.

Senator MATSUNAGA. What specifically would you propose as amendments to S. 2990?

Mr. DAVAN. The proposed amendments itself were, No. 1, we would have the quotas on a world basis, the way it is in S. 2990. However, we are saying that that control should be in the hands of the refiners themselves—the domestic industry—through the use of the import license system. Do you throw it open just on a first-come-first-serve basis, because there could be some advantage taken of this by countries that are shipping to the United States. There are also refiners within the United States that could possibly get enough in here to regulate the supply. It does not take 14 million tons. It only takes about 400,000 or 500,000 tons in to be able to regulate the supply and have a corner on the market, we might say.

That is one.

The other is the importers would be able to depend on their shipments of foreign raw sugar, and they would not abuse it because they could only produce so much anyway, if the refiners have about

90 or 92 percent of their total, why, then, they could bring in the raw sugar on a very even basis, geared to need, is what we are saying. We would gear it to need here.

Presently when you take the present bill, S. 2990, and you say that imports equal total consumption in the United States minus production, you see the first chart we have back here, when the prices do go up as high as what would be needed by the inefficient producer to make a living, you are going to have tremendous expansion in the very efficient sweetener products, which would be the high fructose corn sirup and secondly the beets. You need to guarantee access to reasonable amounts of foreign corn sugar for the refiners.

So you would have expansion. With that expansion then you would have a tendency to dramatically lower your imports as you have before, and we feel that that is not what we are trying to do. We can get sugar from three places in the United States. We get sugar from corn, we get sugar from sugar beets and we get sugar from refineries.

Now, there are various sources to supply those and that is what we need to regulate as to where the final source of refined sugar is being delivered from.

Another change would be to establish marketing quotas, whereby we would give cane producers in the United States a certain quota, very similar to the old Sugar Act but not the Sugar Act, either.

The same for corn sirup. Corn sirups last year accounted for about 2.4 million tons of the corn sirup and about .8 million tons of the high fructose corn sirup. Added together, that is about 3.4 million tons in total. We feel that the high fructose corn sirup the first year could be increased up to approximately 1.8 million to 2 million tons the first year. We would give the growth to the efficient industry in the United States which would be, primarily, the corn sirups, or the high fructose corn sirups.

And then they could have their growth but still it would be a controlled growth. It would not be something that would be out of hand as when you create a 17-cent price, as you saw by the first chart there. You get a 17-cent price and the high fructose industry would be highly expansive. Likewise, the beet industry will be expansive in acreage.

At the expense of what? At the expense of cane and at the expense of imports.

And when you create that situation, the refiners are going to—some of them—will just have to go out of business. Then you do not have that flexibility of bringing in raw sugar when prices do go up. You will start bringing in refined sugar. So we recommend that marketing quotas be established each year.

As far as cane is concerned, I believe we would be only down about 200,000 tons from what we would be in the past to produce a 17-cent sugar, New York No. 12 equivalent price. To corn sirups, we would give an increase from 1.0 to 1.8 million tons.

Sugar beets would be about 3.2, 3.3 million tons. The 5-year average is about 3.5 million tons, so we would not be lowering the figure appreciably.

Raw sugar imports would be set at about 4.5 million tons, about the breakeven as far as being able to efficiently run the factories.

Because when you bring in raw cane imports at less than that amount, you have that fixed cost and that fixed cost starts eating you up and the cost goes up rather rapidly.

Senator MATSUNAGA. What would the total tonnage be for that?

Mr. DAVAN. 14.5, raw value, total sweetener industry.

Senator MATSUNAGA. Right now our sugar consumption is about 11.5 million tons.

Mr. DAVAN. Sugar, not sweeteners now.

Senator MATSUNAGA. Sweeteners? What is that?

Mr. DAVAN. Sweeteners would be your high fructose and your corn sirups added to sugar.

Senator MATSUNAGA. That is about how many tons?

Mr. DAVAN. Well, you are looking at about 3.2 million tons.

Senator MATSUNAGA. 3.2.

Mr. DAVAN. Right.

Senator MATSUNAGA. Then are you saying that by this formula you would exclude all imports?

Mr. DAVAN. No, sir, we would not exclude all imports. What we would do is to set reasonable imports. There would be a marketing quota given for cane, a marketing quota given for each of these areas.

Senator MATSUNAGA. What would the percentage of imports be?

Mr. DAVAN. The percentage of imports would be 4.5 million tons. The average for 5 years is 5.2 million tons.

Senator MATSUNAGA. Percentagewise, what would that be?

Mr. DAVAN. You mean percentagewise as far as the total industry is concerned?

Senator MATSUNAGA. Yes; of the total industry.

Mr. DAVAN. 4.5 last year we brought into the United States here, let's see, about—well, last year was an odd year because of circumstances. The 5-year average is 5.1 million tons, the 5-year average that you use on imports.

Senator MATSUNAGA. You see, right now we are about—I am talking about sugar now—it is about 55 percent domestic and 45 percent imports.

Mr. DAVAN. That is correct.

Senator MATSUNAGA. What is the percentage on corn sirups, if any?

Mr. DAVAN. Percentage on corn sirups in the United States? Of the total sweeteners——

Senator MATSUNAGA. I mean domestic sweeteners in relation to imports, if any.

Mr. DAVAN. The relationship to domestic?

Senator MATSUNAGA. Yes. I am saying now, in sugar, we produce 55 percent and import 45 percent of our needs. Do we have any imports of corn sirup at all?

Mr. DAVAN. No, sir.

Senator MATSUNAGA. None at all?

Mr. DAVAN. No.

Senator MATSUNAGA. So then if you added corn sweeteners from whatever corn product it may be, then you would increase the total percentage of domestic production?

Mr. DAVAN. That is correct. And part of that would come out of—if we increased it, just say, from 3.4, which we are recommending, it

could go up to even 4.0, then a little would have to come out of the beets. See, we produced 3.3 last year. We are recommending about 3.2, 3.15 for beets. And then you come down here, of which 33—a third of this here or about 3.4 million tons, it would go down to about 2.2 million tons here.

You take a little out of here, a little out of the imports and a little out of here and give it to here, the efficient producer. The equivalent amount, it would give you 17 cents.

But it would all be on a marketing quota basis.

Senator MATSUNAGA. No; you say that you are opposed to a first-come-first-served basis.

Mr. DAVAN. That is S. 2990, yes, sir.

Senator MATSUNAGA. What would you substitute in its place?

Mr. DAVAN. I would substitute in its place, rather than a first-come-first-served basis, I would substitute marketing quotas for the refiners themselves.

Senator MATSUNAGA. Marketing quotas based on a country by country——

Mr. DAVAN. No, sir. Marketing quotas given to the refiners, the refiners right here that are refining this cane sugar in the United States. They would be given a marketing quota to sell so much sugar in a year and they could purchase it the same way they have been purchasing it in the past, through brokers from anyplace in the world or from domestic producers.

Senator MATSUNAGA. And you would grant licenses?

Mr. DAVAN. Yes, sir. They would be nonnegotiable licenses and the total amount for imports would be set up by this board down here under the Secretary of Agriculture. They would be set up by this board here, by the Secretary of Agriculture. They would be nonnegotiable.

Senator MATSUNAGA. Now; if some question arises as to what is marketing quotas, we are talking about production on the one hand, and you are speaking in terms of marketing quotas.

Mr. DAVAN. Right. The U.S. Department of Agriculture would determine, with the sweetener board, on this number right here, what would be produced. They would also allocate it among each of these areas here in marketing quotas. It wouxld be given to the cane refiner, the best processor and the corn.

Senator MATSUNAGA. Just as it was under the old Sugar Act?

Mr. DAVAN. Not quite. There were production quotas there, too, I believe. They had production quotas there as well as marketing quotas, both. We are just recommending marketing quotas here. Production quotas could be incorporated if necessary.

But these would be marketing quotas. They would be given to the marketers of refined sugar, or refined sweeteners, which would be corn, beets or cane. They would be given to those.

Senator MATSUNAGA. I see that you do support S. 2990 in general.

Mr. DAVAN. Yes, sir.

Senator MATSUNAGA. And I take it that you have discussed this matter with the sugar industry as well, and sugar growers?

Mr. DAVAN. We have support from our sugar growers for our bill.

Senator MATSUNAGA. And have you discussed this proposal with them at all?

Mr. DAVAN. Yes, sir.
Senator MATSUNAGA. You have.
Mr. DAVAN. Yes, sir. It has been discussed with them.
Senator MATSUNAGA. What was their reaction?
Mr. DAVAN. Mr. Powell?
Mr. POWELL. Well, in talking to some of our growers they have some problems with S. 2990 as well as ours and they would have to work out compromises. But in general, our growers in Colorado did inform Senator Haskell that they would be willing to support his introduction of the bill as a basis for discussion along with S. 2990.
So, from that standpoint, they did give support. They thought that there was some merit in our proposal, that could discussed in considering Senator Church's bill.
Senator MATSUNAGA. Well, I thank you for your attendance, your testimony. I appreciate the thoughts that you have injected into this hearing.
If we have any further questions, we will submit them to you in writing.
You do have copies of the charts, do you?
Mr. DAVAN. Yes, sir. We have copies in black and white which we will get to you the first part of the week in color.
Senator MATSUNAGA. Well, black and white will do. I am color blind, so it would not make any difference.
Mr. DAVAN. All right. You just saved us some money there.
Senator MATSUNAGA. Thank you again.
Mr. DAVAN. Thank you.
Mr. POWELL. Thank you, Mr. Chairman.
[The prepared statement and attachments of Mr. Davan follow:]

THE **Great Western Sugar** COMPANY.

SUMMARY OF TESTIMONY

I. Although Great Western generally supports S. 2990, it believes that there are several problems which would occur if enacted in present form:

- Imports of raw cane sugar would be reduced below levels needed to keep domestic refineries in business

- First-come-first-served global quota would cause significant distortions in the sugar market and would leave control of market in hands of foreign producers

- Corn sweetener production would increase dramatically taking market away from cane and beet sugar products

II. Certain aspects of the National Sweetener Program proposed by Great Western could be combined with S. 2990 to improve sweetener legislation:

- Consideration would be given to needs of refiners as well as domestic growers in allocating market between domestic-source and foreign-source sweeteners

- Control of imports would be left in the hands of present-day importers, i.e. refiners and large industrial users, through use of nonnegotiable import licenses assigned by the Secretary of Agriculture

- Market for domestic-source sweeteners would be allocated among cane, beet and corn sweeteners, providing orderly growth in the market for new, cost-efficient sweeteners

- Market allocations would be based on the recommendations of National Sweetener Board, made up of all elements of the sweetener industry, including beet and cane growers, processors and refiners, and industrial and retail consumers.

POST OFFICE BOX [illegible] • DENVER, COLORADO [illegible] • [illegible] • A SUBSIDIARY OF HUNT INTERNATIONAL RESOURCES CORPORATION

THE Great Western Sugar COMPANY

TESTIMONY

Mr. Chairman and members of the Committee, I appreciate this opportunity to testify before you today. My name is Clarence F. Davan, Jr. and I am Vice President, Business Development and Corporate Services of the Great Western Sugar Company in Denver, Colorado. I have with me today Jack Powell, Chairman of the Board and Chief Executive Officer of the Great Western Sugar Company and Mark Sandstrom, our Washington attorney. It is the view of the Great Western Sugar Company that any viable sweetener legislation should take into consideration all elements of the sweetener industry, including cane, beet and corn sweetener products. The Great Western Sugar Company is in a position to view the industry from an overall standpoint, since it is currently a refiner of raw cane sugar, a processor of sugar beets, and has just last week begun the conversion of a previously closed plant for production of high fructose corn syrup.

The specific focus of the hearings today is on S. 2990, the Sugar Stabilization Act of 1978, which was introduced by Senator Church and other co-sponsors on April 25th. That bill would establish a global, first-come-first-served quota on imported raw sugar and would impose variable import fees upon imported raw sugar at a level high enough to make up any difference between the

POST OFFICE BOX [illegible] • DENVER, COLORADO [illegible] • [illegible] • A SUBSIDIARY OF HUNT INTERNATIONAL RESOURCES CORPORATION

world price of sugar and the domestic price objective under the Act. The price objective under S. 2990 would be set initially at 16.5 per pound New York raw value equivalent. Great Western generally supports this bill, recognizing that legislation is definitely needed to protect domestic growers.

However, the Great Western Sugar Company has developed a concept for a National Sweetener Program as a complement to the Sugar Stabilization Act of 1978. The National Sweetener Program is not meant to compete with S. 2990, but it does represent an attempt to resolve certain of the problems which we perceive will result from the enactment of S. 2990, as currently drafted. I would ask that we be permitted to include in the Record, following our statement, the written description of our proposal for a "National Sweetener Program." Our proposal is based upon the principle that any sweetener legislation will not fully serve to protect all interests involved unless it takes into consideration all elements of the sweetener industry, including cane, beet and corn-derived sweetener products.

As indicated previously, in addition to our activities as a processor of beets, we are a major refiner of raw cane sugar in the United States. We refine sugar at our Godchaux-Henderson Sugar Company plant in Reserve, Louisiana and at our Northern Ohio Sugar Company plant, located in Fremont, Ohio. As a refiner of raw cane sugar, we believe the Sugar Stabilization Act of 1978, as currently drafted, would create serious problems for refiners of

cane sugar in the United States. Cane sugar provides over 50 percent of the amount of sweetener products sold in the United States each year. According to the 1977 figures just published by the International Trade Commission, beet sugar represents 24% of the market, and all corn-derived sweetener products represent another 25% of the market.

Thus, cane sugar is the most important source of sweeteners in the United States. Almost all refined cane sugar marketed in the United States is sold by refiners located in the United States; that is, the refining industry is a purely domestic industry. However, only one-third of the raw cane sugar refined in the United States is derived from domestic sugarcane. Two-thirds of the cane sugar sold in the United States is derived from imported raw cane sugar. Thus, the United States is dependent to a great extent upon foreign sources of sugar. More specifically, the United States refining industry is entirely dependent on continued access to imported raw cane sugars in order to continue to exist as an economically viable industry.

Given this economic fact, the difficulty which S. 2990 could create for refiners becomes evident. Basically, the quota established under the Sugar Stabilization Act of 1978 is a residual global quota. By that I mean that the amount of imports to be permitted to enter the United States under the Stabilization Act is determined by subtracting the amount of domestic sugar production from the amount of domestic sugar consumption during each calendar

year. If the price objective is established high enough to assist the most inefficient producers of sweetener crops in the United States, it will become extremely expansive with respect to corn-based sweetener products and to some extent, beet sugar as well. Officials at the United States Department of Agriculture have already indicated that the price level of 16.5 cents, which is the starting level under the Stabilization Act, will be expansive. On the other hand, it is very unlikely that U.S. sugar cane will be able to expand production under the Act.

What we foresee as likely to happen under S. 2990 is the expansion of the production of domestic sweetener products, particularly high fructose corn syrup, and a decrease in the amount of imports needed to satisfy the portion of domestic consumption not served by domestic sweeteners. We are not saying that the United States will become self-sufficient in sweetener products. Corn sweeteners most likely will not be used as a complete substitute for all sweetener products in the United States. Due to geographic limitations, beet production can drastically fluctuate since producers are constantly switching in and out of beet crops depending on relative prices of corn and other products grown by the same producers. Thus, we must always depend to some degree on the imports of cane sugar.

However, in order for the United States refining industry to remain economically viable, it is necessary that it have access to a sufficient amount of raw sugar, particularly foreign sugar.

This means that imports of raw cane sugar should remain somewhere above 4.5 million tons a year in order for the industry to remain economically viable. If imports drop much below this figure, which is very likely under the Church bill, cane refiners could be adversely affected even to the point of being economically forced out of business. If a significant number of southeast cane refiners are forced out, the U.S. sugarcane producers in this area will suffer severe economic loss. The end result would be a substantially greater dependence on the part of the United States for foreign refined sugars. Competition from foreign refined sugar would put tremendous pressure on growers and processors of beet sugar.

The present oil crisis facing this country indicates the problems which can occur through the imposition of short-term solutions which do not take into account the economic needs of the domestic sweetener industry.

What we are basically saying is that while S. 2990 may help sugar crop producers in the short term, in the longer term it could serve to aggravate their problems, along with adverse effects on processors and consumers. In the case of the refiners, the problems will occur to the degree that the domestic sweetener increases production, which should be an immediate effect.

There is an additional problem that we see occurring under the Sugar Stabilization Act, as currently drafted. This is the fact that any price high enough to support domestic cane producers,

will serve as an incentive for a rapid increase in the production of high fructose corn syrup, which is more economic to produce than sucrose from cane or beets. Although S. 2990 would protect U.S. sugarcane growers from cheap imports of raw cane sugar, it does nothing to protect them from more efficient producers of corn sweeteners and to some extent beet sugar. Corn sweeteners will undersell sucrose sweeteners, and will take a rapidly expanding share of the market. The loss of the market by beet and cane producers will most likely lead to significant government price support programs and major government purchase of sugar stocks.

A final problem under S. 2990 which could cause problems for the domestic industry is the manner in which global quotas are set forth. Since the quota would be administered on a first-come-first-served basis each year under the Act, there would be a tremendous incentive for foreign suppliers to ship as much sugar as possible in the early stages of each calendar year before the quota is filled. Shipments arriving after the quota was filled would be stopped by U.S. Customs. This would work economic hardships upon refiners who contracted to receive such shipments.

There would be a tremendous cyclic distortion in the supply of imported sugar, with excess supplies in the beginning of the quota year and relative scarcity during the latter part of the year. Price levels would also fluctuate accordingly.

Moreover, a global quota on a first-come-first-served basis would actually put the control of imports into the hands of foreign countries, some of which are capable of shipping enough sugar to the United States to economically affect the market. It would not take much more than 600 thousand tons of sugar to influence the U.S. market prices for sugar, an amount which is well within the capacity of many countries. Also, some of these countries have sufficient number of ships to transport and store that amount of sugar within the United States customs territory.

Having raised a number of potential problems under S. 2990, I wish to very briefly discuss certain elements of the National Sweetener Program as proposed by the Great Western Sugar Company which we believe, would help to resolve some of the problems indicated.

In the first place, the National Sweetener Program is based on a system of marketing quotas. An overall estimate would be made as to domestic sweetener consumption for each calendar year. This overall marketing figure would then be divided into marketing quotas for sweetener products derived from domestic-source and foreign-source crops. In allocating that portion of the market for sweeteners from foreign derived raw cane sugar, consideration would be given to both the need to protect domestic growers and maintain adequate price levels and also the need to provide refiners with sufficient amounts of imported raw cane sugar to maintain the economic viability of the industry.

Secondly, under the National Sweetener Program the marketing quota for sweeteners derived from domestic-source crops would be allocated amongst beet, cane and corn-derived sweeteners. These marketing quotas would be established taking into consideration the need to maintain stable production of traditional sweetener crops, while at the same time permitting growth in the marketing of new, more cost-efficient sources of sweetener products, particularly high fructose corn syrup and provide industrial users with stable and reasonable prices.

The regulation of imports would be established through import fees and import licenses assigned to refiners and major industrial users of raw sugar, who are the traditional importers of raw cane sugars. Refiners would be assigned licenses to import that amount of sugar which they would need in order to meet their marketing quota for refined sugar determined for each calendar year. Import licenses would be nonnegotiable and could only be granted or adjusted by the Secretary of Agriculture. With such licenses, refiners and importing industrial users would import sugar through their brokers, as they do today, from the countries of their choice. This system would not create cyclical distortions in the market caused by the first-come-first-served global quota, and, more importantly, it would leave control of sugar imports in domestic hands.

The determination and allocation of the various marketing quotas under the National Sweetener Program would of course have to involve a certain amount of compromise on the part of producers,

refiners, and consumers if such decisions are to be on the most economic and rational basis.

With this in mind, the fourth aspect of the National Sweetener Program which we would suggest for the Committee's consideration is the creation of a National Sweetener Board. The Board would be made up of representatives of cane and beet growers, cane mills, cane refiners, beet processors, corn processors, and industrial as well as retail users. Any decision made by the Secretary of Agriculture as to general levels and allocation of marketing quotas would be based on recommendations of the Board. Thus all elements of the sweetener industry, including consumers, would have an input into the decision making process under the National Sweetener Program.

This concludes my testimony today. I thank the Committee for permitting the Great Western Sugar Company to express its views before you. I would be happy to answer any questions which Committee members may wish to address to me or my colleagues.

PROPOSAL

NATIONAL SWEETENER PROGRAM

Submitted by

THE GREAT WESTERN SUGAR COMPANY

April 6, 1978

OBJECTIVES

- To stabilize domestic production and marketing of traditional sweetener products through a system of marketing and production quotas which will insure adequate price levels and market shares to producers and processors.

- To permit orderly growth in the marketing of new sources of sweetener products, taking into consideration production efficiencies and substitutability with traditional sweetener products.

- To provide consumers with adequate supplies of sweetener products at reasonable and stable prices.

- To insure that imports of sugar do not disrupt the orderly operation of the National Sweetener Program.

30-306 O - 78 - 13

SUMMARY

The proposed National Sweetener Program would establish a system for regulating the quantity of sweetener products grown and marketed in the United States. This system is designed to provide growers and processors[1/] of all sweetener products with reasonable shares of the sweetener market and with price levels which provide adequate income and return on investment. Consumers would be provided adequate supplies of sweetener products at reasonable and stable price levels.

The primary means to be utilized under the Sweetener Program to accomplish these goals would be the establishment of quantitative limitations on the marketing of sweetener products in the United States. An overall marketing quota would be established for the marketing of sweetener products during each marketing year. The overall marketing quota would be subdivided into marketing quotas for sweeteners from domestically-grown sweetener crops and foreign-grown sweetener crops. The marketing quota for domestically-grown sweetener products would be subdivided among refiners and processors of sweeteners produced from the three basic sweetener crops: sugar beets, sugarcane, and corn. In allocating the marketing quotas among beet, cane, and corn-derived sweetener products, a balance would be struck between maintaining traditional sweetener crop production levels and providing orderly growth in the production of new, cost-effective sweetener products. Finally, the beet, cane, and corn sweetener quotas would be allocated among individual beet processors, cane refiners, and corn processors.

The marketing quotas would be supplemented with production quotas for growers of sugar beets and sugarcane, but only when necessary to insure the orderly operation of the marketing quotas themselves. Minimum wage levels for agricultural workers would be established by the U.S. Department of Agriculture.

The basic decisions as to the size and allocation of marketing and, if necessary, production quotas would be made by the Secretary of Agriculture (hereinafter referred to as the "Secretary"). The Secretary's determination would be based upon recommendations made by the National Sweetener Advisory Board. The Sweetener Board would be representative of domestic beet and cane producers, raw cane sugar mills, cane sugar refiners, beet processors, processors of corn sweeteners, and consumers of sweeteners. The Board would be subject to the direction of the Secretary of Agriculture, and would make its recommendations to him. Following receipt of the Board's recommendations, the Secretary would hold public hearings and consult with other administrative agencies before making any final determinations under the Program.

The Sweetener Board would also make recommendations on the size of the marketing quota for sweeteners processed from imported sugar. Once the imported

1/ "Processors", used in the general sense, is intended to include all processors of sweetener crops, including sugarcane mills, sugarcane refiners, sugar beet processors, and processors of corn sweeteners.

sweetener marketing quota has been determined, U.S. sugar refiners would be assigned licenses by the Secretary to import raw sugar for refining and sale in the United States. Licenses would be granted and modified only by the U.S. Department of Agriculture, and would be non-negotiable. Import duties and import fees under Section 22 of the Agricultural Adjustment Act would be maintained and modified to the extent necessary to insure that the price of imported sugar did not interfere with the orderly operation of the National Sweetener Program.

DESCRIPTIVE ANALYSIS

I. Statement of Purposes

The National Sweetener Program is established to achieve the following purposes:

(1) To stabilize production of traditional sweetener crops at price levels offering adequate income to producers.

(2) To provide refiners and processors of traditional sweetener products with stabilized market shares and price levels, offering a reasonable return on capital investment.

(3) To provide for orderly growth in the production and marketing of non-traditional sweetener products, based on production cost efficiencies and product demand.

(4) To assure consumers of sweetener products adequate and stable supplies at reasonable prices.

(5) To permit the effective participation of sweetener producers, processors, and consumers in the implementation of the National Sweetener Program.

(6) To insure that sugar imports do not disrupt the orderly operation of the National Sweetener Program.

(7) To maintain a stable share of the United States market for foreign sugar producers exporting to the United States.

(8) To coordinate the National Sweetener Program with the operation of the International Sugar Agreement to the extent consistent with the purposes set out herein.

II. National Sweetener Advisory Board

Under the Sweetener Program, a National Sweetener Advisory Board would be established, representing all segments of the sweetener industry and consumers. The National Sweetener Advisory Board would be under the direction of the Secretary of Agriculture, and would make its recommendations to the Secretary. The Board would be subject to the provisions of the Federal Advisory Committee Act (5 U.S.C. app. 1), except that its existence would not terminate prior to the termination of the National Sweetener Program itself.

The Secretary would appoint individuals to the Board who represent the various segments of the sweetener industry:

- Sugar beet producers
- Sugarcane producers
- Cane sugar mills
- Cane refiners
- Beet processors
- Processors of corn sweeteners
- Consumers

In making his appointments to the Board, the Secretary would consult with individuals and organizations representing the various elements of the sweetener industry, and would accept nominations from them. The Secretary would be directed to achieve a fair balance between producers, processors, and consumers of sweetener products in establishing the makeup of the Board. The Chairman of the Board would be an official from the Department of Agriculture, or his delegate.

Staff support would also be provided by personnel from the Department of Agriculture.

The National Sweetener Advisory Board would meet in order to establish quotas for each marketing year under the National Sweetener Program. The Board would not make recommendations concerning the allocation of quotas among individual producers and processors. The Board would reach its decisions to the extent possible on a consensus basis, although minority opinions would be permitted. The Secretary would not be bound by the recommendations of the Board in making his final quota determinations, but it is expected that the Secretary would give full consideration to the recommendations. In addition, the Secretary would be required to publish his reasons for not following the Board's recommendation when his final determination differed significantly from them. Following receipt of the Board's recommendations, the Secretary would hold public hearings to permit interested parties to express their views onthe Board's recommenations and the levels at which the quotas should be set. In addition, the Secretary would consult with other government agencies prior to making final determinations under the National Sweetener Program.

III. Marketing Quotas

The basic purpose of the National Sweetener Program would be to direct the marketing of sweetener products in order to assure reasonable income for sweetener crop producers and processors, while providing consumers with stable supplies at reasonable prices. Thus, the Program is intended to act primarily on the supply of sweetener products.

For each marketing year, an overall marketing quota would be established under the procedure described in Section II, above, for the sale of sweetener products in the United States. The overall quota would be based upon a number of factors, including:

- The estimated requirements of consumers.
- The amount of sweeteners which could be marketed at price levels sufficient to insure adequate returns to producers and processors of sweetener products.

The overall marketing quota would then be subdivided into marketing quotas for sweetener products derived from domestically produced crops and those derived from foreign produced crops. The domestic-source sweetener quota would then be further subdivided into marketing quotas for sweetener products manufactured from each of the three basic sweetener crops: beet, cane, and corn. The Sweetener Board, in making its recommendations to the Secretary, and the Secretary, in making his final determinations as to allocation of the marketing quotas among the three basic sugar crops, would be directed to serve the following primary objectives:

- To stabilize production levels of traditional sweetener crops;
- To provide for orderly growth in the production of more cost-efficient sources of sweetener products; and
- To meet specific demand for individual sweetener products.

SEE APPENDICES A and B.

Other factors shall also be taken into consideration in making these determinations, such as the need for inventory carryover, predicted weather conditions, previous year shortfalls, etc.

Once the overall marketing quota had been allocated among sweeteners from the three basic sweetener crops, the Secretary would allocate each of the three basic quotas among refiners and processors of each of the particular sweetener crops. Thus, each refiner of cane sugar, processor of sugar beets, and processor of corn sweeteners would be assigned individual market allotments during each marketing year. In making such allocations, the Secretary would take into consideration: past marketing levels of each refiner or processor, the level of plant and other capital investment dedicated by the refiner or processor to the production and marketing of such sweeteners, and the ability of such refiners and processors to market their portion of the overall quota. The Secretary would also make allowances for the entry of new refiners and processors into the market and the expansion of existing facilities, taking into consideration the total level of refining and processing capacity consistent with the objectives of the Sweetener Program. Individual refiners or processors would have the right to seek administrative and judicial review of allocations deemed unjustifiably detrimental to their interests.

Once overall quotas had been established and market allocation shares had been assigned to specific refiners and processors, no sweetener product could be marketed within the United States by any refiner or processor in excess of his allocation. Processors and refiners would be required to submit reports to the Secretary to enable him to monitor compliance with the program. Whenever a refiner or processor was found to have marketed sweetener products in excess of his allocation, his share of the marketing quotas for the next two years would be reduced by the amount in excess. If the marketing excess were discovered before the end of the marketing year, the Secretary would be authorized to enjoin further marketing by the offending processor or refiner.

IV. Production Quotas

Whenever the Secretary determines that the production of sugar beets or sugarcane will be in excess of the amount needed to meet the marketing quotas for refiners and processors purchasing from a particular area, he would be authorized to establish production quotas for beet and cane crops.

V. Imports of Sweeteners

Sugar imports, primarily of raw cane sugar, would be regulated under the National Sweetener Program to the extent necessary to insure that they did not disrupt the orderly operation of the Program. Foreign sugar producers would be assured a reasonable share of the market for their product.

Under the Program, the amount of sweetener products derived from foreign-source crops which could be marketed in the United States would be determined for each marketing year. In making their recommendations and determinations, the Sweetener Board and the Secretary of Agriculture would be guided by the following objectives:

- To insure that foreign producers are provided with a reasonable and stable share of the U.S. market.
- To coordinate the Program with the operation of the International Sugar Agreement to the extent consistent with the general objectives of the Program.
- To insure that imports of sugar products do not disrupt the effective operation of the National Sweetener Program, taking into consideration the volume and price levels of such imports.

Once the marketing quota for foreign-source sweetener products had been determined, it would be allocated among refiners of imported cane sugar. Refiners would be allocated market shares on the basis of such factors as past marketing levels and refining capacity. Industrial consumers who import substantial amounts of raw cane sugar for their own use could be deemed refiners for the purposes of the marketing allocations. Refiners would have the right to seek administrative and judicial review of marketing allocations made by the Secretary.

Based upon their marketing allocations, each refiner would be given a license to import sufficient cane sugar to enable each refiner to meet its marketing allocation. Once the licensing system went into effect, sugar products covered by the system could not be imported without a license. Such import licenses would be non-negotiable and could be granted, modified, or transferred only by the Secretary of Agriculture. If a refiner were unable to import the total amount of sugar permitted under his quota, he would be requested to notify the Secretary, who would thereafter transfer the shortfall to other refiners capable of importing more sugar for marketing in the United States. Marketing allocations would be adjusted accordingly. Failure to import the amount of sugar designated in the license or to notify the Secretary, would result in a corresponding reduction in the refiner's marketing allocation for the next two marketing years.

The Secretary would monitor sugar imports to insure that normal shipment patterns were not unreasonably disrupted under the National Sweetener Program. Exporting organizations would have the right to appeal to the Department of Agriculture whenever they viewed that their interests were being unreasonably prejudiced under the National Sweetener Program.

The major share of sweetener products imported into the United States is made up of cane sugar requiring refining before it can be marketed. Accordingly, the primary mechanism under the National Sweetener Program to deal with imports is the cane sugar refiner licensing system. However, sugar and other sweetener products are, or could be, imported in many other forms, including refined sugar, liquid sugar, molasses, and mixtures of sugar products. If other sweetener products enter the United States in such quantities and/or at such prices as to interfere with the operation of the Sweetener Program, the Secretary would be authorized to take various actions. If the disruptive imports required further processing in the United States before marketing, the Secretary would be authorized to establish marketing quotas and import licenses for refiners of such products. Thereafter, no such product could be imported, except under license. The Secretary could also act against any disruptive imported sweetener product - whether further refining was required or not - pursuant to his existing authority under Section 22 of the Agricultural Adjustment Act of 1933, as amended (7 U.S.C. 624). Under Section 22, the Secretary of Agriculture is authorized to recommend that the President impose import fees or quotas upon any article which is being imported into the United States under such conditions as to interfere with any loan, purchase, or other commodity program undertaken by the Department of Agriculture. For the purposes of Section 22, the National Sweetener Program shall be considered to be "a program or operation undertaken by the Department of Agriculture . . . . with respect to any agriculture commodity."

Sugar imported for such uses as livestock feed, distillation of alcohol, production of alcohol not for human consumption, or for export in the form of refined sugar and/or sugar-containing products, could be exempted from the marketing quotas and licensing system by the Secretary, if he determined such action would not interfere with the operation of the Program.

VI. Price Levels

The National Sweetener Program is based primarily upon the regulation of supply. By regulating the quantity of sweeteners produced and marketed, it is expected that price levels can be maintained which are adequate to provide growers and processors with a reasonable return on their investments, while providing the consumer fair prices. However, quantitative restrictions, alone, may not be able to achieve these price objectives. A reduction in global import quotas would be mandatory whenever prices to processors fell below 15.0 cents per pound, New York Raw Sugar equivalent. Global import quotas would be increased whenever prices to processors rose above 18.0 cents per pound, New York Raw Sugar equivalent. The price corridor target would be adjusted annually to reflect changes in relevant costs of production.

With respect to sweetener imports, it is also contemplated that the licensing of imports to U.S. refiners of foreign-grown sugar would constitute the primary mechanism for insuring that imports do not disrupt the effective operation of the National Sweetener Program. However, it is very likely that the price of imported sugar will have to be controlled, especially during the initial period of operation of the new International Sugar Agreement. It is expected that the President will maintain the current duty rates on imported sugar products classified under items 155.20 and 155.30 of the Tariff Schedules of the United States. In addition, the President would be directed to impose additional import fees pursuant to Section 22 of the 1933 Agricultural Adjustment Act to the extent necessary to coordinate trade in imported sugar with the operation of the Program. In this regard, the President would be explicitly authorized to exceed the 50 percent ad valorem limitation on import fees contained in Section 22 of the 1933 Act, when necessary to maintain import price levels consistent with the effective operation of the National Sweetener Program. The President, upon the recommendation of the Secretary, would also be expected to adjust, terminate or reimpose import fees pursuant to Section 22 in order to adjust to fluctuations in the price of imported sugar.

If the International Sugar Agreement proves to be successful in its operation, the National Sweetener Program should complement the operation of the International Sugar Agreement with little interference. However, it is clear that the objectives of the National Sweetener Program must be served. If the International Sugar Agreement fails to achieve these objectives, all of the mechanisms available under the National Sweetener Program would be utilized to the extent necessary to insure that these objectives are met.

APPENDIX A

EXAMPLE OF SWEETENER QUOTA ALLOCATION ASSUMING SWEETENER CONSUMPTION OF 14.50 MSTRV FOR 1979

Sweetener Quota Allocations in Million Short Tons, Raw Value, 1979 (MSTRV)

Domestic			
	Beet	3.20	
	Cane	2.45	
			5.65
Domestic Corn Sweeteners (Dry Basis)			
	Conventional Syrup and Dextrose	2.40	
	HFCS	1.85	
			4.25
Foreign Imports			4.60
	Total Consumption		14.50 MSTRV

APPENDIX B

5-YEAR AVERAGE - DOMESTIC SWEETENER PRODUCTION & IMPORTS

MILLION SHORT TONS, RAW VALUE

	1973	1974	1975	1976	1977	AVERAGE	HIGH	LOW
BEET	3.216	2.915	4.019	3.882	3.320	3.47	4.0	2.9
CANE	2.711	2.874	3.183	3.041	2.893	2.94	3.18	2.7
MAINLAND	1.381	1.470	1.826	1.669	1.543	1.57	1.8	1.4
HAWAII	1.040	1.106	1.050	1.100	1.102	1.09	1.1	1.0
PUERTO RICO	.290	.298	.307	.272	.248	.283	.3	.25
TOTAL U. S.	5.924	5.789	7.202	6.923	6.213	6.4	7.2	5.9
IMPORTS	5.329	5.770	3.883	4.658	6.200	5.17	6.2	3.9
CORN								
SYRUPS & DEXTROSE	2.390	2.425	2.400	2.400	2.460	2.4	2.39	2.46
HFCS	.171	.285	.540	.750	1.050	.77	1.05	.17

CHARTS

Concerning

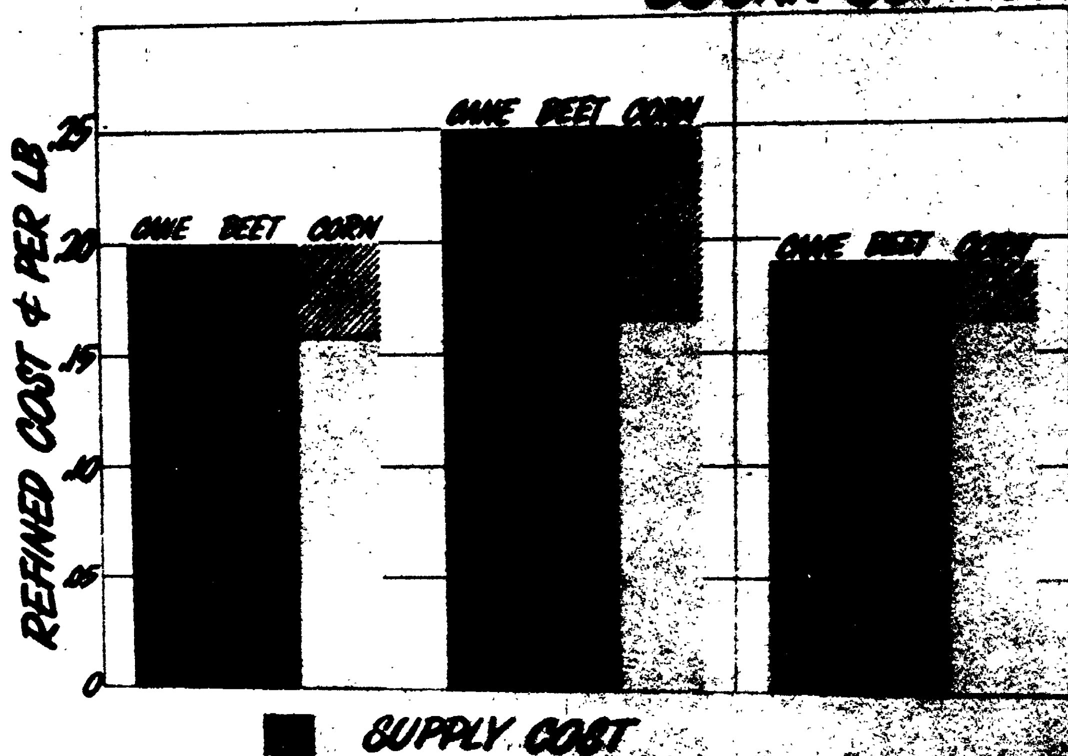
- Potential Problems Created under H.R. 12486/S. 2990 - The Sugar Stabilization Act of 1978

- Resolution of the Problems under H.R. 12709/S. 3055 - The National Sweetener Act of 1978

Prepared by

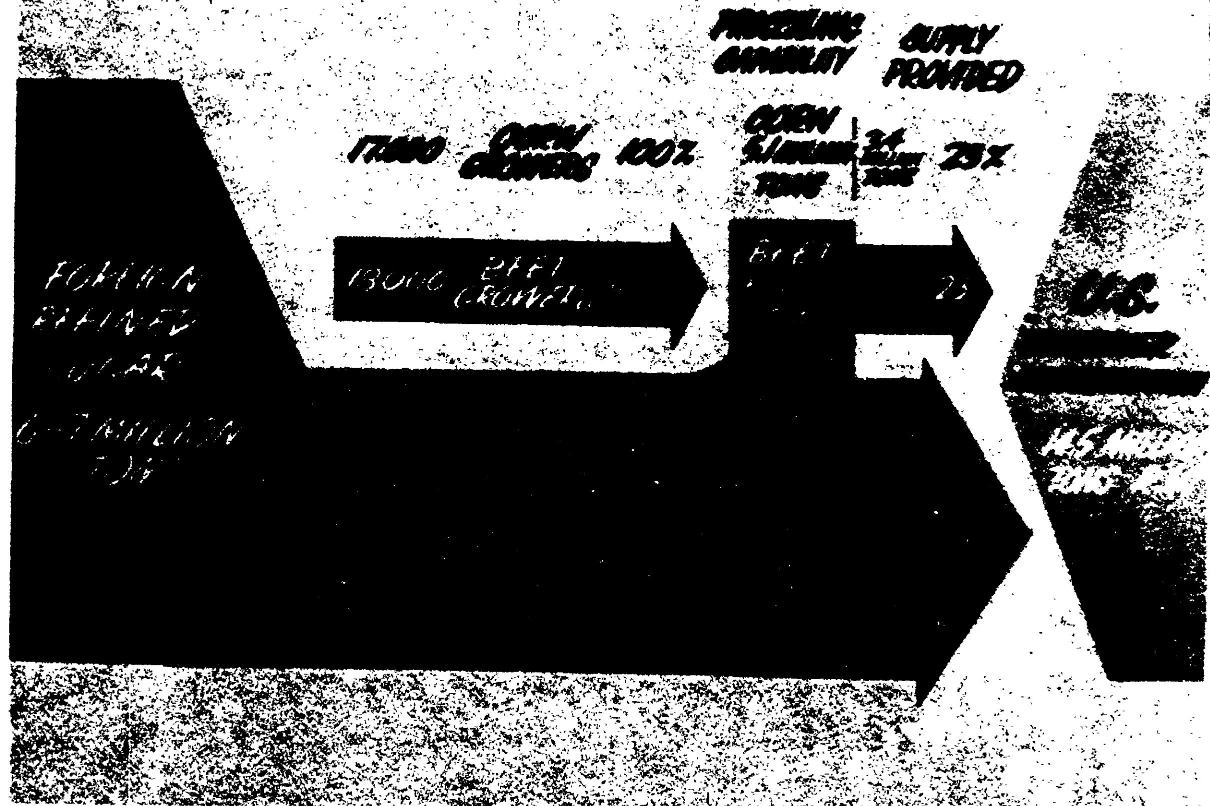
The Great Western Sugar Company

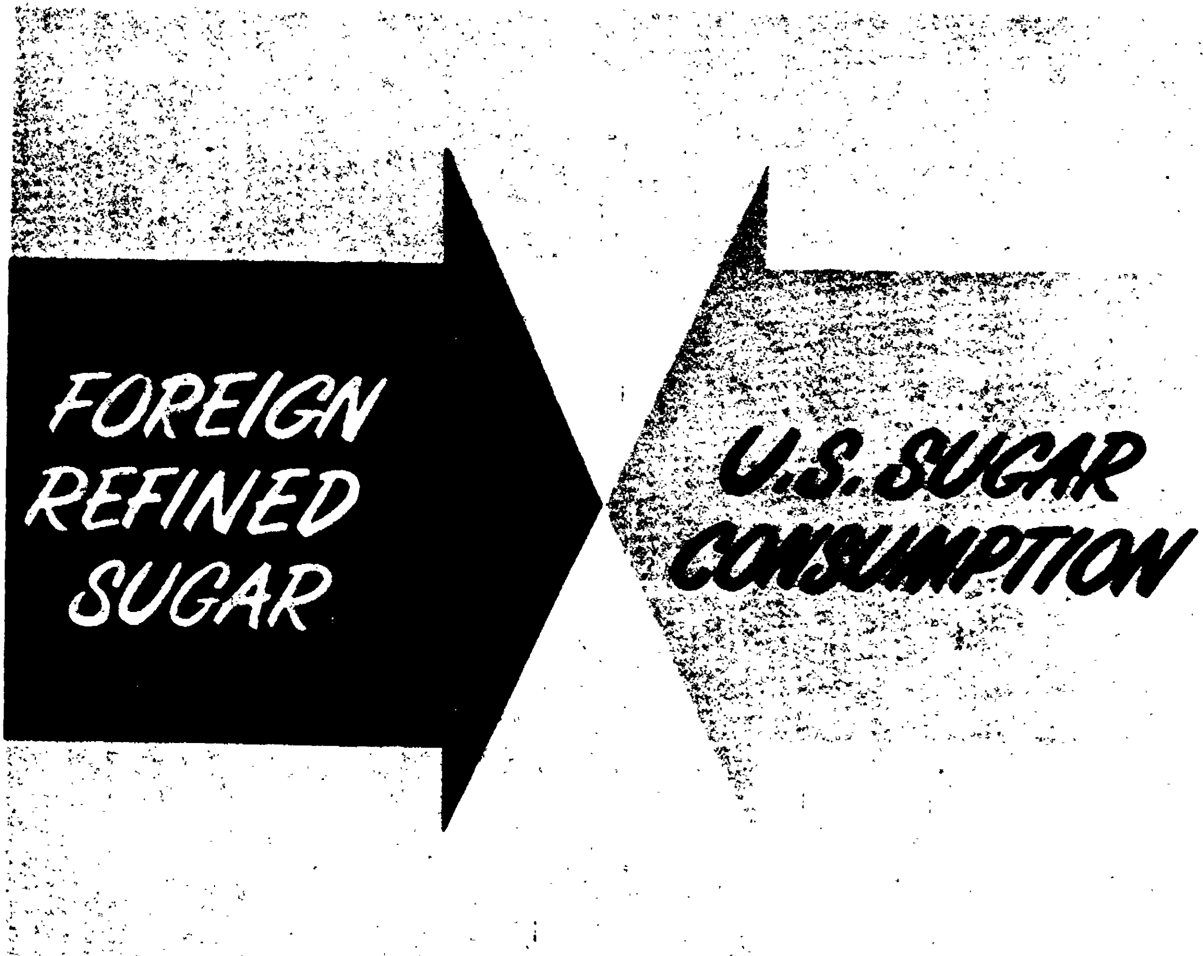
U.S. SUGAR PRICE AND PRODUCTION
PRODUCTION IN TONS
15.0
12.0
9.0
6.0
3.0
0
BEETS
.12
.14


COST EFFICIENCIES OF REFINED SUGAR SUPPLY
REFINED COST ¢ PER LB
.25
.20
.15
.10
.05
0
CANE BEET CORN
CANE BEET CORN
CANE BEET CORN
SUPPLY COST

SOURCE

SUPPLY SOURCE
PROCESSING CAPABILITY
SUPPLY PROVIDED
CORN
3.4 MILLION TONS
23%
100%
23
U.S.
CONSUMPTION
RV
CRITICAL SUPPLY LEVEL FOR FOREIGN RAW SUGAR


SUPPLY SOURCE
PROCESSING CAPABILITY
SUPPLY PROVIDED
CORN GROWERS
100%
25%
BEET GROWERS
FOREIGN REFINED SUGAR
U.S.



30-306 O - 72 - 14

IMPORTED REFINED SUGAR

- EXORBITANT COST TO U.S. CONSUMERS
- ELIMINATION OF U.S. CANE GROWERS
- CLOSURE OF U.S. CANE REFINERS
- SUBSTANTIAL REDUCTION OF U.S. SWEETNER INDUSTRY
- REDUCED INCOME TO U.S. TREASURY
- REDUCED U.S. JOBS
- UNCONTROLLED AND UNTAXED PROFITS TO FOREIGN REFINERS
- INCREASED TRADED DEFICIT

GLOBAL IMPORTS UNDER LICENSE

- NO QUOTA BY COUNTRY OF ORIGIN
- CONTROL WITH U.S. REFINERS
- FLOW OF SUPPLY GEARED TO NEED
- STABLE PRICES
- MINIMUM IMPACT ON INTERNATIONAL SUGAR STOCK PRICES

NATIONAL SWEETNER PROGRAM

- MARKET QUOTAS
  (CANE / CORN SYRUPS / BEETS / RAW SUGAR IMPORTS)
- NO LIMIT ON GROWTH OF ANY SEGMENT OF INDUSTRY
- IMPORT LICENSE NOT ASSIGNABLE OR TRANSFERABLE
- NATIONAL SWEETNER BOARD COMPOSED OF EVERY SEGMENT OF INDUSTRY AND ALL CONSUMING GROUPS

Senator MATSUNAGA. I forgot that we have a reporter here who has been sitting there for hours and she would like to take a break and I would too, so we will take a 2-minute break.

[A brief recess was taken.]

Senator MATSUNAGA. The subcommittee will come to order.

Our next witness is Miss Kathleen D. Sheekey, legislative director, Consumer Federation of America.

Miss Sheekey, we are happy to have you and I have been instructed to extend the greetings of your Senator, Senator—oh, I have the wrong one.

Ms. SHEEKEY. The District of Columbia is still trying about that.

Senator MATSUNAGA. Oh, you are from the District of Columbia. You, of course, do not have a Senator yet.

Ms. SHEEKEY. Not yet, although is this the proper forum to do some lobbying for that, too?

I am happy to be here, Senator.

STATEMENT OF KATHLEEN D. SHEEKEY, LEGISLATIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA

Ms. SHEEKEY. By way of background, the Consumer Federation of America is the Nation's largest consumer organization. As its name implies, we are a federation of 225 national, State and local nonprofit organizations that have joined together to espouse the consumer viewpoint.

CFA and its member organizations represent about 30 million consumers throughout the United States. Just briefly, among our members are 53 State and local consumer organizations, 17 cooperatives and credit union leagues, 66 rural electric cooperatives, 27 national and regional organizations ranging from the national board of the YWCA to the National Educational Association; and we also have, among our ranks, 16 national labor unions.

In the interests of farmers and consumers alike, CFA has been, and will remain committed to reasonable measures which will assure the continued viability of domestic sugar production. We also fully recognize the need to adopt interim measures until the 11-cent-per-pound floor price set by the International Sugar Agreement is phased in.

Consideration of any approach, however, must carefully measure the impact on consumers. Clearly, we feel this has not been done by those advocating adoption of the Sugar Stabilization Act of 1978. Our opposition to this act is based on the following reasons.

First and most importantly, the cost of sugar to consumers would drastically increase. On April 27, the President's Council on Wage and Price Stability estimated that the restrictions on imports provided by the act would raise the price objective of raw sugar from its present level of about 14 cents a pound to 17.5 cents a pound.

According to the council's report, this would raise the cost to consumers from sugar subsidies to about $2.4 billion annually and add 1 full percentage point to the Consumer Price Index for food.

It must be kept in mind that we have recently gone a long way toward supporting the continuance of domestic sugar production.

Consumers are already paying $1 billion annually in price support costs under provisions of the Agriculture Act of 1977 which raised prices from slightly over 8 cents per pound to the present level.

Second, the cost of corn sweeteners would also rise. Cane and beet sugar, the sucrose industry, has long been threatened, as you are well aware, by competition from the corn sweetener, the fructose, industry.

Corn sweeteners now account for one-third of the sweeteners used in U.S. industrial food processing. Any measure designed to raise the price of sugar above reasonable levels is quite likely to result in further increase in the use of sugar substitutes, such as corn sirup. It is estimated that about 4 million tons of corn sweeteners will be distributed in 1978 in addition to about 11 million tons of sugar.

The initial impact of higher sugar prices will be to utilize the existing excess plant capacity in the corn sweetener industry. Continuation of the high price proposed in S. 2990 is likely to lead to increased plant capacity over time.

Many sucrose users who are able to reformulate recipes to fructose substitutes have already done so in the wake of rising sugar costs. An additional boost will surely be an incentive for other sugar users to follow suit.

We feel that in opening the door to this heavy competition, the supporters of the Sugar Stabilization Act of 1978 could actually push out the very farmers they were intending to help.

A third consideration is that these costs would be disproportionately borne by low-income consumers. According to studies of family budgets conducted by the Bureau of Labor Statistics, urban families of four living on lower budgets, in the $10,000 a year range, spend 61 percent as much on all goods and services as those on intermediate budgets, $17,000 a year, but consume 82 percent as much sugar and sweets.

When we compare this group to those on higher budgets, the $25,000 a year range, those on the lower budgets spend 42 percent as much on goods and services, but again, they consume 66 percent as much sugar and sweets.

Therefore, since sugar accounts for a larger percentage of budgets of low-income consumers than other segments of our population, those who can least afford it will be hardest hit by rising sugar prices.

We also feel that the future of the ISA will be seriously jeopardized. A stated purpose of S. 2990 is to implement the International Sugar Agreement. The objective of the ISA is to stabilize world prices and to guarantee a minimum price which will cover the costs of efficient producers.

Passage of S. 2990 would clearly reduce the quantity of imported sugar. Annual U.S. sugar imports, approximately 5 million tons now account for about 30 percent of the total amount of sugar in free world trade.

Passage of the Sugar Stabilization Act of 1978 in its present form could result in a reduction of U.S. imports to 3 to 4 million tons. Assuming that the production capacity of corn sweeteners also increased, passage of this bill could eliminate all but a small portion of imports.

It is doubtful that a fledgling ISA could hold up under such a drastic decrease in demand for world sugar. The much needed long-

term ISA approach might well be sacrificed to the short-term relief afforded by the Sugar Stabilization Act.

We are also concerned that sugar workers would not benefit from increased sugar prices. We are highly pessimistic that an increase in sugar prices would also result in an increase in benefits to this group. Workers did not even benefit from the sugar price explosion in 1974. The hourly wage for sugar workers at that time was around $2.20. It was only when the Fair Standards Act Amendments of 1977 went into effect on January 1 of this year that the $2.20 rate of most sugar workers was increased to $2.65 an hour.

We are also concerned that higher prices will not result in reduced consumption. I should say that we are among the growing ranks of those who are deeply concerned about the ill effects of overconsumption of sugar and other sweeteners in the American diet—for example, dental cavities.

It is therefore quite a real temptation for us to resist opposing higher sugar prices, in this bill in particular, in the hope that such prices will provide a disincentive to Americans to consume sugar and highly sugared products.

However, since sugar sales did not appreciably decline even when the prices soared in 1974, we are convinced that this back-handed approach will not discourage sugar consumption.

While supporting reasonable prices, we continue to remain firmly committed to measures which will educate consumers in a meaningful manner of the health risks related to sugar, such as the percentage labelling of sugar contents of products such as breakfast cereals and the restriction of TV advertising of heavily sugared products to young children.

In conclusion, S. 2990 purports to protect consumers. We ask what kind of consumer protection are we getting when we peg a minimum price of 21 to 45 percent above the cost of production, which, according to USDA today is 14.06 cents, before we eliminate restrictive quotas?

In our opinion, the only minimum price consistent with the interests of consumers is one which will cover costs of production of efficient producers, not one which will guarantee profits to the most inefficient ones.

Therefore, until the 11-cent-per-pound floor price can be reached, CFA prefers consideration of an interim program to maintain market prices at about 13.5 cents per pound consistent with the minimum ISA price. If cost of production is above this market price, then a a system of direct payments should be used to compensate efficient producers for the difference.

In short, we feel quite strongly that consumers should not be footing the bill for an irresponsible and inflationary measure such as S. 2990.

I thank you. I know it was short. I am sure many do not think it was sweet, though.

Senator MATSUNAGA. Thank you very much, Ms. Sheekey.

Do you recall the tough fight that the consumer organizations put up against the old Sugar Act in 1974?

Were you involved with that at all?

Ms. SHEEKEY. I was not involved at that time.

Senator MATSUNAGA. At that time, I told the consumer representatives that they were making a big mistake, that the Sugar Act of 1933 had for 40 years maintained stabilization in the industry, in the price of sugar which ranged from about 9 cents to 12 cents, had eliminated the boom and bust in the sugar industry. It established viability in the industry so that, in a State such as Hawaii where 39,000 employees directly or indirectly involved, were enjoying the highest wages in agriculture paid anywhere in the world—and I might say that they are paid in excess of $5 an hour in Hawaii, even the fieldworker, and they have been paid that for some time.

Then the consumer organizations would not believe me. They would say, well, the price of sugar will come down and the same thing you are saying now, it would be at the cost of the consumer that we would have stability in the sugar industry and yet as soon as that Sugar Act was defeated, or prospects of its defeat became known, the price of sugar shot up from about 17 cents to 27 cents to 67 cents. And then, of course, because the price of sugar was so good, then there was overproduction. You have the boom. And then the bust because of oversupply, and down it went, and today the sugar price is down to about 7.5 cents on the world market.

So that the consumer, as well as the industrial users could never, never depend upon a stable price and this is what we are now trying to eliminate. Because I am a consumer myself, I would definitely like to have a reasonable price in sugar.

As I see it, a stable domestic sugar industry is the best assurance for the reasonable price of sugar. Just as in the case of oil, where we have to depend upon foreign producers over whom we have no real control, we would be at their mercy. Foreign producers would be willing to dump any surplus sugar in our market, and ours is the dumping ground for surplus sugar, until they drive our domestic producers out of business. Then the price of sugar would be manipulated by foreigners with the American consumer paying the higher price—as in oil.

Eighty-five percent of sugar consumed in this world is under some control. You have the British control of sugar. The EEC, as you know, has refused to join in our ISA, the International Sugar Agreement; they have their own. Canada has its own.

Wherever you find sugar consumption in any substantial degree, you have controls. And right now we are at the mercy of foreign importers, that is, those who import foreign sugar at prices far below—right now, at half of what it costs to produce sugar domestically.

And right now, the domestic industry produces about 55 percent of what is consumed. And if we correlate this to oil and we eliminate by bankruptcy the domestic sugar industry, just imagine what would happen to the price of sugar when we become dependent upon foreign producers, just as we are now dependent for oil on the OPEC nations. The consumers would certainly be paying through the nose.

The price of oil, you recall, prior to 1970, was $1.84 a barrel. It is now $14.50 a barrel! In as short a period of time the same thing could happen with sugar.

We are trying to save the domestic sugar industry because that is the best assurance that the consumer would be protected. And I wish

that the consumer groups would go deeper into the study of the history of sugar production in the United States, domestic sugar consumption, as well as sugar consumption at the world market.

When you talk about the world free market of sugar, you are talking about 15 percent of total world production. This is the dumping ground for that 15-percent surplus sugar and I wish that the consumer groups would consider this.

Mr. SHEEKEY. I thank you for your views, too. I do hope you will consider ours seriously, though.

Thank you, Senator.

Senator MATSUNAGA. Thank you.

Our next witness is Miss Bee McCormack who is the vice president of Bobs Candies, Inc.

Will you identify yourself for the record?

STATEMENT OF BEE McCORMACK, VICE PRESIDENT, BOBS CANDIES, INC.

Ms. McCORMACK. I am Bee McCormack, vice president of Bobs Candies in Albany, Ga., and I am making this appearance on behalf of my own company and an additional list of companies which is attached to my statement.

Senator MATSUNAGA. Well, you are the person that I am supposed to extend greetings to from your own Senator, Senator Talmadge, and he regrets that he is unable to listen to your testimony but he has given me full instructions to pay full attention to your testimony and so I assure you that I will be paying extra attention because of your Senator's advice.

Ms. McCORMACK. Please tell Senator Talmadge that I appreciate that.

Senator MATSUNAGA. Please proceed.

Ms. McCORMACK. The position taken by the 57 companies is that we support S. 2990 in its present form. We recognize that the domestic sugar producing industry has a problem of staying in business if it cannot obtain reasonable import protection from foreign produced sugar and we certainly are anxious to have a domestic sugar industry.

We would like to get as much of our sugar requirements as possible from U.S. sources and we would rather have a moderately higher price, a steady assured supply, than to experience the tremendous fluctuations which have occurred in recent years, especially the skyrocketing price of 1974.

However, in supporting necessary legislation which will enable the domestic sugar industry to stay in business and obtain a fair price and which will enable us to obtain a reliable supply, we candy manufacturers also will face a difficult situation unless our problem is dealt with at the same time as a part of the overall problem, and this is what S. 2990, in its present form, would do.

I refer specifically to section 208 which would provide an import quota on confectioneries, which was the same provision that was a part of the law of the land under the Sugar Act from 1971 until 1974. It also was included in the House Agriculture Committee's reported Sugar Act extension legislation of 1974 which, in our opin-

ion, due to hysteria or a lack of understanding, the House of Representatives unwisely killed.

While we believe that a price objective of the domestic industry of 17 cents for raw sugar as provided is appropriate, it could mean the downfall of our manufacturing industry if limits are not imposed on the importation of confectioneries. This is because even at 17 cents per pound, this price is approximately double the world market price.

Although sugar is an important ingredient in all confectioneries, in the case of certain stick candy and hard candy, which my company produces, it represents over 95 percent of the ingredient content, and I have brought a package, Senator, of candy that is 99.6-percent sugar.

It also represents more than 50 percent of the content of all hard candy. This is why section 208 of the present bill is so important to us. Without it, sugar which cannot be imported in the form of raw or refined could, and undoubtedly would seek entry in the form of high content sugar confections.

At the recent investigation of the International Trade Commission, the subject of confectionery imports was reviewed, but not considered as intensely, as the general sugar problem. Nevertheless, while three commissioners did not take part in the decision, two commissioners recommended to the President, and only one commissioner dissented, the establishment of an import quota on confectioneries in conjunction with the import control on sugar.

During the years 1971–74 when the confectionery import quota was in effect, it worked well. While the quota in any year was not completely filled, it had a great effect beyond what was apparent on the surface. It still enabled any foreign manufacturer to ship reasonable quantities of confectonery to the United States but, in effect, said to such manufacturers, if you want to make a major assault on the U.S. market, then you must come to the United States, build a plant, compete in our raw material market and our labor market. Therefore, we are convinced that imports in the 1971–74 period would have been tremendously greater had the import quota not been in effect.

We are also convinced that U.S. production which would have gone abroad before the quota was effective returned to the United States and that foreign manufacturers came to this country and actually built plants, and that the quota discouraged other foreign suppliers from attempting huge imports because of the sugar price differential.

Therefore, we are pleased to see the introduction of S. 2990 and, as long as it contains section 208 in its present form, it will have our full support. Obviously, we could not support it without the import quota provisions in section 208.

I will be glad to answer any questions, Senator, if I could; and if you would allow me to, I would like to speak, just a moment, to a question that was addressed previously to Mr. Tipton.

Senator MATSUNAGA. You may certainly do so. You are still within in your time.

Ms. McCORMACK. It was put to Mr. Tipton that so many sugar-containing products had gone up in price and had not come down respectively. Well, I do not know about the bottling industry or the bakery industry, but I was born and bred in the candy industry and I know about it.

I do know that in 1973 when we were buying sugar for 13-cents per pound we made a 1-cent stick. In 1974, when sugar went to 65 cents a pound, we made the same stick in 1974 and sold it for 2 cents. And now, in 1978, we are buying sugar for 20 cents a pound and I would like for you to have a penny stick of candy, Senator.

Senator MATSUNAGA. Just a penny?

Ms. MCCORMACK. We are still making a 1-cent stick.

Senator MATSUNAGA. Well, if it is not in excess of $100 value then I may accept.

Ms. MCCORMACK. It is one one-hundreth of 1 percent.

Senator MATSUNAGA. Thank you very much. I wish all the other witnesses had such sweetening testimony.

[General laughter.]

Ms. MCCORMACK. That piece of candy is 60-percent sugar.

Senator MATSUNAGA. Well, it looks nice, too.

I think you were here when I made the remarks about the consumer agencies perhaps having been misled in opposing the Sugar Act of 1933 as amended, which was up for extension in 1974 and I am glad to note that you agree with my observations. I think, had that Sugar Act been extended, we would not be in the trouble that we find ourselves today and the consumers, users, that is industrial users as well, not to speak of growers and processors as well, and candy makers.

I thank you very much for your testimony and I will convey to Senator Talmadge that you did a splendid job and did his State great credit. Thank you very much.

Ms. MCCORMACK. Thank you.

[The attachment to Ms. McCormack's statement follows:]

LIST OF UNITED STATES CONFECTIONARY MANUFACTURING COMPANIES IN WHOSE BEHALF BEE MCCORMACK, BOBS CANDIES, ALBANY, GEORGIA

Adams & Brooks, Los Angeles, CA.
American Candy Mfg. Co., Selma, AL
Andes Candies, Delavan, WI
Banner Candy Corp., Brooklyn, NY
Paul F. Beich Co., Bloomington, IL
Benson's Old Home Kitchens, Athens, GA
Bobs Candies, Albany, GA
Bradley Candy Mfg. Co., Lebanon, TN
Bunte Candies, Oklahoma City, OK
California Peanut Co., Richmond, CA
The Candy House, Nacogdoches, TX
Cella's Confections, New York, NY
Chiodo Candy Co., Oakland, CA
The Chocolate House, Milwaukee, WI
Claeys Candy, South Bend, IN
Crown Candy Corp., Macon, GA
Crystal Pure Candy Co., Chicago, IL
Doscher's Candies, Cincinnati, OH
Elmer Candy Corp., Ponchatoula, LA
F & F Laboratories, Chicago, IL
Falcon Candy Co., Philadelphia, PA
Fannie May Candy Shops, Chicago, IL
Ferrara Pan Candy Co., Forest Park, IL
Fine Candy Co., Oklahoma City, OK
Fine Products Co., Augusta, GA
Fox-Cross Candy Co., Everett, MA
Gilliam Candy Co., Paducah, KY
Glade Candy Co., Salt Lake City, UT

Goelitz Confectionery Co., North Chicago, IL
Herman Goelitz Candy Co., Oakland, CA
Goldenberg Candy Co., Philadelphia, PA
Hoffman Candy Co., Los Angeles, CA
Just Born, Bethlehem, PA
Kimbell Candy Co., Chicago, IL
Leaf Confectionery, Chicago, IL
James P. Linette, Reading, PA
Luden's Reading, PA
Maxfield Candy Co., Salt Lake City, UT
Melster Candies, Cambridge, WI
Ben Myerson Candy Co., Los Angeles, CA
The Norton Candy Co., Edwardsville, KS
Old Dominion Peanut Corp., Norfolk, VA
Peanut Specialty Co., Chicago, IL
Phoenix Candy Co., Brooklyn, NY
Powell's, Hopkins, MN
Primrose Candy Co., Chicago, IL
Queen Anne Candy Co., Hammond, IN
Reed Candy Co., Rolling Meadows, IL
Rogers Candy Co., Seattle, WA
Sheily Brothers, Souderton, PA
Simon Candy Co., Elizabethtown, PA
Societe Candy Co., Bellevue, WA
Standard Candy Co., Nashville, TN
Howard B. Stark Co., Pewaukee, WI
Sweet Candy Co., Salt Lake City, UT
York Candy Kitchens Division, York, PA
Zachary Confections, Chicago, IL

Senator MATSUNAGA. Our next panel of witnesses consists of Dr. Frank Collins, consultant to the president, Oil, Chemical and Atomic Workers International Union; and Mr. Patrick F. Tobin, representative, International Longshoremen's and Warehousemen's Union.

Will you identify yourself for the record and then proceed, Dr. Collins?

Mr. COLLINS. Yes, I am Frank Collins, consultant to the Oil, Chemical and Atomic Workers International Union and I am appearing here today in place of L. Calvin Moore, OCAW citizenship-legislative director who could not attend because he is in Colorado today.

I am going to give a short summary. The committee has been provided with a full statement which has been submitted for the record.

STATEMENT OF FRANK COLLINS, CONSULTANT TO THE PRESIDENT, OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION

Mr. COLLINS. We support the legislation before this committee, S. 2990 as being fair to farmers producing cane, beets and corn processed sugar and sweetener products, fair to consumers by assuring them of stable supplies at reasonable prices; and most of all, fair to American workers dependent on jobs in American plants and processing domestically produced sugar and other sweeteners.

We have been concerned that unlimited imports of foreign sugar at prices below cost of production in the United States could wipe out an important domestic sugar industry to the serious detriment of American farmers and American workers employed in the processing plants and even to the American consumer, putting them at the mercy of the international sugar market manipulators.

We have seen sugar prices soar to unjustified high prices and fall to disastrously low prices. We believe that congressional action is needed to bring stability into this chaotic sugar market and we believe that this legislation accomplishes that purpose in the right way by an import management program achieving fair prices in the marketplace rather than doling out welfare payments from the U.S. Treasury.

Because many of our union members are employed in the corn milling industry which produces corn sweeteners as well as other products, we have a direct stake in any sugar legislation.

In the past, there have been costly and unsuccessful attempts to stabilize the beet- and cane-sugar industries by direct payments, distorting the normal competitive relationship with the corn sweetener industry.

We believe that this measure treats all segments of the sweetener industry fairly and equitably—cane, beet and corn—and achieves it without a heavy raid on the U.S. Treasury in the form of direct payments.

We are therefore pleased to support both the National Corn Growers Association and the Corn Refiners Association in support of this legislation, providing a united front of all corn interests, processes, producers and workers and wet-corn milling plants.

Before this legislation was introduced, the urgent need for action to curb imports and protect domestic production was recognized by our organization at a meeting in Little Rock, Ark., on March 29, of the Inter-union Wet Corn Milling Council Co-ordinating Committee, comprised of five different international unions involved in wet-corn milling.

At that time, we adopted the resolution stating our position. Mr. Chairman, I ask that a copy of that resolution on imported sugar be made part of your hearing record at this point.

Senator MATSUNAGA. Without objection, it is so ordered.

[The material referred to follows:]

RESOLUTION ON IMPORTED SUGAR

Whereas, the U.S. family farm is the most efficient food producing unit in the world;

Whereas, all the U.S. family farmers and American workers should be treated equitably;

Whereas, it is essential that American agriculture be based on a system which will enable family farmers and American workers to have a reasonable opportunity to make a decent living;

Whereas, the U.S. producers of sugar and corn have been treated unfairly by virtue of the U.S. Executive Branch's failure to implement on a timely basis the sugar provisions of the Food and Agriculture Act of 1977, with the result that 6.4 million tons of sugar were imported--over 2 million tons more than recommended by the U.S. International Trade Commission;

Whereas, these record and excessive imports resulted in depressed sugar prices and record carryover stocks on January 1, 1978, plus an increased drain on our balance of payments and contributed to weakening of the dollar;

Whereas, many hours of work and pay were lost by members of organized labor at corn refining plants and related transportation facilities, and

Whereas, the U.S. Government in direct contradiction of Congressional mandate has made payments in excess of $200 million which resulted in reduced domestic use of corn and stimulated imports of sugar; therefore, be it

Resolved by this Inter-Union Wet Corn Milling Council, AFL-CIO-CLC that—

(1) The U.S. International Trade Commission should determine that sugar is certain to be imported at levels which will materially interfere with USDA price support operations and recommend the imposition of an import management program.

(2) 4-year legislation should be passed by the Congress which will increase the current minimum loan and purchase level for sugar to reflect higher costs to farmers and to assure them not less than the average cost of production for sugar beets and sugar cane in the marketplace. This should be implemented by an import management program to assure that no sugar is acquired by the USDA. This Council will work to obtain a program fair to sugar beet, sugar cane, corn producers and our membership.

(3) After the new legislation is approved, we would support the approval of the International Sugar Agreement by the Senate of the U.S.

attest:

Inter-Union Wet Corn Milling Council Co-Ordinating Committee:

Adopted March 29, 1978 in Little Rock, AR by the Inter-Union Wet Corn Milling Council:

CHARLES F. RILEY,
Regional Representative, Region 8, AIW–AFL–CIO.

LLOYD FREILINGER,
Vice President, American Federation of Grain Millers.

GORDON REEKIE,
International Representative, Retail, Wholesale and Department Store Union, AFL–CIO–CLC.

GEORGE ORLANDO,
Secretary-Treasurer, DRWAW.

RICHARD C. REINKO,
Co-Ordinator, Corn Council, OCAW.

MICHAE KRAJNOVICH,
Chairman, Inter-Union Wet Corn Milling Council.

RONALD SCHREIBER,
Secretary, Inter-Union Wet Corn Milling Council.

WILLIAM H. TAYLOR,
President, Corn Council, OCAW.

ROBERT C. JOHNSON,
Corn Council, OCAW.

Mr. COLLINS. Mr. Chairman, in that resolution we indicated our willingness to support approval of the International Sugar Agreement by the Senate after the new legislation before this committee was approved.

We stand by that pledge and welcome the linking of the new domestic program to the legislation implementing the International Sugar Agreement so that both can be considered together as one package.

We believe the domestic portion of this bill is consistent with the International Sugar Agreement and merely seeks to extend to our own producers the price objectives the international agreement is seeking to achieve for world producers.

Mr. Chairman, we believe that U.S. producers of sugar and corn were treated unfairly over the last year by virtue of the executive branch's failure to implement, on a timely basis, the sugar provisions of the Food and Agriculture Act of 1977 with the result that 6.4 million tons of sugar were imported, over 2 million tons more than had been recommended by the International Trade Commission at the start of last year.

At a time when the Nation and Congress was seriously concerned with high unemployment and depressed farm income, it seems ridicu-

lous to be allowing foreign imports to force plants to close down, shut off a share of the market for corn growers and deprive our members of jobs they would otherwise have.

We strongly recommend your approval of S. 2990 and pledge our support for its enactment by Congress. Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Collins. We certainly appreciate your testimony.

[The prepared statement of L. Calvin Moore follows:]

STATEMENT OF L. CALVIN MOORE, CITIZENSHIP-LEGISLATIVE DIRECTOR, OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION

Mr. Chairman: I am L. Calvin Moore, director of the Citizenship-Legislative Department of the Oil, Chemical, and Atomic Workers International Union, AFL-CIO-CLC. We support the legislation before this committee, S. 2990, as being fair to farmers producing cane, beets, and corn processed into sugar and sweetener products, fair to consumers by asuring them of stable supplies at reasonable prices, and, most of all, fair to American workers dependant upon jobs in American plants processing domestically produced sugar and other sweeteners.

As members of organized labor, our concern is primarily jobs and employment. As a matter of good citizenship and public policy, however, we are equally concerned with U.S. family farmers. We believe it is essential that American agriculture be based on a system which will enable family farmers and American workers to have a reasonable opportunity to make a decent living.

We have been concerned that unlimited imports of foreign sugar, at prices below cost of production in the U.S., could wipe out an important domestic sugar industry to the serious detriment of American farmers, American workers employed in the processing plants, and even to the American consumer—putting them at the mercy of the international sugar market manipulators. We have seen sugar prices soar to unjustified high prices and fall to disastrously low prices. We believe congressional action is needed to bring stability into this chaotic sugar market, and we believe this legislation accomplishes that purpose in the right way-by an import management program achieving fair prices in the market place, rather than doling out welfare payments from the U.S. treasury.

Because many of our union members are employed in the corn milling industry which produces corn sweeteners as well as other products, we have a direct stake in any sugar legislation. In the past there have been costly and unsuccessful attempts to subsidize the beet and cane industries by direct payments, distorting the normal competitive relationships with the corn sweetener industry. We believe this measure treats all segments of the sweetener industry fairly and equitably—cane, beet, and corn—and achieves it without a heavy raid on the U.S. treasury in the form of direct payments.

We are therefore pleased to support both the National Corn Growers Association and the Corn Refiners Association in support of this legislation, providing a united front of all corn interests—producers, processors, and workers in wet corn milling plants.

Before this legislation was introduced, the urgent need for action to curb imports and protect domestic production was recognized by our organization at a meeting in Little Rock, Arkansas, on March 29, comprised of five different International unions involved in wet corn milling.

At that time we adopted a resolution stating our position. Mr. Chairman, I ask that a copy of that resolution on imported sugar be made a part of your hearing record at this point.

As an aftermath of that resolution, we outlined our views to the U.S. International Trade Commission. We are pleased to note that they did concur with us by determining that sugar is certain to be imported at levels which will materially interfere with USDA price support operations, and that they have recommended to the President a tightened import management program. However, we realize such recommendations are advisory upon the President, and feel that the specific legislation action is required.

Our resolution called for extending legislation protecting domestic producers, which would otherwise expire at the end of this year, and improving the level of supports to reflect higher costs to farmers and to assure them not less than the average cost of production for sugar beets and sugar cane in the market place. We asked that this should be implemented by an import management program to

assure that no sugar is acquired by the USDA, because of price-depressent effect of any such stocks hanging over the market. We pledged ourselves to work for a program fair to sugar beet, sugar cane, and corn producers, and to our membership.

Mr. Chairman, we believe S. 2990 accomplishes all of the objectives we set forth, and in the manner we believe protection of the domestic industry should be achieved.

Mr. Chairman, in that resolution we indicated our willingness to support approval of the International Sugar Agreement by the Senate after such new legislation is approved. We stand by that pledge, and welcome the linking of the new domestic program to the legislation implementing the International Sugar Agreement so both can be considered together as one package. We believe the domestic portion of this bill is consistent with the international sugar agreement, and merely seeks to extend to our own producers the price objectives the international agreement is seeking to achieve for world producers.

Mr. Chairman, we believe that U.S. producers of sugar and corn were treated unfairly over the last year by virtue of the Executive Branch's failure to implement, on a timely basis, the sugar provisions of the Food and Agriculture Act of 1977, with the result that 6.4 million tons of sugar were imported—over 2 million tons more than had been recommended by the International Trade Commission at the start of last year.

We are convinced that these record and excessive imports resulted in depressed sugar prices and record carryover stocks on January 1, of this year, plus an increased drain on our foreign balance of payments and thereby contributing to the weakening of the dollar.

We believe also that these excessive imports resulted in many hours of work being lost by members of organized labor at corn refining plants and in related domestic transportation facilities. If the International Trade Commissions earlier recommendations had been heeded and that excess importation of about 2 million tons above normal had not been permitted, at least 1 million tons of additional corn sweetener could have been produced, using up to 60 million bushels of corn and creating substantial additional employment for our members. We need those jobs. We think they are more important to our economy than protection of foreign suppliers of sugar.

While we make our case on the basis of employment in plants, we feel the same case against such a flood of imports can be made in behalf of the corn growers themselves and our total economy.

An additional million tons of corn sweetener, displacing foreign imports rather than domestic cane or beet production, could have increased depressed corn prices by about 4¢ a bushel, and increased corn farmers' income by $175 million.

I hope you do not underestimate the total economic stake of the corn industry—growers, processors, and processing plant employees—involved in these sugar decisions. Corn farmers sell to corn refiners about 10 percent of their cash sales, amounting to about 400 million bushels with a value of at least $800 million annually. That market accounts for the production of some 4 million acres of prime midwest corn land, and that land value is conservatively estimated at $2,500 per acre. Thus, a value of $10 billion in farm land is tied up in the fate of that industry, plus $2.5 billion the corn refining business has invested in plants employing hundreds of workers in many states.

At a time when the nation and the Congress is seriously concerned with high unemployment and depressed farm income, it seems ridiculous to be allowing foreign imports to force plants to close down, shut off a share of the market for corn growers, and deprive our member of jobs which they would otherwise have.

We therefore strongly recommend your approval of S. 2990, and pledge our support for its enactment by the Congress.

Thank you, Mr. Chairman.

Senator MATSUNAGA. I will call upon Mr. Patrick Tobin now for his testimony. Will you identify yourself for the record and proceed?

STATEMENT OF PATRICK F. TOBIN, REPRESENTATIVE, INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION

Mr. TOBIN. My name is Patrick Tobin. I am the Washington representative of the International Longshoremen's and Warehousemen's Union. I would like to thank Chairman Matsunaga and the committee

for the opportunity to present testimony today here on behalf of my union.

We represent approximately 20,000 workers in Hawaii and we have represented sugar workers in Hawaii since 1945. We have collective bargaining agreements with 15 sugar plantations which hire more than 8,000 sugar workers in the fields and in the mills. These workers produce over 1 million tons of sugar each year.

The Hawaiian sugar industry is highly mechanized and efficient, resulting in a yield of sugar per acre per man-hour that is higher than anywhere else in the world. Our union is proud of its contribution to the economic well-being of these sugar workers and they are the highest paid cane sugar workers in the world.

We believe that our union has contributed in a major way to the improvement of living standards for all Hawaiian workers resulting in the relatively high standard of living which now exists in the State of Hawaii.

In 1974, the U.S. Congress did not renew the Sugar Act. As a result, there has been enormous fluctuation in the world price of sugar. George Arioshi, Governor of the State of Hawaii, has stated in former testimony that:

> This type of roller coaster feast or famine economics serves no one. The consumer pays too much one day and too little the next. The producer makes unjustified profits one day and loses money the next. This simply is not the way to operate a basic industry of our Nation, an industry whose economic health is important to our total economy.

Since the demise of the Sugar Act of 1974, the low price of sugar on the world market has threatened the existence of the U.S. sugar industry. This would mean that all sugar production would be foreign, creating additional balance of trade deficits. As a result, sugar would join oil, bauxite, coffee, and other commodities over which the United States has no control and placing the U.S. consumer at the mercy of the overseas cartels.

I would like to digress a minute from the written testimony we have submitted to answer the argument raised by the legislative director of the Consumer Federation of America. I think Kathleen Sheekey, whom we have had associations with and agree with on most occasions, is not accurate in her estimates as to the purpose of S. 2990.

She does not indicate a positive formula to solve the problem of fluctuating sugar prices. Nowhere in her testimony does she consider what the consequences will be for the 8,000 sugar workers in Hawaii that we represent if the industry there is unable to produce profitably.

She also indicated that the only people who benefited from the big rise in the price of sugar were the industry, and, by and large, she is correct. But, in our case, because we have a strong trade union, we were able to come back to our employers and obtain two bonuses which gave each worker approximately $2,000, even though we had a signed contract.

President Franklin D. Roosevelt, in his message to Congress recommending passage of sugar legislation in 1937 said:

> It is highly desirable to continue the policy which was inherent in the Jones-Costican Act of effectuating the principle that an industry which desires the protection afforded by the quota system, or a tariff, should be expected to guarantee that it will be a good employer.

I recommend, therefore, that the prevention of child labor and the payment of wages of not less than minimum standards be included among the conditions for receiving a Federal payment.

We agree with that statement and you will hear testimony from Arnold Mayer of the Amalgamated Meat Cutters on what he believes would be beneficial to mainland sugar workers.

I want to end by saying that we have worked with the industry in Hawaii both to make it efficient, and to make it the kind of an industry that can compete with any cane grower in the world and we are proud of that record. We are proud of the fact that in our collective bargaining we did realize an agreement that was satisfactory to the sugar workers in spite of a short strike last year.

Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Pat. It is nice to see you again.

Mr. TOBIN. Thank you.

Incidentally, I would like to mention just one thing, and that is that in discussing this with the people of Hawaii, they feel blessed that they have their Senator as the chairman of this subcommittee, not only in terms of sugar but we are also in tourism, and they wanted to say hello and wish you well and urge you on in your support of this measure.

Senator MATSUNAGA. Well, I thank you very much, especially in view of the fact that the ILWU did not support me in the last election.

Mr. TOBIN. I am sorry about that. Senator, honestly, I recommended it, but they do not always listen to me.

Senator MATSUNAGA. Let that be on the record.

Thank you ever so much. My father always used to repeat an old Japanese adage, in situations such as this. He would say, "If you tried to chop the head off your enemy your head may be chopped off; but if you befriend your enemy, you will increase your own forces." I am trying to practice what my father preached.

Thank you very much.

[The prepared statement of Mr. Tobin follows:]

STATEMENT OF PATRICK F. TOBIN, WASHINGTON REPRESENTATIVE, INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION

Mr. Chairman: My name is Patrick Tobin. I am the Washington Representative of the International Longshoremen's and Warehousemen's Union. I would like to thank Chairman Matsunaga and the Committee for the opportunity to present testimony here today in behalf of my Union. We represent approximately 20,000 workers in Hawaii. We have represented sugar workers in Hawaii since 1945. We have collective bargaining agreements with 15 sugar plantations which hire more than 8,000 sugar workers in the fields and in the mills. These workers produce over a million tons of sugar each year. The Hawaiian sugar industry is highly mechanized and efficient, resulting in a yield of sugar per acre per man-hour that is higher than anywhere else in the world.

Our Union is proud of its contribution toward the economic well-being of these sugar workers. They are the highest paid cane sugar workers in the world. We believe that our Union has contributed in a major way to the improvement of living standards for all Hawaiian workers, resulting in the relatively high standard of living which now exists in the state of Hawaii.

In 1974, the U.S. Congress did not renew the Sugar Act. As a result, there has been an enormous fluctuation in the world price of sugar. George Aryoshi, Governor of the state of Hawaii, has stated in former testimony that "this type of roller

coaster—feast or famine—economies serves no one. The consumer pays too much one day and too little the next. The producer makes unjustified profits one day and loses the next. This, simply, is not the way to operate a basic industry of our nation, an industry whose economic health is important to our total economy."

Since the demise of the Sugar Act in 1974, the low price of sugar on the world market has threatened the existence of the United States sugar industry. This would mean that all sugar production would be foreign, creating additional balance of trade deficits. As a result, sugar would join oil, bauxite, coffee, and other commodities over which the United States has no control, placing the United States consumer at the mercy of overseas cartels.

Without the existence of a stable sugar industry in Hawaii, the job opportunities for our members would vanish, there would be a dramatic increase in unemployment, and the economic well-being of many Hawaiian workers would be jeopardized. Others have appeared, and will appear, describing the disastrous effects upon the Hawaiian economy should the sugar industry shut down because of the uncontrolled fluctuation of sugar prices.

We support S. 2990, the Sugar Stabilization Act of 1978, which includes support for the International Sugar Agreement and a domestic sugar program similar to the old Sugar Act—with some modifications.

In May, 1962, our Union presented testimony before the Committee on Agriculture, U.S. House of Representatives, in support of the provision for "Fair and Reasonable Wages" for domestic sugar workers. This testimony was presented in the interests of unorganized sugar workers throughout the mainland United States who are still unorganized and working under substandard wages and conditions. We believe this testimony is still valid.

"SUGAR INDUSTRY SHOULD BE A GOOD EMPLOYER"—Roosevelt

President Franklin D. Roosevelt, in his message to Congress recommending passage of sugar legislation in 1937, said:

> "It is highly desirable to continue the policy, which was inherent in the Jones-Costigan Act, of effectuating the principle that an industry which desires the protection afforded by the quota system, or a tariff, should be expected to *guarantee that it will be a good employer.* I recommend therefore that the prevention of child labor and the payment of *wages of not less than minimum* standards, be included among the conditions for receiving a Federal payment." (Our emphasis).

Our complain is not that the industry is protected. We recognize that the long run stability of the industry depends on the maintenance of a domestic price which is higher than the world price. Our complaint is that an industry which enjoys such protection has not been compelled to pay a decent minimum wage to the workers who produce the sugar.

"FAIR AND REASONABLE" WAGES

The 1937 Sugar Act and all subsequent versions have carried the provision that the Secretary of Agriculture, after appropriate hearings, shall establish "fair and reasonable" wages for sugar workers. But the Act failed to specify clearly the standards to be applied in setting the rates. It simply said that the Secretary "shall take into consideration the standards therefor formerly established by him under the Agricultural Adjustment Act, as amended, and the differences in conditions among various producing areas." (Sec. 301(c)(1)).

In practice, the "fair and reasonable" wages as set by the Secretary have been no higher and no lower than those prevailing in the particular area in question. In Hawaii, where wage rates have been established by collective bargaining since 1945, the Secretary has determined that the union rates are "fair and reasonable." Elsewhere, according to the spokesman for the Department, the standards have taken into account trends in living costs, "differences in the economic position of producers and workers in the several producing areas" and "ability to pay", i.e., "the economic position of producers in relation to available market returns." (Wage Determinations Under the Sugar Acts", by Ward S. Stevenson and Linewood K. Bailey, Sugar Division, Dept. of Agriculture, published in *Sugar Reports,* December 1954.)

Consideration of trends in living costs has been limited to trends in the prices of food and clothing, "inasmuch as those two items represent the major expenditures by sugar beet and sugar cane field workers." (opt. cit.). Nothing could be more revealing. The living standards of the field workers are so low, price trends for other customary items of goods and services are disregarded.

In the public hearings, which are provided for in the law as a protection to all parties, the Secretary almost always has only such information as the growers provide. The resultant wage determinations follow what is the prevailing wage in the area in question.

The consequence of the procedure followed by the Secretary of Agriculture, is that the government has been lending its support to the maintenance of substandard wages."

The collective bargaining agreement that our Union has signed with sugar employers in Hawaii includes wages and fringe benefits of $6.00 per hour to each worker. The Secretary of Agriculture has set a minimum wage for unorganized sugar cane workers in the United States of $3.00 per hour, provided it can be established that the grower is receiving price support payments from the U.S. government. The beet sugar workers in the United States, many of whom are paid on the basis of piece-work, have a minimum wage which is also predicated on price support from the United States government to the producers.

We find this system very complex and almost unenforceable since the Department of Agriculture has no enforcement agency. We believe that a flat minimum wage and piece rate should be set for all sugar workers in the United States regardless of price support payments made by the United States government to growers or producers. Certainly, no one can defend the present minimum wage or complex program which sets sub-standard wages and conditions for the U.S. sugar workers. We believe that their best defense is to join a legitimate trade union which would give them the type of benefits which our workers have struggled for and won in the state of Hawaii.

The I.L.W.U. urges that language be written into S. 2990 that would guarantee a "fair and reasonable minimum wage" for all U.S. sugar workers based on present contracts between our Union and our employers in the state of Hawaii. We also support the labor amendments that are offered by the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO). Thank you for your consideration, Mr. Chairman.

Mr. Collins. Mr. Senator, I would like to say that OCAW endorses the remarks of the next speaker representing the Meat Cutters Union, Arnold Mayer. We go along with his statements. Our headquarters are in Denver and they have instructed me to tell you this.

Senator Matsunaga. Fine. I think he will be the anchorman. We have another witness, Mr. Reuben L. Johnson.

Our next witness will be Mr. Reuben L. Johnson, director of legislative services of the National Farmers Union.

Mr. Johnson, will you identify yourself for the record and proceed?

STATEMENT OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. Johnson. Mr. Chairman, first I want to commend you for an excellent hearing, and for the perseverance with which you have pursued the hearing of a number of witnesses and making what I consider to be a very favorable record for doing something about the plight of the domestic sugar producer.

I am Reuben L. Johnson. I am director of legislative services. At our 1976 Annual Convention of the National Farmer's Union held March 4 to 8 at Salt Lake City, Utah, our delegates took note of the fact that the sugar provisions of the Food and Agricultural Act of 1977 expire following the 1978 crop year. At that time, naturally, we did not have knowledge of the legislation before this subcommittee.

The delegates did act and take a policy position and I ask that that section be included here at this point. And also that this statement and any parts I may omit also, Mr. Chairman, be included.

Senator Matsunaga. Without objection, it will be included.

Mr. JOHNSON. With the world price of sugar now again at 7 to 8 cents per pound, there is widespread doubt that the new International Sugar Agreement will soon bring the market price up to the lower end of the 11- to 21-cent range in the agreement.

I have an attachment here which puts in graph form how that formula works, attachment A. There is little confidence among U.S. producers that the quota system and stockholding provisions of the agreement will bring the world price up to 11 cents per pound at point of export which, with transportation fees, brings the export fee at New York to 13.5 cents.

For that reason, the Farmers Union maintains a domestic sugar stabilization program should be kept in force and that one way to accomplish this would be through a variable levy system. Whatever legislation that is developed by Congress, the domestic support level must be appreciably above the 13.5-cent objective in the current program. This level is well below the cost of production in the most efficient sugarcane and sugar beet production regions.

I have two examples there, one from a witness representing the American Sugar Cane League in Louisiana and one from an economist in North Dakota, which indicate that 13.5 cents is not a viable figure in terms of cost of production.

For the 1976–77 crop year, the USDA calculated—and this is an interesting fact in light of some of the earlier testimony by the USDA witness—the USDA calculated that the sugar beet cost of production for the eight production regions was on an average of $24.33 per ton. Adjusting this for inflation it would appear that the 1978–79 production costs would be about $27.50 per ton equivalent to a raw sugar price of 16.25 cents.

Mr. Chairman, I want to identify with some of the earlier comments here that we farmers are not interested in just meeting costs of production. We would like to make a profit. I know that in writing this legislation you had in mind also supporting that position and we appreciate that.

When the loan program under title IX of the 1977 act was announced last November, program regulations provided for loans to domestic processors who pay growers a minimum price of $22.84 per short ton of sugar beets and $18.37 for a ton of sugarcane in Florida and $15.90 per ton of sugarcane in Louisiana. Separate figures were set for sugarcane in Hawaii, Texas, and Puerto Rico.

All of these levels, we know now, were well below cost of production in all production areas, and although they were higher than world market prices, as obviously our support level has to be.

We are anxious that new legislation should substantially increase the price support level. Without this, prices are likely to remain at depressed levels despite ISA's implementation. This prospect is based on an indication that world sugar production for 1977–78 will be about 93.3 million metric tons and this will be about 4.6 million tons above anticipated consumption.

Stocks at the beginning of the grinding season of 1977–78 are estimated at 12.6 million tons, more than 2 million tons above a year earlier. The addition of 4.6 million tons to the carryover would bring that figure to 17.2 million tons which would be equal to 20 percent of world consumption.

A carryover of that magnitude is likely to keep world prices low and to constitute a pressure upon the ISA with which it is unlikely to be able to cope.

Indications for the 1978-79 seasons are that the area planted to beets in Europe, including the Soviet Union, will rise by about 1 percent while U.S. acreage is forecast to increase about 4 percent over 1977.

An earlier witness indicated that there were substantial domestic increases in plantings, but he distorts the fact, because even though there is some slight increase forecast this year, sugar beet growers are being rather cautious about expanding production. This is borne out by the fact that the 1,329,000 acres indicated is 13 percent below the 1976 average and 17 percent below the 1975 plantings.

I might also say that I believe refining capacity of both cane and beet companies in the business is below the amount that would be considered to be optimum.

We endorse the provisions of title I. The price of 17 cents per pound described in subtitle (b) we think should be reevaluated in terms of the cost of production and the parity prices of sugar beets and sugarcane.

USDA has not yet computed parity prices for sugar beets and sugarcane for 1978 and we hope you will urge them to do that at the earliest possible time. The latest data that we have is for July 1977 at which time sugar beet parity was $43.50 and sugarcane parity was $33.30.

The support level, of course, needs to be related to the basic 1910-14 parity formula.

Mr. Chairman, we have had a constant dialog with the administration over this business of parity. We would like to see the statutory definition of parity used in any context where we are trying to keep farmer's prices in line with their costs and obviously the 1910-14 statutory definition of parity would do that.

Without a program such as you have provided here with whatever adjustments that may seem to be desirable as a result of these hearings, there is nothing to stop the reoccurrence of another boom and bust period like we saw in the 1974 period when sugar prices went as high as 66 cents a pound in November 1974 and then dropped to a low of 6.4 cents per pound last September.

It will be remembered that in 1974, an unholy alliance of processors, importers, and USDA officials wrecked the Sugar Act program. We opposed that action very vigorously. I think that what has happened since the Sugar Act has been abandoned is certainly an indication that those of us who tried to prevent its demise were trying to be responsible both in the interests of producers and consumers.

Failure to devise a program enabling domestic producers to sustain production will certainly result in disaster again for U.S. consumers and the old boom and bust would plague producers again.

No one ought to be charmed by the Pied Piper who heads the President's Council on Wage and Price Stability who appears to believe that a world sugar price of 7 to 8 cents a pound is a healthy situation for consumers and the U.S. industry. He has taken upon himself to criticize S. 2990 and to charge that it would cost both consumers and taxpayers heavily.

Mr. Chairman, I want to turn to attachment B.

Anybody that has any understanding at all of the history of the sugar program—I would hope my nice neighbor from the Consumer Federation of America who was ahead of us at this table has had a chance to study attachment B on the history of sugar price movements. I am going to see her tomorrow morning and explain it to her.

I would like to say just one more word.

Senator MATSUNAGA. Please proceed.

Mr. JOHNSON. You can see what a wonderful tool the sugar agreement was in maintaining a stable price that benefited the whole country for 40 years. And look down here at the table showing what happened when we lost the Sugar Act—a precipitous increase. These lines also show that retail prices of sugar—this is not candy or processed drink products—did not ever come back together as they were in 1972 if you look at the period of 1977.

That concludes my statement, Mr. Chairman.

Senator MATSUNAGA. You say you presented a copy to the representative of the Consumer Federation of America?

Mr. JOHNSON. As she left, I asked her to study attachment B.

We happen to be a member of the federation. We are going to have to look at our card again and see whether or not we can justify our continued participation.

Senator MATSUNAGA. I am glad you have this chart because I think it graphically shows what I have been saying all throughout, that in 1974 when we refused to extend the Sugar Act we did away with the most successful agricultural program ever written into our statute books.

Mr. JOHNSON. And, Mr. Chairman, let me say this. I did not appreciate the comment by Mr. Hjort this morning about these high-paid sugar lobbyists. I do not happen to be among the high-paid sugar lobbyists, working for a general farm organization. We have done rather well in the period when we were having import allocation programs worked out between countries.

But I would make the case that they render a service to this country by working out and sitting down with our Government officials and deciding the share of various countries in our sugar market. Let me be very candid—I hope that this legislation provides us with a step back toward marketing quotas. I think the suggestion of the witness from Great Western Sugar Co. makes sense as long as you go back to the producer and give him a production quota, I think that ought to be tied to a refiner marketing quota.

We need to get it back on the track and put our Government officials over in the State Department back in the business, and the Department of Agriculture, back in the business of trying to put some order in the sugar program they need to work to set these country quotas. We need to get back to a sugar program of the kind that served us so well for 40 years.

Senator MARSUNAGA. Well, thank you very much, Mr. Johnson. I think you have expressed here the views of many who are deeply concerned about the future of the sugar industry.

Mr. JOHNSON. Mr. Chairman, I hope that if any of those high-paid sugar lobbyists are left here in the room that they will shake my hand and commend me for my comments on their behalf when I leave.

[The prepared statement of Mr. Johnson follows.:]

Senator MATSUNAGA. Thank you.

Statement of National Farmers Union

I am Reuben L. Johnson, Director of Legislative Services.

At the 76th annual convention of National Farmers Union held March 4-8 at Salt Lake City, Utah, our delegates took note of the fact that the Church-de la Garza provisions of the Food and Agriculture Act of 1977 expire following the 1978 crop year.

National Farmers Union approved the following recommendation:

"4. Sugar Program.

"Title IX, Section 902 of the Food and Agriculture Act of 1977, provides a support program on sugar beets and sugar cane through loans and purchases only for the 1977 and 1978 crop years. It provides that the support level shall be not less than 52.5 percent nor more than 65 percent of parity, and provides authority for USDA to suspend the program as soon as the new International Sugar Agreement assures the maintenance in the United States of a price not less than 13.5 cents per pound, raw sugar equivalent.

"We ask the Congress to amend Section 902 to extend the sugar program through 1981; to remove the top limit of 65 percent of parity on loan or purchase levels; and to remove the provision allowing USDA to suspend the domestic support program.

"We ask the Executive Branch to invoke Section 22 of the Agricultural Act of 1935, putting into effect tariff levies or import quotas, or a combination of both, to ensure that imports do not interfere with the conduct of the domestic support program. Section 22 measures, however, should be replaced, as soon as necessary legislation can be enacted, by a variable levy representing the difference between world sugar price and the United States support level, in effect raising the price of imported sugar to that of the domestic product."

Suite 600, 1012 14th Street, N.W., Washington, D.C. 20005 – Phone (202) 628-9774

It is clear from the unanimous findings of the U.S. International Trade Commission, reported on April 17, 1978, that imports of sugar are materially interfering with the domestic sugar stabilization program. ITC's findings were heavily supported by testimony at its series of hearings.

Four of the six Commissioners recommended that the import fees on raw sugar be increased from 2.7¢ to 3.6¢ per pound, that a quantitative limit of 40,000 short tons be placed on imports of refined sugar. The four Commissioners also recommended that quotas be triggered if for a period of 20 consecutive days the average price of sugar is one percent or more below the 13-1/2 cent price support level established by USDA.

While we in the Farmers Union approve the use of import quotas and import fees as an emergency measure, we believe that a more satisfactory system would be a variable levy system designed to bring the price of imported sugar up to the domestic price support level. Such a support level, however, would have to be at a figure fair to U.S. producers in terms of the cost of production and living, as indicated by the parity prices of sugar beets and sugar cane.

With the world price of sugar now again at 7¢ to 8¢ per pound, there is widespread doubt that the new International Sugar Agreement will soon bring the market price up to the lower end of the 11¢ to 21¢ range in the Agreement. (See Attachment A)

There is little confidence among U.S. producers that the quota system (Basic Export Tonnages) and stockholding provisions of the Agreement will bring the world market price up to 11¢ per pound at point of export (which with transportation and fees brings the import price at New York to 13-1/2 cents).

For that reason, Farmers Union maintains that a domestic sugar stabilization program should be kept in force and that it be complemented by a variable levy system as described above.

In whatever legislation that is developed by the Congress, the domestic support level must be appreciably above the 13-1/2 cents per pound objective of the current program. This level is well below the cost of production in the most efficient sugar cane and sugar beet production regions.

P.H. deGravelles, testifying early this year for the American Sugar Cane League, estimated the cost of production on sugar cane in Louisiana in the range of 15.84¢ to 17.06¢ per pound for 1977.

Dr. Roger G. Johnson, agricultural economist at North Dakota State University at Fargo, estimated the 1977 sugar beet production cost at a weighted average of $25.22 per ton, the equivalent of a raw sugar price of 15¢.

For the 1976/77 crop year, USDA calculated the sugar beet cost of production, for the eight production regions, at an average of $24.33 per ton. Adjusting this for inflation, it would appear that the 1978/79 production cost would be about $27.50 per ton, equivalent to a raw sugar price of 16.25¢.

When the loan program under Title IX of the 1977 Act was announced last November, the program regulations provided for loans to domestic processors who pay growers a minimum price of $22.84 per short ton of sugar beets and $18.37 per ton of sugar cane in Florida and $15.90 per ton of sugar cane in Louisiana. (Separate figures were set for sugar cane in Texas, Hawaii and Puerto Rico.)

All these levels, of course, were well below cost of production in all production areas, although, of course, a considerable improvement over the world market prices.

We are anxious that new legislation should substantially increase the price support level. Without this, prices are likely to remain at depressed levels, despite the ISA's implementation.

This prospect is based upon indications that world sugar production for 1977/78 will be about 90.3 million metric tons and that this will be about 4.6 million tons above anticipated consumption.

Stocks at the beginning of the 1977/78 grinding season are estimated at 12.6 million metric tons, more than 2 million tons above a year earlier. The addition of 4.6 million tons to the carryover would bring that figure to 17.2 million tons, which would be equal to 20% of world consumption.

A carryover of that magnitude is likely to keep world prices low and to constitute a pressure upon the ISA with which it is unlikely to be able to cope.

Indications for the 1978/79 season are that the area planted to beets in Europe (including the Soviet Union) will rise by about 1% while the U.S. acreage is forecast to increase by about 4% over 1977.

However, U.S. sugar beet growers are being rather cautious about expanding production. The 1977 acreage was down because of uncertainty about plant closings and because of low prices.

The 1,329,000 acres indicated in the April 1 intentions report is 13% below the 1976 acreage and 17% below the 1975 plantings.

In regard to S. 2990 (a summary of which is Attachment C), which is before the Committee today, we believe that it is in the interests of consumers and producers of sugar to, as the bill declares, "maintain a viable domestic sugar producing industry capable of continuing to provide the larger part of the sugar consumed in the United States."

We endorse the provisions of Title I which prohibit the importation into the U.S. of any sugar from any country which is not a member of the ISA, and to prohibit the entry of any quantity of sugar not accompanied by certification that contribution has been made to the stock financing fund.

The price objective of 17¢ per pound, prescribed in Subtitle B of Title II, needs to be re-evaluated in terms of the cost of production and the parity prices of sugar beets and sugar cane.

USDA has not yet computed the parity price for sugar beets and sugar cane for 1978. The latest available data is for July, 1977, at which time the sugar beet parity was $43.50 and the sugar cane parity was $33.30. A new set of parity values may perhaps not be issued until July 31. The $43.50 parity price of last July was the equivalent of a 25.7¢ raw sugar price.

The 17¢ price objective appears low but that judgment will need to be made when the parity figures become available.

The support level, of course, needs to be related to the basic 1910-14 parity data.

Subtitle B provides for an escalator for the price objective, tying it to changes in the parity index and the wholesale price index. Such an escalator is vitally important, but the bill errs in relating the parity index to 1967, rather than to 1910-14. The "parity index (1967-100)" has no legal status. It is merely a statistic invented by USDA economists in 1971 to move towards a more recent base period.

The provision in Section 205 for a variable import fee has merit if it is associated with a domestic support level which is fair to U.S. producers. This is a key determination for it will influence the level at which the suspension of quotas or fees will take place under Section 707.

We endorse the provision of Section 307 which requires the Secretary of Agriculture to determine and announce a daily spot price for sugar, raw value, adjusted for freight to New York and the applicable tariff.

A new domestic sugar stabilization program is vital. During 1977, four U.S. sugar beet processing plants and four sugar cane mills have closed because of the low prices. Many more experienced great difficulties and there are questions about their survival unless a workable domestic stabilization program is in operation.

This is fully as important to consumers as to producers. Without such a domestic program, assuming the ineffectiveness of the ISA, there is nothing to stop the recurrence of another boom and bust period, like that which saw sugar prices go to 66¢ a pound in November, 1974, and drop to as low as 6.4¢ per pound last September.

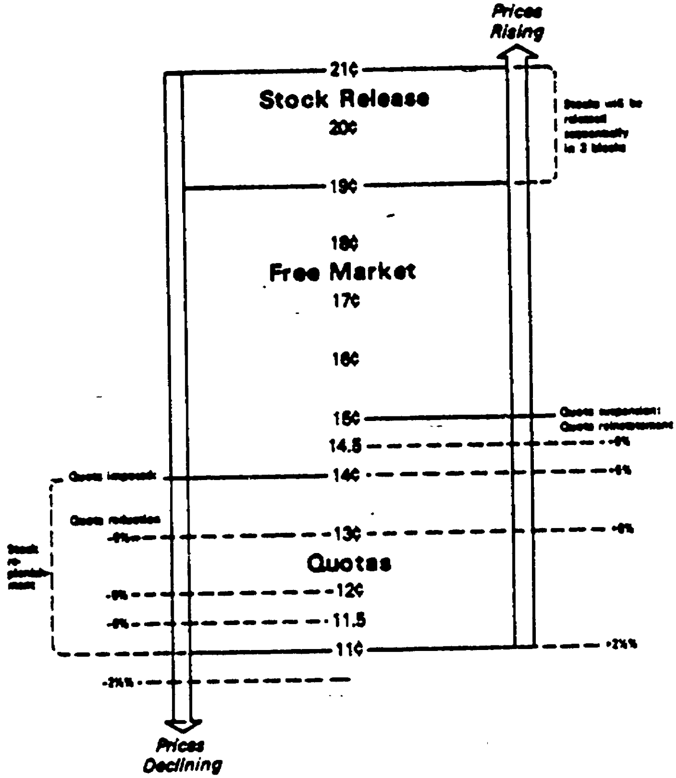
It will be remembered that in 1974, an "unholy alliance" of processors, importers and USDA officials wrecked the Sugar Act program which had served the nation well over many years.

In one rash action, 40 years of price and supply stability were thrown out of the window. See Attachment B.

Failure to devise a program enabling domestic producers to sustain production will certainly result in disaster again for U.S. consumers and in turn thereafter again for producers.

No one ought to be charmed by the Pied Piper who heads the President's Council on Wage and Price Stability who appears to believe that a world sugar price of 7 to 8¢ a pound is a healthy situation for consumers and the U.S. industry. He has taken upon himself to criticize S. 2990 and to charge that it would cost both consumers and taxpayers heavily.

ATTACHMENT A



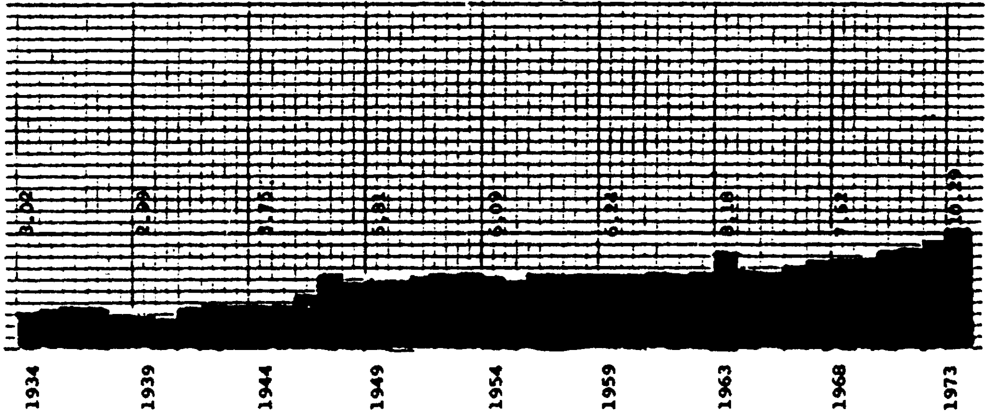
NOTE: World raw sugar price, as of the implementation of the International Sugar Agreement, January 1, 1978 — 8.38¢ lb.

Recent world average price trends — 7 to 8¢ lb.

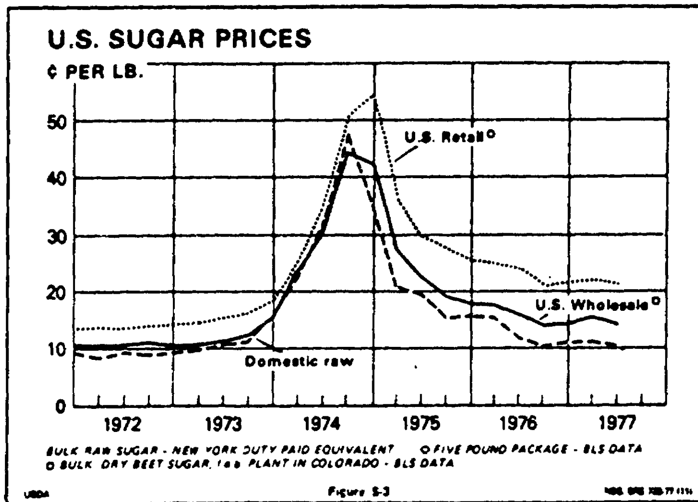
ATTACHMENT B

THE U.S. SUGAR ACT--- 40 YEARS OF RELATIVE PRICE STABILITY

ANNUAL AVERAGE PRICES
1934-1973
U.S. Raw Sugar Price Per Pound, duty paid, New York City



4 YEARS OF BOOM + BUST



ATTACHMENT C

S. 2990—SUGAR STABILIZATION ACT OF 1978

DECLARATION OF POLICY

Section 2. Contains a declaration of congressional policy to: (a) Maintain a viable domestic sugar producing industry; (b) protect the welfare of consumers and producers by maintaining adequate supplies at fair prices; (c) achieve the price and supply objectives through the supply management system of the International Sugar Agreement as extended and supplemented by a domestic sugar program; and (d) promote the export trade.

TITLE I—INTERNATIONAL SUGAR AGREEMENT

This title provides the necessary legislative authority to implement the International Sugar Agreement.

Section 101. Authorizes the President to: (a) Limit imports to sugar from countries which are members of the International Sugar Organization; (b) prohibit the entry of sugar without certain documentation required by the International Sugar Agreement; (c) require the keeping of such records and the rendering of such reports as may be necessary to carry out the International Sugar Agreement; and (d) take such other action as he deems necessary or appropriate to implement the obligations of the United States under the International Sugar Agreement.

Section 102. Provides a fine for anyone convicted of knowingly violating the recordkeeping and reporting requirements prescribed pursuant to section 101.

Section 103. Provides for an annual report by the President to the Congress on operations under the International Sugar Agreement, including actions taken by the United States and the International Sugar Organization to protect the interests of domestic producers and consumers.

TITLE II—DOMESTIC SUGAR PROGRAM

Definitions

Section 201. Contains the definitions of technical terms used throughout the bill. They are, for the most part, the same definitions that were in prior sugar legislation. There is one new definition to be noted. Subsection (l) contains a definition of "price range for free trade sugar," a term necessary to an understanding of the price objective discussed below.

Annual Consumption Estimate

Section 202. Directs the Secretary to determine for each calendar year the amount of sugar needed to meet consumer demands and attain the price objective of the bill. Such determination would be made in October for the next calendar year except for 1978 the determination would be made within 15 days after the effective date of the legislation.

The price objective is the median of the price range for free trade sugar under the International Sugar Agreement, that is, the range from 15 to 19 cents per pound. The lower price is the price at which International Sugar Agreement export quota restrictions are activated and any necessary stock accumulation begins, and the higher price is the price at which International Sugar Agreement special reserve stocks of sugar must first be made available for sale to the free market, all as set out in Article 44 of the International Sugar Agreement. The U.S. price objective would be adjusted quarterly on the basis of changes in the parity index and the wholesale price index, as published by the Department of Agriculture and the Department of Labor, respectively.

Quota for Foreign Countries

Section 203. Provides for the establishment of a global foreign sugar quota at the time the Secretary determines the annual U.S. sugar requirements. The amount of such quota would be the amount by which the U.S. sugar requirements exceed the quantity of domestically produced sugar available for marketing in the United States during the calendar year. The quota for 1978 would be adjusted for excess stocks on hand and sugar imported in 1978 before the establishment of the quota.

The Secretary is authorized to provide for the orderly marketing of foreign sugar by means of quotas on a quarterly basis, if such action is necessary to achieve the price objective. The Secretary would be required to establish quotas on a quarterly basis when prices are below the objective by 5 percent or more for 20 consecutive market days.

Adjustments in Foreign Quota

Section 204. Provides for increases in the foreign quota whenever the Secretary determines there will be a deficit in domestically produced sugar because of reduced plantings, adverse crop conditions, etc. This action would not involve a change in the U.S. sugar requirements but instead a shift in the source of supply in order to assure the full distribution of the amount of sugar to meet consumer needs.

Import Fee

Section 205. Provides for an import fee to support the domestic price of sugar at the level of the price objective. Whenever the average of the daily prices of raw sugar, adjusted for freight to New York and the applicable tariff and fees, is less than the price objective for 20 consecutive market days, the Secretary would be required to establish an import fee in such amount as will achieve the price objective. The Secretary could, in his discretion, establish such fee at any time within 20 market days after the enactment of the bill. The fee would be adjusted from time to time (not more frequently than once each quarter) and funds collected as fees would be deposited into the Treasury as miscellaneous receipts.

Importation of Direct-Consumption Sugar

Section 206. Provides that none of the import quota may be filled by direct consumption (refined) sugar, except under emergency conditions arising from a shortage of refining capacity in this country.

Suspension of Quotas and Fees

Section 207. Requires the Secretary, in order to protect the interest of consumers, to suspend any quota and import fee whenever he finds that the average of the daily prices of raw sugar, adjusted for freight to New York and the applicable tariff and fees, exceeds the price objective by more than 20 percent for 20 consecutive market days. The suspension would continue until such time as the average market price drops below the trigger price for the suspension. The Secretary would then have to reestablish the quota and fee as required to achieve the price objective.

Sugar-Containing Products

Section 208. Provides for quotas on sugar-containing products or mixtures, or beet sugar molasses, as a means of preventing circumvention of the objectives of the bill. The section also provides certain guidelines for consideration by the Secretary in making his determinations and the standards for determining the amount of the quotas.

The Secretary is also required to limit the quantity of sweetened chocolate, candy and confectionery described in certain items of the

C-3

30-306 O - 78 - 16

Tariff Schedules of the United States. The limitation would be determined in the last quarter of each year, beginning with the calendar year 1979, and the amount could not exceed the larger of (1) the average imports during the 3 years immediately preceding the year in which the determination is made, or (2) a quantity equal to 5 percent of the amount of like domestic products sold in the United States during the most recent year for which data are available.

Prohibited Acts

Section 209. Prohibits any person from importing or bringing into the United States any sugar or sugar-containing product after the applicable quota has been filled. There is also a prohibition against exporting either domestically produced or imported foreign sugar, except sugar imported under bond for purposes of exporting an equivalent quantity as sugar or in manufactured articles (i.e., canned fruit) with benefit of drawback of duty under the Tariff Schedules.

Determination in Terms of Raw Value

Section 210. Provides for quotas and related determinations to be made in terms of raw value and for liquid sugar to be included with sugar in the establishment of quotas.

Exportation of Sugar

Section 211. Specifies the conditions under which sugar may be exported, as explained above.

Exemptions From Quotas and Fees

Section 212. Provides that the quota and fee provisions of the bill shall not apply to: (1) The first 10 tons of direct-consumption (refined) sugar imported from any foreign country in any quota year; (2) the first 10 tons of sugar imported from any foreign country in any quota year for religious, educational or experimental purposes; (3) liquid sugar imported in individual sealed containers no exceeding a capacity of 1¹⁄₁₀ gallons each; or (4) sugar imported for livestock feed, or for the production of alcohol for other than human consumption.

TITLE III—GENERAL PROVISIONS

The provisions of this title of the bill are largely of a routine nature.

Rules and Regulations

Section 301. Authorizes the Secretary to issue necessary rules and regulations and prescribes a fine for any person convicted of knowingly violating any such rule or regulation.

Jurisdiction of Courts

Section 302. Vests in the Federal district courts certain enforcement powers relating to both criminal and civil actions.

Civil Penalties

Section 303. Provides for civil penalties for any person who knowingly violates any of the provisions (prohibited acts) of section 209 of the bill. The amount of such penalty is three times the value of the sugar or other product covered by the quota.

Furnishing Information to Secretary

Section 304. Requires the furnishing of certain information by sugar manufacturers, marketers and users, as the Secretary deems necessary to enable him to administer the legislation.

Investment by Officials Prohibited

Section 305. Persons acting in an official capacity in the administration of the legislation would be prohibited from investing or speculating in sugar or contracts relating to sugar, or in the stock of sugar companies. Any person convicted of violating this section would be subject to severe penalties.

Suspension of Domestic Program

Section 306. Empowers the President to suspend the domestic sugar program (title II) during times of national emergencies.

Surveys and Investigations

Section 307. Authorizes the Secretary to conduct such surveys and investigations as may enable him to accomplish more effectively the purposes of the legislation. Also, the Secretary is required under specified conditions to determine and announce a daily spot price for raw sugar, New York basis.

Termination

Section 308. Provides that the legislation shall terminate on December 31, 1982.

Senator MATSUNAGA. Our final witness is Mr. Arnold Mayer, legislative representative of Amalgamated Meat Cutters and Butcher Workmen of North America.

We will be happy to hear from you.

STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN OF NORTH AMERICA

Mr. MAYER. First of all, I want to congratulate you on your endurance. They apparently make them pretty tough in Hawaii to sit through all of this whole day of palaver.

I might also say that I hope when the committee meets to mark up this legislation it will follow the Biblical adage that the last shall be first.

Senator MATSUNAGA. You are in my book.

Mr. MAYER. Mr. Chairman, I would like, with your permission, to to have my statement placed in the record.

Senator MATSUNAGA. Without objection it is so ordered.

Mr. MAYER. I would like also to place in the record my statement to the House Agriculture Committee of 1974 and 1975 since it embellishes on certain points in my testimony today.

Senator MATSUNAGA. Without objection, it is so ordered.

Mr. MAYER. Also, Mr. Chairman, I have a letter from Andrew J. Beimiller, director of legislation of the AFL-CIO, addressed to you. I would like to read it.

DEAR MR. CHAIRMAN: In continuation of its efforts to seek major protections and benefits for sugar field workers, the AFL-CIO endorses the testimony of its affiliate, the Amalgamated Meat Cutters and Butcher Workmen of the AFL-CIO.

The AFL-CIO believes that Congress has a deep responsibility to assure that industry benefits resulting from Government actions are shared with sugar field workers in the continental United States. These laborers are employed in an industry which, for decades until 1975, was immensely subsidized and protected as few other industries in our Nation. Yet its field workers lived in squalor and misery.

The AFL-CIO sees no reason for legislation to protect the sugar industry against the world market once again unless that legislation also provides decent wages and working conditions for sugar fieldworkers in the continental United States.

It would be a mockery to enrich growers while continuing the extreme poverty of sugar field workers.

Sincerely yours,
Signed, ANDREW J. BIEMILLER.

I also have a letter addressed to you with similar sentiments from Harold G. Paster, legislative director of the United Auto Workers and, with your permission, I would like to have those made a part of the record.

Senator MATSUNAGA. Without objection, it is so ordered.

Mr. MAYER. Thank you, Mr. Chairman.

[The materials referred to follow:]

STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO), BEFORE THE COMMITTEE ON AGRICULTURE, U.S. HOUSE OF REPRESENTATIVES, FEBRUARY 21, 1974

My name is Arnold Mayer. I am the legislative representative of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO). The Amalgamated is a labor union with 500,000 members organized in about 700 local unions throughout

the United States and Canada. The Amalgamated and its local unions have contracts with thousands of employers in the meat, retail, poultry, egg, canning, leather, fish processing, sugar refining, and fur industries.

REGULATED INDUSTRY

We are appearing before the committee today to urge legislation which will provide better conditions for farm workers. This action by the Amalgamated is not unusual since our union has championed farm labor reform efforts for decades. What is different about our current testimony is that we are urging Federal actions in an industry which is already controlled, regulated and subsidized by the Government. In the sugar industry, production quotas are set and enforced; Federal payments of about $90 million are made annually, and foreign imports are specifically restricted.

The industry is dominated by large firms which either grow sugar directly or indirectly control production. Sugar producers are the only growers who are not limited by law to a maximum Federal payment of $20,000 a year. The legislation passed last year makes sugar—alone among all the commodities—free of any payment limitation.

WELL-ORGANIZED INDUSTRY

Another important point about this industry is that it is the only large segment of agriculture in which collective bargaining exists between the processing companies and the growers. Grower associations bargain with the firms on conditions of sale of their products.

We shall not propose any changes in either these conditions or in any parts of the Sugar Act other than the labor provisions. We are mentioning these factors to point out the highly organized and highly controlled nature of the domestic sugar industry. We want to show that fieldworkers are deprived outsiders in the system of Federal income protection which has been built over the years in sugar legislation. We want to urge that justice, equity and political realities require that these workers now share fully in the government aid and protection provided to this industry.

LABOR PROVISIONS

We recognize that the Sugar Act does establish certain labor conditions: the banning of child labor and the establishment of "fair and reasonable" rates of pay. But we submit that these provisions have not worked to guarantee the sugar worker anything but a subsistence poverty income. He, like other farm workers, is in the deepest and direct poverty.

Other witnesses will present detailed views of the plight of farm workers. We shall not burden the Committee with repetitions, but we do want to present just a few insights on labor conditions.

In Louisiana, the work performed by farm workers is mostly highly skilled. Production, cultivation and harvesting are mechanized. Two corporations, South Coast Corp. and Southdown Lands Inc., which are parts of conglomerates, dominate sugar production. Yet the minimum wages set by the Agriculture Department under the Sugar Act for production and cultivation work is $2.00 an hour for tractor drivers and $1.90 for all other workers. For harvest work, harvester and loader operators receive $2.10 an hour; tractor drivers, truck drivers, harvester bottom blade operators and hoist operators $2.05, and all other workers $1.90.

For sugar beet work throughout the country, a minimum wage of $2.15 an hour was set for the 1973 season. Piece rates are also established and a worker can earn more, but the piece rates are based on the $2.15 an hour standard.

FOREIGN WORKERS

In Florida and Texas, tractor drivers and principal operators of mechanical harvesting and loading equipment get a $2.45 an hour minimum, according to the Department's determination. All other workers, including those employed to assist in the operation of mechanical harvesting and loading equipment, such as harvester cutter blade operators, earn $2.15.

The Florida sugar employment situation is interesting. Virtually all—if not all—of the labor consists of imported foreign workers from the Caribbean. The grower associations claim that they cannot get American workers—as the bracero users did before Public Law 78 expired. But the fact is that they prefer the foreign workers

and have lobbied intensively to prevent the establishment of conditions which would assure the availability of U.S. labor. For the alien workers are like indentured servants and they must be docile.

They are not free men who can decide to work or quit or seek other U.S. employment. They must work for the association which contracted for them and do as they are told. Otherwise, they are sent back to the massive unemployment of their home islands with only additional debts to show for their efforts.

In Hawaii, sugar workers are organized into a Union, Local 142 of the International Longshoremen's and Warehousemen's Union. Currently, wages range from $2.85 to $4.80½ an hour. Contract neogtiations will get underway shortly and these sessions will result in higher pay for workers in all categories. In addition, these workers get the usual fringe benefits provided in a union contract and they are covered by unemployment compensation and workmen's compensation. This is an example of what can be done in the sugar industry.

CARDS STACKED AGAINST WORKERS

Sugar wage determinations are made after the Department of Agriculture holds hearings annually around the country. The testimony is an important factor in the determinations, according to the Department. From the workers' standpoint, the hearings are a farce.

Those parts of the industry which have an interest in keeping wages down organize well for the hearings. Sugar workers cannot match their efforts. The workers are poorly organized and are unable to hire expert assistance. In some areas, they are aided by groups such as our Union, but overall, they lose hands-down in the competition with their adversaries in research, presentation and argumentation—not to mention political power. It is not rare for hearings in a particular area to be held without anyone presenting the field and processing workers' case at all.

Other criteria for the wage determination are incredibly one-sided, too. For example, among the major factors are the wage rates for other farm work and the income of other farm workers. These criteria establish a vicious cycle and perpetuate it. Farm labor wages and earnings are abysmally low in part because the minimum wages established by the Sugar Act are low. And the Act's minimums are low because farm labor wages and earnings are low.

GROWER INTERESTS DOMINANT

Interestingly, although the highly mechanized and skilled work has many counterparts in non-agricultural industries, these wage rates are not used in the determination. Nor is the fact that this is a subsidized, highly controlled industry considered when the comparisons with non-subsidized work, such as vegetable production, are made.

The decisions on the minimum wages are made by the Sugar Division of the Agricultural Stabilization and Conservation Service. Not only does this agency enforce the other provisions of the Act, but those other parts are of far greater interest and concern to the Division than the farm labor requirements.

In fact, the men making the determinations generally have worked a good part of their lives with the industry groups which have a self-interest in keeping farm labor wages low. Some come from that part of the industry; others go to work in it after they leave the Department. Farm labor is of secondary interest at best to the Division or to the Department of Agriculture. Their major obligation is to maintain grower income.

How badly the cards are stacked against farm workers under the Sugar Act is shown by the "enforcement procedures" of the minimum wage regulations. If a group of workers feels that they have not been paid the required minimum or if they have any wage disputes with a grower, they must go to the local Agricultural Stabilization and Conservation Committees. These Committees are—again according to government regulations—composed exclusively of growers. There are no field or processing workers on them!

FURTHER EXAMPLE OF BIAS

A further example of the extreme bias of the Department of Agriculture against these workers—whom it is supposed to protect according to the Sugar Act—is apparent from the history of the 1971 Louisiana wage case. Growers and workers expected the Department to order a 10 cent an hour wage increase before the

harvest began in October of that year because this had been the Department's practice for several years. The growers' expectation was apparent from their testimony in the 1971 Louisiana wage hearings.

Instead, the Department used the August-November 1971 wage freeze to postpone an increase. It added insult to injury by ordering the 10 cent an hour increase to take effect on *January 10, 1972* when the harvest season in Louisiana was completed and little work was available.

Our Union and other groups pointed out that (1) the wage-price freeze did not affect raw agricultural products, such as sugar; (2) the freeze ended on November 13, 1971 and not January 10, 1972; (3)Congress specifically provided for retroactive pay for wage increases due in the freeze period, and (4) Congress specifically exempted low-wage workers, such as the sugar workers, from the freeze or wage controls. When the Department was forced to answer these points in Congressional hearings, its officials changed their story. It was not the freeze which had caused the "delay" in the increase, they declared. It was weather and market conditions.

Why did the original determination announcing the "delay" fail to mention the weather and market conditions? Why was only the wage-price freeze given as the reason in the official determination if that was not the "cause"? The Department officials did not have any answers.

A suit was filed against the Department. U.S. District Court Judge John H. Pratt quickly denounced the Department's action and ordered a 10-cent-an-hour increase for all workers during the entire harvest season beginning in October, 1971. The Department undertook a number of maneuvers to evade the decision and Judge Pratt knocked down each and every one of them.

That is how the Department of Agriculture performs its legal responsibility to protect these workers.

TIME FOR CHANGE

Mr. Chairman and Gentlemen of the Committee, it is time for a change. It is time that these workers and their families share in the public aid which is bestowed upon the sugar industry. A bill for that purpose has been introduced by Representative William D. Ford, Chairman of the House Agricultural Labor Subcommittee. That measure would provide an automatic and fair means of determining wages using increases in the most of living and the rises in productivity as determinants. It would bring to the sugar workers and their families some of the fringe benefits which are common in private and government employment throughout the U.S. It would establish an impartial means for settling grievances between workers and their employers.

We urgently recommend this legislation to you as an amendment to the Sugar Act. Its inclusion in the Act would make the Act of benefit to workers as well as other parts of the industry. It would truly make the Act and its public aid into an instrument of benefit to all parts of the industry.

Thank you very much, Mr. Chairman and Gentlemen of the Committee, for the opportunity to present our views.

STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE, OF THE AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO), BEFORE THE AGRICULTURE COMMITTEE, U.S. HOUSE OF REPRESENTATIVES, JULY 22, 1975

My name is Arnold Mayer. I am the Legislative Representative of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO).

The Amalgamated is a labor union with 500,000 members organized in about 450 local unions throughout the United States and Canada. The Amalgamated and its local unions have contracts with thousands of employers in the meat, retail, poultry, egg, canning, leather, fish processing, sugar refining and fur industries.

Our Union testified at length before this Committee last year on the exploitation, the poverty and the misery of some 82,000 men and women who cultivate and harvest sugar cane and beets in the continental U.S. We discussed the difference between immense protections and subsidies which had been provided to growers and the abject poverty which had been decreed for workers by the federal government.

That testimony is still relevant. It gives examples of what should not be allowed to happen again if a new Sugar Act is legislated. We shall summarize some of the points of that testimony here. But to make lengthy repetition unnecessary, I respectfully request that our Union's February 21, 1974 statement be made a part of the record of the hearing today.

IMMENSE PROFITS

The year 1974 was incredibly profitable for the sugar industry. Net returns rose geometrically for growers, processors and refiners. Here is what the Council on Wage and Price Stability's recent *Staff Report on Sugar Prices* says:

"The USDA annually calculates total net returns to sugar cane growers and processors based on their gross returns minus their estimated costs of production (derived from the BLS Wholesale Price Index, parity index, and trend lines based on field surveys). In 1974 the total net return to Florida growers (including government payments) was $20.219 per hundred weight of raw sugar, an increase of 157 percent over the previous year and an increase of 929 percent over the average for the previous nine years. The average cane grower in Louisiana earned $16.532 per cwt. In 1974, an increase of 940 percent over 1973 and an increase of 2,500 percent over the average for the previous nine years * * *

"A USDA study indicates that sugar beet production has been quite profitable during the last twenty years. It found that grower's income as a percentage of net worth ranged between 15 and 37 percent for a sample of crop years between 1955 and 1972. For the 1972 crop year, growers earned an average 32 percent return on net worth. The net return to the grower for the 1973 crop year increased 373 percent over 1972 to $6.809 per cwt, which would imply a better than 100 percent return on equity, if equity did not grow.

"Based on an estimated net selling price of $.40/lb. for sugar for the 1974 crop, the growers' net returns have been estimated to be $16.695 per cwt., an increase in net return of 1079 percent over 1972 and 149 percent over 1973 earnings. Thus the growing or sugar beets has been very profitable in the past and has become substantially more profitable in the last two years."

PUNY WAGE INCREASES

Processors and refiners also participated in the bonanza, but since this testimony concerns sugar field workers, we shall not delve into their good fortune. The only part of the sugar industry left out of the richness was the overwhelming majority of the workers. Amid the geometrically rising industry profits and the rapidly increasing cost of living in 1974, sugar field workers in the continental U.S. received average wage increases of 15 percent on top of their poverty wages of 1973.

The USDA determined these increases in response to the Sugar Act requirement that the Secretary establish "fair and reasonable" wages. Concerning these determinations, the Council on Wage and Price Stability said the following in its recent report:

"* * * In the February 1974 determination for sugar beet workers, the Secretary estimated that the cost of living increase should be 6.2 percent and that the 1974 crop return would be less favorable than in 1973. By the time of the Fall 1974 sugar cane determinations, however, the Secretary estimated that the cost of living increase should be 11 percent and that the 1974 crop would be more profitable than the 1973 crop. By November 1974, both the 1974 cost of living indicators and the sugar growers' net returns for the 1974 crop had increased substantially beyond the Secretary's estimations * * *"

USDA therefore arrived at the following minimum wages for the harvest of 1974, as compared with those for the 1973 harvest:

	1973	1974	Increase (percent)
Sugar beet workers	$2.15	$2.30	7
Sugarcane workers—tractor drivers and principal operators of machines:			
Louisiana	2.05	2.50	22
Florida and Texas	2.45	2.75	12
All other workers:			
Louisiana	1.90	2.30	21
Florida and Texas	2.15	2.45	14

At the time of some of these determinations, the USDA knew very well the likely extent of 1974 cost of living increases and that year's industry profitability. There was ample evidence to determine larger wage increases. But let us give the Department the benefit of the doubt and say that evidence may not have seemed conclusive.

DENIAL OF BONUSES

In December 1975, however, the conclusive data was readily at hand. Several organizations officially petitioned the Department for a bonus for sugar field workers. There was ample precedent for such retroactive pay in the action which the Secretary took on his own volition in 1963 because of sharply increased grower profits and in the action which he was ordered to take by a federal court in 1972 because of the USDA's refusal to grant an increase the year before.

But USDA not only rejected the bonus request; the Department also joined the growers in fighting a subsequent court case concerning it. The U.S. District Court of the District of Columbia dismissed the sugar workers' suit on January 30, 1975 on the grounds that it did not have jurisdiction to review the Secretary of Agriculture's factual determination of fair and reasonable wage rates.

The growers did not voluntarily share some of their bonanza with workers either. There are reports that a few small Louisiana growers did provide meaningful cash bonuses and one major grower magnanimously provided a half-gallon of cheap wine to each of his workers. But the overwhelming majority of the workers in Louisiana, Florida, Texas and the beet areas got no extra compensation.

The Council on Wage and Price Stability, like its predecessor, the Cost of Living Council, is not noted for its friendliness toward wage increases sought by workers. However, in its report it said that any bonuses paid out of the sugar industry's windfall "are not inflationary and seem equitable." It added, "However, we have no way of requiring bonus payments by growers who have not already made them."

Nor do the 1975 wages reflect the tremendous prosperity of the industry. On the contrary, the expiration of the Sugar Act first resulted in a reduction of the hourly wage rate for cultivation in some areas, but this situation appeared to cause some unrest and loss of productivity, so the wages returned to approximately the 1974 minimum rates where, we are told, they remain today.

ABJECT POVERTY

This treatment of the sugar workers is not unusual. It is only another incident which is highly consistent with their past plight.

For some 30 years under the Sugar Act, the growers and other parts of the industry basked in great government protection and benefits. Production quotas were set and enforced. Federal subsidies of about $90 million were paid annually. And foreign imports were specifically restricted. Yet, their workers lived and still live in some of the worst poverty in our nation.

Sugar workers and their families do not earn a sufficient income to feed themselves or to afford other absolute essentials of life. They get an average of about $3500 a year. That income represents a fraction of the U.S. government-established poverty level. No matter whether they are local people who work on cane in Louisiana or migrants who follow the sugar beet harvest, they can find work only during a fraction of the year.

In Louisiana, workers live on plantations in similar misery as they did one hundred years ago. They are in debt to the company throughout their lives as a result of their low wages and the exorbitant prices charged by the company store. Needless to say, the debts, which increase continuously despite the hard and difficult work of the laborers, assure a docile work force which is tied to the plantation.

POOR HEALTH

The poverty of the workers and their families is reflected in their poor health. Testimony was delivered to the Committee last year concerning a Tulane University medical survey among a sample of Louisiana sugar field workers and their families. The survey showed that "of 37 adults, only two were found to be medically normal and only eight were not in need of medical care."

The children were found to be somewhat healthier because "16 out of 70 were completely healthy." The witness told the Committee that the survey's "most devastating finding was the high incidence of gross development and mental retardation" among the children. This is probably due to the inadequate diets and other poverty factors.

In many areas of the nation, these families would be eligible for welfare payments, food stamps and other aid. But the growers and processors, who control the sugar areas politically, are not about to "spoil" their workers. It could make the laborers more difficult to exploit.

The housing is provided free of charge in many cases. But the shacks usually are incredibly primitive and in terrible condition. Yet, they serve the purpose of further tying the workers to the plantation in Louisiana.

ECONOMIC DISCRIMINATION

The economic discrimination which the workers and their families—who are black in Louisiana and usually chicano in Texas and the beet fields—face in the sugar production areas has been matched on a national level. The U.S. Department of Agriculture, which was supposed to set a "fair and reasonable" wage rates and otherwise aid them, simply joined the corporations to assure the workers' exploitation and poverty.

Time and time again, the courts have overturned actions which USDA took against the workers and for the growers. This includes the federal court decision knocking down the Department's 1971 efforts to use the national wage freeze to deprive these workers of a 10-cents-an-hour pay increase. These workers had been clearly exempted from the Presidential and Congressional wage stabilization actions, but USDA, nevertheless, did its best for the sugar corporations. The USDA bias against these workers should not be surprising since the top personnel of its Sugar Division often ended up with high-paying jobs in the industry after retirement from government service.

MINIMUM WAGES

The minimum wages, which were set by the U.S. Department of Agriculture annually, under the Sugar Act were higher than the minimums provided other farm workers under the Fair Labor Standards Act. The minimum wages for sugar field workers was generally their maximum wages, too. Pay on the more socially-conscious plantations went 5 or 10 cents an hour higher than the minimums for long-time and valued employees. Only in Hawaii are the field workers organized in unions and there wages generally were about double the USDA minimums.

We have previously listed the most recent minimum wages determined under the Sugar Act. I would like to mention one additional government action which was and is aimed at keeping sugar field wages at sub-poverty level even though the workers were employed in a highly subsidized and protected industry. In Florida, the sugar harvest is unusually difficult and dangerous because the cane grows in swamps. U.S. workers are loath to harvest the cane for the low pay offered. But the Florida sugar corporations do not have to pay whatever wages are needed to attract American labor.

The U.S. Government helps the corporations import Jamaican and Bahamian workers for the harvest season. These laborers are semi-captives. They are not free to seek work in another industry or even to hire out to another farm employer. Their choice is to work for the group which imported them or to go back home. Since the poverty and unemployment on their islands are even more severe than among U.S. sugar workers, the imported workers are frightened and docile hands.

We could go on listing the deprivation of and discrimination against sugar field workers, but the time of the Committee is limited. We could also point to the many services still provided by the federal government to the industry at the taxpayers' expense—such as the immense research performed by the Agricultural Stabilization and Conservation Service—but other witnesses will deal with that.

WORKER PROTECTIVE PROVISIONS

Let us simply say that our Union, as well as the rest of organized labor is determined that the sub-poverty conditions of the sugar field workers be ameliorated and ended. We shall seek legislation to improve their situation.

We have no objection to a reenactment of some form of the Sugar Act. In fact, our Union and the rest of labor will support a bill which will again protect the sugar industry, but only on the condition that such legislation is fair to consumers and provides a procedure for determining much better wages, working conditions and protections for the long-suffering sugar workers.

We respectfully urge the Committee to consider the plight of sugar workers and to legislate protective provisions for these 82,000 hard-working people who have previously gotten little else but the back of the hand from their government. Thank you very much.

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., May 8, 1978.

Hon. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Tourism and Sugar,
Committee on Finance, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In continuation of its efforts to seek major protections and benefits for sugar field workers, the AFL-CIO endorses the testimony of its affiliate, the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO).

The AFL-CIO believes that Congress has a deep responsibility to assure that industry benefits resulting from government actions are shared with sugar field workers in the continental U.S. These laborers are employed in an industry which for decades until 1975 was immensely subsidized and protected as few other industries in our nation. Yet, its field workers lived in squalor and misery.

The AFL-CIO sees no reason for legislation to protect the sugar industry against the world market once again unless that legislation also provides decent wages and working conditions for the sugar field workers in the continental U.S. It would be a mockery to enrich growers while continuing the extreme poverty of the sugar field workers.

Sincerely yours,

ANDREW J. BIEMILLER,
Director, Department of Legislation

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW,
Washington, D.C., May 8, 1978.

Hon. SPARK M. MATSUNAGA,
Chairman, Subcommittee on Tourism and Sugar,
Committee on Finance, United States Senate, Washington, D.C.

DEAR MR. CHAIRMAN: The United Auto Workers has long sought improvements in the conditions of the poverty-stricken and exploited sugar field workers. We shall renew these efforts during the current consideration of new sugar legislation.

We shall not take the time of the Subcommittee to testify on the problems and needs of sugar field workers since the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO) will appear before you to speak on exactly this issue. We endorse its testimony.

The UAW believes that any legislation or government action to increase the earnings of growers must be accompanied by requirements to improve the very low wages and miserable working conditions of sugar field workers in the continental U.S. The UAW strongly urges the Subcommittee to write significant and meaningful labor provisions into the legislation. We would be forced to oppose any sugar legislation which did not provide major benefits for sugar field workers.

Sincerely yours,

HOWARD G. PASTER,
Legislative Director.

Mr. MAYER. Mr. Chairman, very briefly, we want to call attention to the very low wages and poor working conditions of sugar field workers in the contiental United States. As you know, only in your State of Hawaii are decent wages being paid to those who cultivate and harvest sugar.

Sugar field workers in Louisiana live on plantations in conditions that are similar to 100 years ago. In the beet fields, they have all the problems that agricultural migrants have.

Since the termination of the Sugar Act and until January of this year, these workers had a steadily declining real income. Their incomes generally stayed at around $2.20 or $2.30 an hour.

At the beginning of this year, in most of the cases, their wages went up to $2.65 with the increase of the Fair Labor Standards Act minimum wage.

We supported the legislation in 1977 because we thought the industry should survive and we also hoped that it would increase wages of workers. The minimum wage provision in the bill proved to be a dead letter since it was interpreted by USDA to concern only those growers who would take out price support loans—and apparently very few growers have.

Also, workers were shortchanged on the minimum. In fact, foreign workers in Florida last year earned $3.23 an hour and the minimum wages determined by the Secretary ended up being far less than that—considerably less, and less even in Florida. U.S. workers earned less than foreign workers did even though they did the same work in their own country!

Mr. Chairman, our organization, the AFL-CIO, UAW and other groups must oppose any legislation to provide new benefits for growers unless there are major improvements in the wages and working conditions of sugar field workers in the continental United States.

We are suggesting in our testimony a series of provisions which are based on the labor provisions approved by the House committee and approved by the House by overwhelming margins, in 1974.

We believe these provisions are justified; they are not "pie in the sky." They were provisions which the House approved before the act itself went down.

We hope that labor provisions for major benefits and major improvements in wages for these poverty-stricken workers can be worked out. Othewise we shall be forced to oppose the bill and lead a coalition, as we did in 1974.

Mr. Chairman, I need not go to any great extent because you know the conditions; you know what the situation is like and we appreciate the past concern you have shown with this situation. We also appreciate the fact that Hawaii is the one example where field workers are getting decent wages as a result of collective bargaining between the ILWU and the growers.

Senator MATSUNAGA. Thank you very much, Mr. Mayer and thank you for being so patient, waiting until this hour to testify.

We had quite an experience working together. Unfortunately the 1974 act failed for various reasons. One of the reasons, as I recall, was that, while we passed the amendments that labor offered, labor was not able to get to its own members in time to get the vote lined up. I hope this time, at least, we will avoid that unfortunate circumstance.

Mr. MAYER. Mr. Chairman, if you will recall, back in June 1974 and before that, we urged the industry to come to an agreement with us so that we could back the bill early. That proved impossible because the industry thought they could lick us.

We pointed out that the last labor provision was one of the last provisions of the bill and that it would leave very, very little time to support the bill. We also pointed out on June 4—I discussed this matter with you and other friendly members of the committee then—that we go through the amendments and if the labor provisions passed, hold up action on the motion to recommit and final passage until the next day, which would have been June 6. In this way, we could get around and discuss our belated support of the bill. Again, that was not done and so what we said could happen, did happen.

I have a memo here which I think I shared with you back in those days on the situation. If you would like, it could be a part of the record.

Senator MATSUNAGA. It need not be. We do not need to rehash that. We are friends.

Mr. MAYER. Right. On that point, may I say that we did support you and we are delighted that we did.

Senator MATSUNAGA. I wish you had exercised your influence over the ILWU.

I thank you again, Arnold, for appearing before this subcommittee and perhaps, if I had been subcommittee chairman in 1974 on the other side, things might have developed a little differently.

Mr. MAYER. I am sure they would have, Mr. Chairman.

Senator MATSUNAGA. Thank you again for your testimony.

Mr. MAYER. Thank you.

[The prepared statement of Mr. Mayer follows:]

STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO)

SUMMARY

Sugar field workers in the continental U.S. are among the poorest of poor in the nation. In Louisiana, many live on plantations in conditions similar to those existing 100 years ago—in poverty, deprivation, bad health and in debt to the company store. In the beet fields, they suffer all the problems inherent in the life of agricultural migrants.

These workers who cultivate and harvest sugar cane and beets generally did not share in the incredible profits which growers made during 1974-75. The growers and U.S. Department of Agriculture united to prevent workers from sharing in the bonanza by successfully preventing an upward revision of the 1974 sugar minimum wage. Some growers gave workers a gallon of cheap wine as a bonus!

In the Secretary's determination of new sugar minimum wages under the Food and Agricultural Act of 1977, workers were shortchanged in four ways. But the determinations are irrelevant anyhow since the minimums set by the Secretary are required only of those growers who obtain price support loans. Few have sought these loans, but growers are paid five cents or more per pound than the world market price because of federal government actions on sugar imports.

From 1974 to January 1, 1978,—when the Fair Labor Standards Act minimum wages rose to $2.65 an hour—most sugar field workers were employed at $2.20 or $2.30 an hour. Their real wages steadily declined as the cost of living rose in the four year period. Since they are not even employed the year-round, they suffered extreme poverty and were one of the nation's poorest paid work groups. At the same time, foreign workers were imported to harvest sugar cane in Florida at substantialy higher wages—at $3.23 an hour in 1977, for example.

The mockery of justice of an increasing series of government protections and bnefits for growers without major increases for their workers must stop. Our Union will oppose any new sugar legislation which fails to provide substantial benefits for sugar field workers. We are joined in this effort by the AFL-CIO and the UAW. We shall attempt to lead a coalition of national organizations in this drive, as we did in 1974.

As labor provisions for new sugar legislation, we suggest a series of provisions based on the labor sections approved by the House of Representatives in 1974. These provisions were either reported by the House Agriculture Committee or voted by the House, itself, on June 5, 1974 by overwhelming margins.

They are (1) new minimum wage provisions, (2) hourly minimum wages as the floor under piece rate earnings, (3) accident insurance, (4) prohibition against retaliation by employers, (5) prohibition against charging employees more than reasonable costs for items and services, (6) procedures to settle disputes between workers and growers, and (7) effective enforcement and remedies procedures.

STATEMENT

My name is Arnold Mayer. I am the Legislative Representative of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO).

The Amalgamated is a labor union with 500,000 members organized in about 500 local unions throughout the United States and Canada. The Amalgamated and its local unions have contracts with thousands of employers in the meat, retail, poultry, egg, canning, leather, fish processing, sugar refining and fur industries.

PLIGHT OF FIELD WORKERS

Our Union has some 5,000 members employed in the sugar refining industry. These men and women work under union contracts providing good wages and working conditions. But we are not appearing to discuss either their conditions or to request any benefits for them. Instead, we appear to ask that any sugar legislation which may evolve from these hearings must provide higher wages and better working conditions for sugar field workers. In the continental United States, these workers are not members of any union.

Sugar field workers are among the poorest of poor in the nation. In Louisiana, many live on plantations under conditions similar to those existing 100 years ago—in poverty, deprivation, bad health and in debt to the company store. In the beet fields, they suffer from all the problems inherent in the life of agricultural migrants.

Yet, they work in an industry which has been greatly protected by the federal government. Under the program of aid and protection for growers enacted last year, consumers pay an additional $1.2 billion. Under legislation before you, another $900 million in benefits would be added.

The Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO) does not necessarily oppose aid to sugar growers. However, we believe the program would be a mockery if poverty-stricken and depressed sugar field workers were not to share through sharply higher wages and benefits.

NO SHARE IN PROFITS

It must be noted that United States sugar growers made incredible profits during 1974-75. Except in Hawaii,—where a collective bargaining agreement between the field workers and the growers was, and is, in effect—workers did not generally benefit from the immense good fortune of the growers. In fact, both sugar cane and sugar beet growers combined with the U.S. Department of Agriculture in late 1974 and early 1975 in an effort to prevent an upward reconsideration of the minimum wage under the Sugar Act. Their effort succeeded.

Not only did sugar field workers fail to get an increase from the literally obscene profits while the Sugar Act was still in effetct, they generally did not gain from the industry's bonanza afterwards either. (Some Louisiana growers provided workers a gallon of cheap wine as a bonus!)

This factor is extremely important and must be considered when the growers claim an inability to pay sizeable wage increases because of current economic conditions. We strongly urge that you consider the fact that growers were able to pay sharply increased wages in 1974-75 and refused to do so. Sugar field workers are owed money.

The pattern of wages since the end of the Sugar Act is also interesting. In some cases, economic pressures—such as proximity of industrial areas and the need to attract migrants to travel far north—did force an increase in wages although not enough to keep pace with the rise in the cost of living. However, most areas were sufficiently rural and the workers sufficiently hungry to provide or attract a large pool of labor. Wages there did not increase or increased very little over the sugar minimum wages determined in 1974 until the Fair Labor Standards Act amendments of 1977 went into effect in January, 1978.

For three years, many sugar workers were employed at wages of $2.20 and $2.30 an hour. Apparently, growers felt as little concern about these workers' and their families' receiving less and less real income as most did about the need to share the huge profits of 1974-75. Workers and their families are like the complicated machinery they operate—to be bought at the lowest possible price.

1977 LEGISLATION

Last year, Congress passed and the President signed new legislation to aid the sugar growers as part of the Food and Agricultural Act of 1977. Our Union and the rest of labor supported the sugar provision mainly for two reasons.

First, we did not want the United States industry to disappear and thereby bring unemployment to the tens of thousands of sugar field workers. The 1977 legislation brought the price of sugar up to where most in the industry could recoup their costs and perhaps even make a profit. Second, the legislation contained a modest minimum wage provision for sugar field workers as a result of an amendment sponsored by Rep. Phillip Burton.

Rep. Burton's amendment said, "In carrying out the price support program authorized by this subsection, the Secretary shall establish minimum wage rates for agricultural employees engaged in the production of sugar." In explaining his amendment, Rep. Burton told the House, "The sole intent of my amendment is to restore what was provided under the Sugar Act, no more or no less. It was not intended to reach beyond that and if it does—and I doubt it does—the conference can clear it up, because I do not intend it to go less than—nor beyond the Sugar Act."

After the legislation was enacted, a struggle ensued as to what minimum wage and how widely effective a one the Secretary should determine for the field workers. Labor, church, civil rights and anti-poverty groups were once more pitted against the growers. The determination was once again a fiasco for sugar field workers.

WORKERS SHORTCHANGED

The Secretary used the 1974 Sugar Act minimum wages as a base and added the increase in the cost of living between the time of announcement of the 1974 minimum and December 1977. For the 1978 crop, he added the estimated cost of living increase for 1977 and 1978. The determination shortchanged field workers in several respects:

(1) The base minimum wage determined for the 1974 crop did not involve the cost of living at the time of announcement, but long before. As a result, if the Secretary's logic were to be used, an increase of up to 33 percent should have been applied instead of 23 percent. And in 1978, the cost of living is likely to increase 7.5 or 8 percent instead of the 6 percent used by the Secretary.

(2) Use of the cost of living alone—even if the correct percentage had been applied—keeps sugar workers in the very same poverty which they suffered under the Sugar Act. It permits no improvement in real wages whatsoever. An improvement factor on top of the real cost of living increase should have been calculated into the minimum.

(3) Ignored in the final determination was the fact that foreign workers imported to harvest sugar cane in Florida received a minimum of $3.23 an hour last year. This wage indicated the rate to which sugar minimums would probably have gone in 1977 had the Sugar Act been effective beyond 1974 with the labor provisions undisturbed. Yet, the Secretary's determination for United States citizens employed in sugar production provided rates up to 38 cents an hour less. Even for domestic workers in Florida, the determination proposed 23 cents an hour less than for the foreign workers!

(4) The determination set no floor for the earnings of those sugar field workers employed at piece rates. Piece rates were determined, but no hourly minimum was set under the piece rates as in (1) the administration of the Fair Labor Standards Act, (2) the minimum wages paid to foreign workers employed in United States agriculture and (3) the adverse effect rate paid to the American farm workers when importation of foreign workers is considered.

But in the end, all of these factors and the entire struggle over the minimum wages determination under the 1977 legislation became irrelevant. The minimum wages set by the Secretary were required only of those growers who participated in the price support loan program. The growers who were aided only by the Federal government actions involving sugar imports to raise the prices could pay whatever they cared unless they were covered by the Fair Labor Standards Act. If FLSA was involved, they were required to pay $2.20 an hour in 1977 and $2.65 in 1978.

Very few—if any—workers benefited from the determination. Very few loans have been requested or made. And that, Mr. Chairman and Members of the Committee, is the very sad, frustrating and disappointing story of benefits for the growers and the back of the hand for field workers under the 1977 legislation.

ADDITIONAL GROWER BENEFITS PROPOSED

And now, you are considering legislation to provide billions of dollars more in income for sugar growers through protectionist actions by the United States government. This is government assistance on top of that which already assures grow-

ers a United States price some five cents a pound above the world market price. Yet, the legislation which you are considering does not contain one word about the plight of sugar field workers. These men, women and children are again of no concern. They are only implements to be used by those very deserving landowners for whom the government simply can not do enough!

Our Union has no opinion at this point concerning the benefits proposed for the growers. We do have a definite view on the relationship between the additional benefits for the growers and the needed improvement in the wages and working conditions for sugar field workers.

We say to you flatly that we shall strongly and vigorously oppose any new sugar legislation which does not provide major and effective improvements in the wages and working conditions of sugar field workers in the continental United States. We have already been assured by the AFL-CIO and the UAW that they will strongly support this position. We shall attempt to organize again the widespread coalition of national organizations which was active on behalf of sugar field workers in 1974.

LABOR PROVISIONS

Listed below are a number of labor provisions which we propose to you. They are based upon the labor provisions approved by the House of Representatives on June 5, 1974. Except for the wage proposal, these provisions were either contained in the legislation reported by the House Agriculture Committee or were added by the House, itself, by overwhelming votes.

We suggest the following:

1. *Wages*—The provision approved by the House was complicated. It set hearings by Administrative Law Judges and criterias for determination by the Secretary. A simpler procedure may be better.

We would suggest that the legislation set a wage rate of $4.00 an hour for the 1978 crop for workers other than tractor drivers, truck drivers and operators of mechanical equipment. The skilled workers would get higher rates. Thereafter, the basic wage rate should be increased or decreased each crop year by the percentage increase or decrease in the cost of living. In addition, the rate would be increased annually by an improvement factor of 4 percent. The Secretary's determination would be subject to judicial review.

2. *Piece Rate Protection*—An hourly minimum wage would be required as the floor for earnings of workers employed at piece rates.

3. *Insurance*—Insurance would be required for workers against accidents which occur while the employee is at work for the grower.

4. *Prohibition Against Retaliation*—Employers would be prohibited from retaliating against workers for exercising their rights under the labor provisions.

5. *Reasonable Costs*—Employers would be prohibited from charging workers more than reasonable costs for items or services furnished to the workers.

6. *Disputes Machinery*—Disputes between workers and growers concerning wages and other labor provisions would be resolved by attorneys from the Office of the General Counsel of the U.S. Department of Agriculture with an appeals procedure provided through the judicial officer of USDA to the U.S. District Court.

7. *Enforcement and Remedies*—An effective enforcement procedure for the labor provision must be included. This procedure must provide not only penalties against employers for violations, but also compensation for the aggrieved employees.

WAGE PROVISIONS

We are submitting with this testimony the statements which we delivered before the Agriculture Committee of the House of Representatives in 1974 and 1975. The first statement provides information on the unfair administration of the old Sugar Act and helps to explain the need for several of the proposals suggested above. The second statement provides information on the incredible profits which growers made in 1974–75 and their general refusal to pay higher wages to sugar field workers in the continental United States.

In addition, we would like to explain here the need for two of the wage provisions which we are proposing:

First, the minimum wages for sugar field workers must be far above that established by the Fair Labor Standards Act. The reasons are simple: The FLSA wage is the absolute minimum which a covered employer must pay. It is the wage rate demanded from growers who have little or no price protection from the federal government, vegetable growers, livestock raisers, poultry producers, etc.

Under the old Sugar Act and under the proposed legislation, massive protections and benefits were provided and are contemplated for sugar growers. Sugar workers should and must share in the government-provided bonanza. This fact was recognized in the Sugar Act and preceding legislation. While their provisions for workers were inadequate and their administration gave workers as little benefit as the law could be pushed to allow, their minimums preceded the Fair Labor Standards Act minimum wage for agricultural workers by some 32 years. In 1974, the last year of the Sugar Act, the sugar minimum exceeded the FLSA minimum for agricultural workers by 44 percent.

Second, we would like to explain the need for an hourly minimum wage rate to serve as a floor for the earnings of piece rate workers. As we have previously said, a minimum hourly wage is currently set under (1) piece rates in the administration of the Fair Labor Standards Act, (2) the minimum wages paid to foreign workers employed in the United States agriculture and (3) the adverse effect rates paid to American farm workers when importation of foreign workers is considered.

There is really no way to determine piece rate income objectively. The variations involved in cultivation and harvesting conditions are immense. The factors which can vastly change the operation of the piece rate regardless of the ability or effort of the worker are great. Weather, previous harvesting and other factors—over which the worker has no control whatsoever—intervene. The establishment of a floor under the piece rate is therefore essential.

Undoubtedly, many growers will argue an inability to pay higher wages. We urge that you reject these views. Again, we must call your attention to the all-important fact that workers did not benefit in any meaningful way in the growers' incredibly great ability to pay in 1974-75. In fact, the growers spent great amounts of money on lawyers and lobbyists to prevent a reconsideration of the 1974 minimums.

Also important, Hawaiian producers are demonstrating that the industry can pay wages above any sharply increased minimum which you are likely to determine. Hawaiian growers have a collective bargaining agreement concerning wages and working conditions with their field and other workers. As a result, field workers earn about $5.00 an hour and more.

And it can not be repeated too often that foreign workers specifically imported for the Florida sugar harvest were paid a minimum of $3.23 an hour last year or about $1.00 an hour more than United States citizens doing the same work. Like in Hawaii, these are not theoretical wages, they are real wages.

A CRY FOR JUSTICE

Mr. Chairman and Members of the Committee, we are making a cry for justice to you. We are making it on behalf of men and women who are not members of our Union or any other Union. We are urging action on behalf of human beings who often do not earn enough to feed and clothe their large families, who can not get year-round work, who generally live in incredibly bad housing, who are born into debt and die in debt, who suffer illness without proper medical attention, who live in the most miserable of poverty and deprivation. Their political powerlessness has prevented their sharing in the bounty which the government and consumers have bestowed upon this industry.

Hopefully, whatever strength we and other parts of the labor movement may possess will help them to achieve the necessary protections and benefits. We shall certainly work toward that end.

We shall call as much attention as we can to the disparity in government aid and benefits. We shall urge an end to the mockery of justice involved in the great federal intervention on behalf of employers and the little on behalf of workers. Finally, if necessary, we shall lead a coalition in opposing any new sugar legislation which does not contain major improvements in wages and working conditions for sugar field workers.

Senator MATSUNAGA. The subcommittee will now recess, subject to the call of the Chair.

[Thereupon, at 6:40 p.m., the hearings in the above-entitled matter were recessed to reconvene subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the record:]

STATEMENT BY SENATOR DANIEL K. INOUYE

Mr. Chairman: I am pleased to testify today on behalf of the Sugar Stabilization Act of 1978, which I am cosponsoring.

The passage of this Act is essential to the preservation of the domestic sugar industry and would ensure a steady supply for consumers.

This Act would play a major role in the maintenance of a stable and healthy economy in Hawaii, where sugar is the third largest source of income to the State and its largest export.

Under this Act, no imported sugar could be marketed in the United States below the median price of about 17 cents per pound set by the International Sugar Agreement.

Through the use of import fees and import quotas, this measure would ensure that domestic producers of sugar are not undersold in their own market.

We now have awaiting ratification in the Senate the international agreement reached last year by more than 70 sugar-producing countries. While this agreement is laudable in concept, it by no means guarantees the survival of our sugar industry, given the need for ratification by each of the countries and the poor past performances of such international commodity agreements.

Mister Chairman, the people of our 23 sugar-producing states cannot afford to trust their livelihoods to the vagaries of the international agreement. I certainly do not want to stake the jobs of 10,000 sugar workers in Hawaii on such uncertainty.

As cheaply produced, government-subsidized foreign sugar flows into our country at record-high quantities, we see our domestic industry steadily declining. If this continues, there will be no domestic source of sugar and our consumers will be at the mercy of prices set by foreign producers.

The proposed Sugar Stabilization Act that is before you provides the best available solution to this critical problem. It implements the International Sugar Agreement, but goes beyond that to provide a system of import fees and quotas to protect our producers—a system that would be workable even if the international pact fails.

I urge that this committee act favorably and swiftly on this proposal.

STATEMENT BY SENATOR QUENTIN N. BURDICK

Mr. Chairman, at the outset, I want to congratulate you and your distinguished colleagues not only for holding these hearings, but for the dispatch with which you scheduled them. It is clear that you are keenly aware, as many of us are, of the vital importance of this legislative proposal.

I was pleased to join with Senator Church in cosponsoring this bill, because I have first-hand knowledge of the desperate financial circumstances in which the some 3,000 farm families who grow sugarbeets in the Red River Valley of the North find themselves today. The same situation holds true, of course, for those sugarbeet growers in Western North Dakota, Eastern Montana, and in the fifteen other states where they are located. It is my intention, however, to focus my remarks on the Red River Valley of North Dakota and Minnesota, however, because sugarbeet growing and processing is fundamental to the entire economy of that area.

Since 1973, the farmers have owned cooperatively the sugarbeet processing facilities in the Valley and their investment is astronomical—something over $2.5 billion. It is, without question, the largest employer in the area, in addition to being one of the most significant crops.

As you know, little if any sugar is traded "freely" in the world today. I doubt if there is any other single commodity that is more closely and universally controlled by the various governments. Sugar producers in this country are as efficient as any in the world by any measure, but they cannot be expected to compete with governments which use sugar as an instrument of their foreign policies.

We in the Congress must recognize this and provide a long-term sugar policy that will assure at least an opportunity for our own producers and processors to realize a modest income on their investments. This bill will do that, and certainly it is compatible with the International Sugar Agreement, which I also support. This legislation will enhance the chances that the ISA will succeed—for the benefit of both producers and consumers in the United States and for the benefit of our trading partners.

STATEMENT OF SENATOR LLOYD BENTSEN

Mr. Chairman, I appreciate the opportunity to testify before the Subcommittee in support of the Sugar Stabilization Act of 1978 of which I am a co-sponsor.

Mr. Chairman, I cannot claim to be an expert on the very technical subject of the international trade in sugar. I can, however, claim some measure of expertise when it comes to the economy of Texas and the importance of sugar to the State. I will, therefore, direct my remarks, Mr. Chairman, to the obvious importance of S. 2990 to the growers, consumers, and general economy of the Rio Grande Valley and the High Plains of Texas.

The simple fact of the matter, Mr. Chairman, is that Texas sugar growers will face imminent bankruptcy if S. 2990 is not enacted into law. This legislation is their best—and very possibly their only—hope for economic salvation.

There are some 34,000 acres planted in sugar cane in South Texas; they produce about 1.2 million tons of sugar annually. It is important to understand, Mr. Chairman, that 75 percent of the Texas cane sugar is grown in Hidalgo and Cameron Counties, areas that rank 261st and 259th respectively in per capita income among the Nation's 261 standard Metropolitan Statistical areas. The South Texas sugar industry curently employs about 500 seasonal and 350 permanent workers; it provides a payroll of $7.7 million annually. It pays some $300,000 in taxes to hard-pressed municipalities. The South Texas sugar industry lost $8 million during the 1976–1977 season, at a seasonal sugar price of 10.34 cents per pound. Losses for this year, with sugar at 13.5 cents per pound, are projected at $5 million.

Unless South Texas sugar producers are able to sell their product at 17.3 cents per pound during the 1978–1979 crop year, there is every reason to assume that they will be forced out of business. And, unless S. 2990 is enacted into law, there is very little prospect of their getting that 17.3 cent price.

Let me also point out that the sugar beet industry has become a vital economic fact of life in Northwest Texas. Since the 1962 Amendment to the Sugar Act, the growing of sugar beets has become a viable and important activity, with hundreds of farmers and farm workers dependent on bringing this crop to market at a fair price.

Obviously, Mr. Chairman, S. 2990 did not attract 27 co-sponsors in the Senate only because it is responsive to the problems of the South Texas cane growers and Northwest Texas sugar beet growers. The Sugar Stabilization Act enjoys wide support because it makes sense for the entire spectrum of the domestic sugar industry, and because it makes sense for the Nation.

Today we are debating a National sugar policy. But, in a broader sense, we are debating whether or not we shall preserve a domestic sugar industry. The alternative, of course, is to coast along and do nothing. Ignore the obvious signs of distress among domestic producers. Ignore the findings of the International Trade Commission. Ignore the pending expiration of the de la Garza Amendment. Ignore the Administration's obvious reluctance, its refusal, to come up with a domestic sugar policy to compliment the ISA.

Let the domestic industry wither; let us become increasingly dependent on foreign supplies, and then, Mr. Chairman, we shall see what will happen to sugar prices in this country.

Mr. Chairman, the Council on Wage and Price Stability has predictably wielded its inflationary tar-brush against the Sugar Stabilization Act, and just as predictably, they have missed the point. We have, in recent years, paid as much as seventy cents a pound for sugar. The American consumer has been forced to contend with widely gyrating sugar prices. The Sugar Stabilization Act establishes a price objective of about 17 cents per pound, a figure pegged to the midpoint of the free trade range defined in the International Sugar Agreement. The impact of this pricing system on inflation would be minimal indeed. It will not involve payments to producers, nor will there be controls on the domestic production of sweeteners from sugar beets, sugar cane, or corn. The consumer is protected in another important respect: if the domestic price of sugar exceeds the price objective by 20 percent for 20 days, all import controls and fees will be suspended.

Finally, Mr. Chairman, in considering the Sugar Stabilization Act of 1978, we must seek to determine if the cost—a slightly higher price for sugar—is worth the benefit, which in this case is the preservation of the domestic sugar industry, particularly the cane and beet segments of that industry. In my opinion, the answer is obvious: the benefits of this legislation far outweigh the potential costs.

Mr. Chairman, I would like to express my appreciation to Senator Church for his diligent efforts in analyzing this question and in sponsoring S. 2990. I strongly urge that the proposal be endorsed by the Subcommittee.

STATEMENT OF SCOTT C. WHITNEY ON BEHALF OF THE GOVERNMENT OF THAILAND

Mr. Chairman, Members of the Senate Finance Committee: My name is Scott C. Whitney. I am Professor of Law at the College of William and Mary and also act as counsel to the Washington law firm of Bechhoefer, Sharlitt and Lyman, whose offices are located at 1747 Pennsylvania Avenue, N.W. I am counsel for the Royal Thai Government and accordingly, I am registered with the Department of Justice in accordance with the Foreign Agents Registration Act of 1938, as amended. I want to take this opportunity to express my appreciation and that of the Government of Thailand for this opportunity to present these views on an issue that is vitally important to the welfare of the country of Thailand.

I recognize that the primary purpose of the proposed Sugar Stabilization Act of 1978, apart from the ratification of the International Sugar Agreement, is to fashion a backup program to protect domestic United States sugar producers and refiners in the event that the International Sugar Agreement for any reason fails to achieve its purposes. Mr. Chairman, I emphasize that the Government of Thailand is fully in accord with the objectives outlined in the Section 2 Declaration of Policy of S. 2990. We believe that these objectives are in no way inconsistent with the proposed amendments that we are respectfully recommending to this Committee and the Congress.

Clearly the first, and perhaps the foremost of these policy objectives is to protect the domestic sugar producing industry in the United States from the unstable economic conditions that have prevailed since 1974 when Congress voted not to continue the quota system that had prevailed for some forty years, during which period sugar prices and the sugar market were remarkably stable. Since 1974 there has developed a powerful protectionist attitude in this country which is by no means confined to sugar. Two years ago a prominent organisation representing extensive domestic farming interests petitioned the Office of the Special Representative for Trade Negotiations to recommend to the President that he discontinue as to agricultural products the Generalized System of Preferences (GSP) that was established by Title V of the Trade Act of 1974. Although this petition was not granted, formal and informal efforts continue to try to disestablish or reduce the scope of the GSP program.

I am sure this committee is well aware that one of the stated purposes of the Trade Act of 1974 was "to authorize the President to extend preferential tariff treatment to the exports of less-developed countries to encourage economic diversification and export development within the developing world."

This is not only sound economic policy but it is sound foreign policy. President Carter has clearly taken this Congressional policy very much to heart. In his address before the Permanent Council of the Organization of American States on April 14, 1977 the President stated, "We are committed to minimize trade restrictions, and to take into account the specific trade problems of developing countries and to provide special and more favorable treatment where feasible and appropriate." (Presidential Documents, Vol. 13—No. 16, p. 525). He went on to note that, "One of the most significant political trends of our time is the relationship between the developing nations of the world and the industrialized countries," and that one of the three basic elements of this country's policy is "* * * our desire to press forward on the great issues which affect the relations between the developed and the developing nations." (Idem)

Quite apart from the humanitarian aspects of this policy, there is an overriding element of enlightened self interest on the part of the United States that is involved. This country has a powerful vested interest in the economic and the political stability of developing countries. There is today an alarming trend—the Communist takeover of one after another of the developing countries. Developing countries can resist the encroachment of Communist takeover only if they possess economic and political stability. As the President stated to Congress last year, "The future of the United States will be affected by the ability of developing nations to overcome poverty, achieve healthy growth, and provide more secure lives for their people. We wish to join with other nations in combining our efforts, knowledge, and resources to help poorer countries overcome the problems of

hunger, disease, and illiteracy." (Presidential Documents, Vol. 13—No. 12, p. 405.)

This is precisely what the Congress intended to accomplish with Title V of the Trade Act of 1974, the GSP program. Today industrialized nations such as Japan, the nine Common Market member countries, Canada, the United States and others provide preferential tariff treatment to goods from an agreed-upon list of developing countries of which Thailand is one.

Briefly, Mr. Chairman, the case of Thailand is, I believe, illustrative of the great importance of the GSP program for agricultural commodities such as sugar.

Income from sugar is of vital significance to Thailand. Nearly one out of every ten Thai citizens depend for their livelihood on the production of sugar. Thailand's sugar revenue is very important to the continued economic and social progress of the people of Thailand. GSP should be viewed as a kind of substitute for assistance by the U.S. Government to the attainment of these economic and social goals for the people of Thailand. It has been established on a number of occasions in testimony before the House Agriculture Committee that Thai sugar is produced and sold by independent farmers and their cooperatives as distinguished from the large foreign-owned cartels that operate in some countries. Thus the economic benefits that flow from GSP eligibility flow to the people of Thailand who grow, produce and ship the product.

Thailand is not a developed country. It depends on the United States and other developed countries for its technical, mechanical, and industrial equipment and relies primarily on its agricultural income as a means of paying for the manufactured articles it buys from the United States and other developed countries. In 1976 Thailand had an adverse balance of trade of approximately $533 milion, of which $182 million arose from the unfavorable balance with the United States. For the first ten months of 1977 Thailand had an adverse balance of approximately $739 million which suggests that it will incur a larger trade deficit in 1977 than in 1976.

Significantly the Government of Thailand does not receive any substantial volume of aid from the U.S. Foreign Assistance Program other than modest amounts related to suppression of opium. Thailand seeks to achieve its goals by trade, not aid.

GSP is particularly important to Thailand because of the great distance its sugar imports must be shipped—far greater than most other foreign sugar importers. GSP contributes significantly to offsetting the additional incremental transport cost that handicaps Thai sugar imports to the United States. This factor is especially critical at this time in view of the level of world sugar prices, and the increased level of the U.S. tariffs on sugar and the level of import fees.

Mr. Chairman, I respectfully submit that Congress *need* not, and Congress *should* not impair GSP in order to protect the domestic United States sugar industry. Protection of the domestic sugar industry is not incompatible or inconsistent with continuing GSP.

Historically, since at least the early 1930s, the United States production of sugar has not kept pace with United States demand. I am unaware of any credible forecast that this situation will change. Indeed, the proposed Sugar Stabilization Act of 1978 assumes the existence of a domestic supply shortfall and provides for the formulation of a world quota which consists of the difference between the U.S. demand and U.S. production. This world quota will, as it has in the past, greatly exceed the amount of GSP sugar sold on the U.S. market.

Therefore, if, as the distinguished sponsors of this legislation believe, this act in fact achieves sugar stabilization and succeeds in protecting our domestic industry, there is absolutely no reason to abridge or delete GSP treatment for sugar.

Accordingly, Mr. Chairman and Members of this Committee, I respectfully urge that you add the following language to Section 2, the Declaration of Policy in S. 2990:

> Section 2 "(e) to assure that Generalized System of Preferences treatment as to sugar shall be accorded all nations that are presently in compliance with Title V of the Trade Act of 1974."

To avoid any doubt as to the intent of Congress, I would also recommend that the sense of the above language be articulated in the substantive provisions of S. 2990 as well as in the Declaration of Policy. I defer to the expertise of your legislative draftsmen as to the section of the act in which this provision would be most appropriate.

Once again I want to express my appreciation and that of the Government of Thailand for this opportunity to be heard.

ORGANIZATION OF AMERICAN STATES,
Washington, D.C., May 5, 1978.

Hon. SPARK MATSUNAGA,
Chairman, Subcommittee on Sugar & Tourism, Senate Finance Committee, U.S. Senate, Washington, D.C.

Dear Senator MATSUNAGA: The hearings which you are chairing starting on May 11th, on S. 2990—the Sugar Stabilization Act of 1978—should prove of great interest to OAS member countries. Your Committee may be interested in the attached document, prepared by the Latin American members of CECON—the OAS Special Committee on Consultation and Negotiation—set up at U.S. initiative to consider regional trade matters of common interest to the United States and Latin America.

This document was prepared at the 8th Session of the CECON, which ended on April 29th. I am submitting it to you for possible inclusion in the record of your hearings.

Sincerely yours,

ALEJANDRO ORFILA.

From:
VIII Regular Meeting of CECON, 25–29 April 1978,
Santo Domingo, Dominican Republic.

"THE STATE OF THE WORLD SUGAR MARKET" [1]

The measures adopted by the government of the United States are showing a marked protectionist tendency in favor of its domestic sugar interests. These measures are causing serious and increasing injury to the sugar exporting countries of the region, at a time when the international sugar trade is undergoing a major crisis. These facts were recognized by the Permanent Council of the OAS in its unanimous Declaration of December 2, 1977, which expressly stated that: "In order to avoid difficulties for Latin American and Caribbean exports stemming from the restrictive measures recently imposed on sugar by the United States government, it is advisable that these temporary and emergency measures be removed as soon as possible."

With approval of the International Sugar Agreement in October 1977 and its entry into force on January 1 of this year, market prices for sugar experienced a slow recovery. It was therefore, contrary to the purpose stated in the aforementioned OAS Declaration, for which the United States voted in favor, contrary to its own affirmation of the temporary and emergency nature of the measure, and contrary to the declared goals of the International Sugar Agreement, which the United States has already indicated it will provisionally apply, when on January 20 last, the United States Government, instead of reducing or removing the duties, set an import fee at a fixed level of 2.7 cents per pound. If we add to this the 50 percent increase in the customs duty ordered on November 11, 1977, it in fact means that the duties imposed on sugar exports from the countries of the region to the United States have risen almost three-fold over their level prior to that date. This measure put an end to the incipient recovery trend of free market prices and contributed in a major way to the fall in prices experienced since then. It is a reason for further concern that the United States is presently contemplating adoption of new increases in the duties, and of other measures to broaden and extend its protectionist policy.

This policy, by insulating the domestic sugar supply from market forces, limits the competitive conditions under which international trade is conducted and therefore exerts a downward pressure on prices. It also serves to stimulate increased domestic production and permits increased competition within the United States from other sweeteners, reducing the demand for sugar coming from the free market. This policy is thus undermining the effectiveness of the measures undertaken by the exporting countries parties to the Sugar International Agreement to stabilize that market.

The present United States policy of protective duties places the sugar production of the Latin American and Caribbean countries in a highly unfavorable competitive position vis-a-vis United States domestic production, and thus tends to reduce their exports to the United States market, of which they have been traditional suppliers. * * worse still, it places these exports in an extremely disadvantage-

[1] Document approved at the sixth plenary session, with the opposing vote of the delegation of the United States.

ous position as far as competing with surplus production in the developed countries that are not signatory to the Agreement is concerned, since their exports benefit from either direct or indirect subsidies. * * [1]

For these reasons, it is clear that the exporting countries of the region are in effect absorbing the import duties and fees imposed by the United States, at a time when their respective global revenues from sugar exports are decreasing as a result of this protectionist policy's effect of depressing free market prices, compared to the prices they could obtain in the absence of said policy.

One example of these downward pressures occurred when, on January 20, 1978, the Government of the United States imposed a fixed fee of 2.7 cents per pound, which approaches the maximum level of the variable fee set by presidential decision of November 11, 1977. These high and excessive duties and fees, established after the unanimous Declaration of the Permanent Council of the OAS of December 2, 1977—which, in the light of the then prevailing prices of the free sugar market have been shown to be protectionist—weakened the incipient recovery under way in that market, and have undermined the specific objective of the Agreement which is "to provide for an adequate participation in, and growing access to, the markets of the developed countries for sugar from the developing countries."

A United States policy that is responsive not only to its own economic interest but also takes into account the interests of the other members of the OAS, must contribute to making the International Sugar Agreement fully effective, and help achieve its objectives of checking disruptive price movements by stabilizing the market. Through close consultation, it would also seek greater harmony, better collective judgements and avoidance of unexpected injury, to all the developing exporting countries and particularly to the most vulnerable ones.

The VIII Regular Meeting of CECON,

Having seen the foregoing,

Reaffirms that the International Sugar Agreement is the basic instrument for achieving stabilization of the International market at price levels that are renumerative and fair for the exporters and equitable for the consumers.

Recommends to the member states of the OAS that are signatory to the Agreement that they ratify it, if they have not done so, as soon as possible.

Declares that the import duties and fees imposed by the United States government are detrimental to the full achievement of the goals of the Agreement due to their effect of depressing free market prices.

Expresses deep concern that the United States government has not taken steps to implement the aforesaid Declaration adopted by unanimous vote of the Permanent Council on December 2, 1977.

Expresses its deep concern over the further protectionist measures being contemplated by the United States, such as the recent recommendations of the United States International Trade Commission (publication 881 of the USITC) and the bill sponsored by Senator Church.

Declares that until such time as the temporary measures adopted unilaterally by the government of the United States are rescinded, that government should urgently adopt appropriate measures in the area of its sugar policy to provide relief for the position of the developing exporting countries, taking into consideration the particular situation of those suffering the greatest injury. Such measures should not infringe upon the letter or the spirit of the International Sugar Agreement.

Further *declares* that the long-term improvement in the conditions of the trade in sugar between the United States and the nations of Latin America and the Caribbean based on fair and just principles, constitutes a vital step in the search for a new international economic order, which is characterized by justice in economic and commercial relations between the developing nations and those which are industrially advanced and wealthy.

Statement on Behalf of the Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture

(This material is prepared, edited, issued or circulated by John H. Sharon, who is registered under the Foreign Agent Registration Act of 1938, as amended, as an agent of the Mauritius Chamber of Agriculture and the Mauritius Sugar Syndicate.

---

[1] The delegations of Trinidad and Jamaica reserved their positions on the text that appears between the asterisks.

This material is filed with the Department of Justice where the required registered statement is available for public inspection. Registration does not indicate approval of this material by the United States Government.)

MAURITIUS

Mauritius is an island in the middle of the Indian Ocean, half the size of Rhode Island, inhabited by over 900,000 people. Its economy, because of climatic and ecological reasons, is almost totally dependent upon sugar. Of the total land under cultivation, 95 percent is in sugar cane production. Thus, Mauritius, dependent as it is upon sugar exports for more than 85 percent of its foreign exchange, has become the world's ninth largest sugar exporter.

COMMERCIAL RELATIONS WITH THE UNITED STATES

Mauritius has a long and friendly history of commercial trade with the United States which it desires to expand. Since 1965 Mauritius has been a continuous and dependable supplier of U.S. sugar needs.[1] Only the limitations of a statutory quota prior to 1975 and a devastating cyclone which restricted 1975–1976 shipments, prevented Mauritius from selling more sugar to the U.S.

Five years ago when Mauritius became an associate member of the European Economic Community through the Yaounde Convention, it extended to the U.S. special tariff preferences on U.S. exports to Mauritius. It was the first ECC associate member to take such an initiative. The United States, recognizing Mauritius as a developing African nation, by Executive order permitted duty free imports of Mauritian sugar under the Generalized System of Preferences. In 1977, Mauritius exported 55 thousand short tons to the U.S. under the GSP at a value of $9,474,000. In 1978, Mauritius has already delivered two cargos and has contracted to deliver three additional cargos in August and October for a total of 70 thousand short tons. Mauritius would like to sontinue to sell sugar to the U.S. so it can continue to expand its purchase of U.S. goods, but it cannot do so if faced with restrictive U.S. trade practices.

THE U.S., MAURITIUS AND THE ISA

Officials of the United States, Mauritius and other sugar importing and exporting countries worked for over a year to write an International Sugar Agreement. This Agreement represents an international cooperative effort to achieve worldwide sugar prices and supplies to every party's mutual interest. While not perfect, it is designed to avoid the problems created by excess supplies of sugar, while providing assurances of adequate supplies at reasonable prices. It does so by stabilizing world prices between 11 and 21 cents per pound, the 11 cent minimum being defended by a worldwide system of export quotas. Mauritius was one of the earliest signatories to this Agreement. The United States signed the Agreement on December 9, 1977—subject to Senate ratification. President Carter, in asking the Senate to ratify this Agreement last January, said:

> "This Agreement is consistent with our broad foreign policy objectives and with out intent to balance the interests of producing and consuming countries through international cooperation. Once in full operation, it should eliminate the need for the tariff and fee measures recently imposed to defend our domestic price support program. Such unilateral measures adversely affect the earning capacity of many developing countries and undermine our commitment to an open international trading system. Instead, the Agreement represents a cooperative effort among sugar exporting and importing countries to achieve their mutual interests in equitable and stabilized sugar prices and supplies."[2]

The Mauritius sugar industry supports and applauds this statement by the President of the United States and urges the United States Senate to ratify promptly the International Sugar Agreement.

RATIFICATION: TIME IS OF THE ESSENCE

There are many reasons why the world price of sugar is presently below the cost of production. One important reason is the cloud that hangs over the world market resulting from the failure of the United States to ratify promptly the International

[1] In 1972–73, Mauritius sold sugar to the U.S. at prices below the world market.
[2] Presidential message to the Senate of the United States, January 25, 1978.

Sugar Agreement. Of all the signatories to the Agreement, the United States has the largest stake in the world sugar market since it accounts for over 20 percent of world imports. It is, therefore, very much in the interests of the United States to assure that world supplies are available over the long-term in adequate amounts at reasonable prices. This is precisely what the International Sugar Agreement seeks to achieve, but prompt, effective and meaningful U.S. participation in the Agreement is critical to its success. Failure of the U.S. Senate to ratify the Agreement before June 30 could render the Agreement ineffective and deal a severe economic blow to developing countries like Mauritius which is so heavily dependent upon sugar exports for its foreign exchange.

STATEMENT PRESENTED BY PATTON, BOGGS & BLOW ON BEHALF OF THE CENTRAL AMERICAN SUGAR COUNCIL

(This statement is made by Patton, Boggs and Blow, which has registered with the U.S. Department of Justice as an agent of the Central American Sugar Council. Pursuant to the Foreign Agents Registration Act of 1938, as amended, a copy of such registration is available for inspection at the U.S. Department of Justice. Distribution of this material is made on behalf of the Central American Sugar Council and the members of the Council. Two copies have been filed with the U.S. Department of Justice as required by the Foreign Agents Registration Act of 1938, as amended. The registration of Patton, Boggs and Blow does not indicate approval by the United States Government of the contents of this material.)

This statement addressing S. 2990 is presented by Patton, Boggs & Blow on behalf of the Central American Sugar Council which represents the private sugar producing interests of Guatemala, El Salvador, Honduras and Nicaragua.

The United States sugar market has been and continues to be of great importance to member countries of the Council. All such countries were participants in the United States Sugar Act which expired at the end of 1974 and all have continued to export sugar to the United States.

INTRODUCTION

Prior to addressing our remarks to S. 2990, the Council would like to emphasize a number of fundamental facts concerning the current sugar situation. It would not appear to be open to argument that current prices threaten the continued existence of sugar producers. It is, of course, the low price of sugar which has given rise to the introduction of S. 2990, which would provide a minimum price for United States producers. It is important to keep in mind that such prices, which threaten United States sugar producers, are a part of a world-wide phenomenon. The price of sugar in the "world" market is below the cost of production not only for United States producers but for sugar producers throughout the world. Thus, the low prices threaten the existence not only of United States producers, but producers in other countries.

In particular, such prices threaten the continued existence of the sugar producers of Central America. Because of the importance of earnings from sugar exports, low prices pose a much greater threat to the member countries of the Central American Sugar Council than they do to the United States. In those countries, low sugar prices threaten not just segments of the agricultural producing sectors, but the very well-being and viability of their entire economies. The lack of reasonable earnings from sugar exports from those countries presents a real and immediate threat to their economic stability. Remunerative prices for sugar exports for council countries are a vital economic necessity.

In its consideration of proposed legislation, the Council urges this Committee to bear in mind that the United States, as an importer of sugar, must concern itself with the low prices received by all sugar producers, not just the prices received by its domestic producers. The United States will continue to be an importer of sugar for the foreseeable future. Thus, no purely domestic program can insure sufficient supplies. If the United States is to protect itself against sugar scarcity in future years it must continue to concern itself with the well-being of all sugar producers. Continuation of the current low prices will inevitably lead to bankruptcies and cutbacks in sugar production which will, in turn, inevitably lead to shortages and extremely high prices at some future date. Thus, there is a need to provide relief to all exporting sugar producers if we are to avoid the reoccurrence of shortages and

unreasonably high prices. The United States has recently experienced the disruptions which result in its economy from such high prices.

Finally, it is also evident that barriers upon entry of sugar into the United States act to depress the "world" price. United States imports of sugar account for approximately 25 percent of the free-market trade in sugar. Limiting access to such a large portion of the total market cannot help but to depress prices. In addition to the direct impact upon world prices resulting from restricted access to the United States market, restrictive actions have a psychological impact upon the market which also leads to lower prices.

THE INTERNATIONAL SUGAR AGREEMENT

The Council expresses its strong support for the International Sugar Agreement. It is the view of the Council that the Agreement constitutes the best means of achieving reasonably stable sugar prices at levels which are remunerative to producers and equitable for consumers. Although, to date, the free market price has been below the 11¢ per pound minimum of the price range provided for by the Agreement, the Council nevertheless is confident that the Agreement will succeed in achieving its price objectives so long as exporting and importing members abide by their obligations, and to the extent that destructive actions are not taken that will prevent the effective functioning of the Agreement.

As an important importer as well as an important producer of sugar, the United States has a particularly strong interest in the effectiveness of the Agreement. If it functions as intended, it will not only protect United States consumers of sugar, but will also maintain prices which will permit the continuation of the domestic sugar producing industry.

The Honorable Julius L. Katz, Assistant Secretary for Economic and Business Affairs, Department of State, has stated before this Committee, that the ISA is the "foundation" of U.S. sugar policy. The Council believes this to be a sound approach to the world-wide sugar problem. The Council expresses its pleasure and appreciation for the fact that the bill which is the subject of this hearing would provide the necessary implementing legislation for United States partiicpation in the Agreement. With continued support from the United States, the Council is confident that the Agreement will serve its intended purposes to the benefit of both importing and exporting countries.

Because of the Council's position that the International Sugar Agreement offers the best and most effective means of addressing the current problem of low sugar prices, its primary position is that no additional barriers to the entry of sugar into the United States should be imposed because such barriers threaten the achievement of the objectives of the Agreement.

Support for the ISA and concern over the protectionist measures which have been taken by the United States within the last few months—the imposition of a duty increase and an import fee—and the possibility of more protectionist measures is shared by all of Latin America and the Caribbean. At an April 1978 meeting of the Special Committee for Consultation and Negotiation of the Organization of American States a document was adopted which endorsed the ISA and expressed the "deep concern" of the members over the protectionist measures which have been adopted and the further measures now being considered. A copy of that document is appended to this statement.

There are a number of provisions of the ISA which militate against the erection of further barriers to the entry of sugar into the United States, and the United States as a signatory, is a provisional member and subject to the provisions of the Agreement.

ARTICLE 1: OBJECTIVES

1. (a) "To raise the level of international trade in sugar, particularly in order to increase the export earnings of developing exporting countries;"

The erection of further barriers by the U.S. such as those now existing will not only fail to increase export earnings of developing countries, they will actually decrease such earnings by depressing the world price of sugar.

1. (c) "To provide adequate supplies of sugar to meet the requirements of importing countries at fair and reasonable prices."

Depressing sugar prices now will inevitably lead to sugar shortages in the future.

1. (g) "To provide for adequate participation in and growing access to, the markets of the developed countries for sugar from the developing countries."

Barriers to entry of sugar into the United States is to restrict access rather than to provide for growing access to the United States market of sugar from developing countries.

ARTICLE 64: SUPPORT MEASURES

1. "Members recognize that subsidies on the production or marketing of sugar which operate directly or indirectly to increase exports of sugar or to reduce imports of sugar may endanger the fulfillment of the objectives of this Agreement."

Duty or import fee barriers are, in effect, a subsidy to United States producers which will reduce imports of sugar and thus endanger the fulfillment of the objectives of the Agreement.

PROTECTIVE MEASURES THAT WILL CAUSE THE LEAST HARM TO EXPORTING DEVELOPING COUNTRIES

Despite the above position, the Council recognizes that the United States may determine that it must provide higher prices for domestic sugar producers than would result under the ISA and insure that such prices are maintained regardless of whether or not the ISA succeeds. This objective, however, should be met in a manner which causes the least possible harm to sugar exporters, particularly those, such as the member countries of the Council, whose sugar exports are so vital to the economic health of their entire economies. In the document referred to above, the OAS urged that until protectionist measures are rescinded, the United States should "adopt appropriate measures in the area of its sugar policy to provide relief for the position of developing exporting countries, taking into consideration the particular situation of those suffering the greatest injury." The Council endorses that position.

Initially, the Council expresses its strongest possible opposition to the imposition of a "global" import quota as is provided for by S. 2990. This would be the most disruptive action that could be taken not only to sugar exporting countries, but also to the entire sugar industry. It is the worst action which could be taken from the point of view of exporting countries.

Nevertheless, the United States can structure its program in a manner which will protect domestic producers while not causing undue harm to other countries. To that end, we recommend, in order of preference, that the following measures be used, as necessary, to afford price protection to United States producers.

First, the Council urges that a system of country-by-country quotas be instituted, within the context of the ISA, with the removal of all duties and import fees which have been imposed during and since 1977. Experience has already shown that such a system is effective in producing stable and remunerative prices for United States sugar producers without causing undue harm to exporting countries. Further, the quotas should be based upon United States import levels during recent years and the export capacity which will result from expansions of production facilities which are already underway. That method of establishing quotas would reflect the reality of current production and export capabilities.

Second, if country-by-country quotas are not instituted, duty-free treatment under the Generalized System of Preferences should be afforded to sugar from all designated beneficiary developing countries and should encompass not only "duties," but also any "import fee" or any other imposition however labeled. This suggestion could be carried out while continuing to afford United States producers price protection since experience has shown that GSP treatment has resulted in higher prices for exporting countries, as was intended, rather than lower United States prices.

The Council recommends the following specific actions with respect to the Generalized System of Preferences:

1. The immediate restoration of duty-free treatment for sugar from all countries which are eligible for such treatment based upon the dollar value of imports during calendar year 1977 pursuant to section 504 of the Trade Act of 1974.

2. The application of duty-free treatment to all "duties," "import fees" or any other impositions, however described.

3. The affording of duty-free treatment for all designated beneficiary countries for exports to the United States in any given year which do not exceed the maximum dollar value limits provided for by section 504 of the Trade Act of 1974. Although we understand the reasonableness of excluding from duty-free treatment extraordinary amounts of sugar from any one country, it appears to be unfair for the program to preclude any duty-free treatment for sugar from countries which are acknowledged to be in need of the benefits of the GSP program.

SUMMARY AND CONCLUSION

In summary, the Council is opposed to the current and prospective barriers to the entry of sugar into the United States. Such measures will make it more difficult for the International Sugar Agreement to meet its objectives. If, however, the United States concludes that it must take measures to protect its domestic producers, they should be structured in accordance with the above recommendations.

We appreciate this opportunity to present the views of the Central American Sugar Council.

U.S. COUNCIL FOR AN OPEN WORLD ECONOMY, INC.
Washington, D.C., May 19, 1978.

Senator RUSSELL B. LONG,
Chairman, Committee on Finance,
United States Senate,
Washington, D.C.

DEAR MR. CHAIRMAN: The following are our briefly stated views on the subject of sugar policy now being considered by the Senate. This Council is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest.

We have firmly held reservations about any sugar import-control policy, or sugar import-control legislation per se, that is not clearly and definitively part of a coherent adjustment strategy which addresses the real problems and needs of the domestic sugar industry, aims to help the industry adjust to the removal of sugar import controls, and seeks a level of sugar prices that is fair to American consumers.

We support as an interim measure the President's negotiation of an international sugar-stabilization agreement—provided the best interests of consumers are adequately protected—and legislation to permit effective U.S. participation in that agreement. We oppose S. 2990 (the Sugar Stabilization Act of 1978, cosponsored by some 33 Senators and designed inter alia to implement the International Sugar Agreement), primarily because the level to which it seeks to raise sugar prices is too high (an estimated 17 cents a pound this year and 21 cents a pound in another three years, compared with the Administration's minimum market price of 13.5 cents a pound supplemented by government payments to domestic producers to achieve a desired income goal), and because the bill would impose import quotas on candy.

The nation's sugar policy should be a constructive adjustment strategy for this industry (to the extent that government help is needed), and an instrument of soundly based U.S. cooperation with other sugar producing countries. It should not provide a hothouse for inefficient sugar production dependent on prolonged assistance at public expense, nor be designed even in part as a prop for the corn sweetener industry, whose high fructose corn syrup (a sugar substitute) would benefit substantially from high sugar prices. Nor should it be a vehicle for import quotas on sugar-using products such as candy.

Whatever is done in this policy area, the government should tell the American people every year what its sugar program costs the consumer and the nation.

Sincerely yours,

DAVID J. STEINBERG,
President.

STATEMENT OF SWAZILAND SUGAR ASSOCIATION PREPARED AND SUBMITTED BY BERT INGALLS HICKMAN, JR., INTERNATIONAL MANAGEMENT CONSULTANTS, LTD.

(This material is circulated by Bert Ingalls Hickman, Jr., who is registered under the Foreign Agents Registration Act as an agent for The Swaziland Sugar Association, Mbabane, Swaziland. This notice is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the content of this material by the United States Government.)

The Swaziland Sugar Association (SSA) submits this testimony for the purpose of assisting the Subcommittee on Tourism and Sugar of the Senate Committee on Finance in formulating appropriate legislation for the current sweetener problem within the United States and shared by the rest of the world. The Swaziland Sugar

Association prays that any legislation recommended by this Subcommittee, and ultimately by the Committee on Finance, will take into account the vital interests of the reliable and traditional suppliers of sugar in the developing world.

The importance of the United States market for Swaziland sugar is underscored by the developments achieved by Swaziland since obtaining its independence some ten short years ago after 66 years of being a British protectorate. Although Swaziland is not a one-crop economy, the sugar industry directly employs more than 11,000 workers, or 20 percent of all wage earners in Swaziland. Sugar is the number one export industry and the number one taxpayer.

A small country (6,705 square miles), it boasts a temperate climate and a population of 505,000, 97 percent of which is African. It is a country without tribal tensions; the Swazi are all one people. It is a land-locked country surrounded on three sides by the Republic of South Africa and on its eastern border by Mozambique.

Swaziland is a beacon in Africa—a truly non-racial country. It is unique in maintaining constructive and friendly relations with both the Republic of South Africa and black African nations. It is a member of the United Nations and the Organization of African Unity and has proved a staunch supporter of the United States in both forums.

The record clearly shows Swaziland to be a reliable and stable sugar supplier for the United States. Under the old Sugar Act, Swaziland's quota was met every year. In fact it was exceeded in 1974, at request of the U.S. Department of Agriculture.

Swaziland submits that any legislation formulated by this Committee as a remedy for the alleged immediate domestic sugar problem should not preclude an opportunity for implementing the International Sugar Agreement (ISA). The ISA should be given enough trial time to operate in order for it to fulfill its stated purpose. The United States, it is believed, will be well served by continuing to look to the ISA as one means of assuring remunerative prices for domestic producers. All major exporters, with the exception of the EEC, are now members of the Agreement. The ISA clearly implies the withdrawal of important quantities of sugar from the world surplus. These quantities would return to the market only when U.S. prices exceed 19 cents per pound. Hence, the ISA affords protection for both consumers and producers. We urge this Committee to recommend ratification of this important agreement.

Swaziland also submits that the legislation should include a remedy that has a proven history. Although Swaziland has been in sugar production and raw manufacture for only twenty years, it is aware of the history of sugar in the United States. For forty years the U.S. sugar quota program provided stability. The legislation recognized the value of preserving the domestic industry while assuring the foreign suppliers a stable market. It shielded the consumer from wild price fluctuations and at the same time, assured adequate supplies at fair prices. The Sugar Act of 1934 spanned a period that saw war and peace, depression and unprecedented prosperity, through all of which there was relative stability in the United States sugar market. Following the expiration of the sugar quota legislation, the domestic sugar market has been a tempest. The Swaziland Sugar Association urges that this Committee also recommend the adoption of sugar legislation that provides for country-by-country quotas. Overall, or global quotas and highest bidder licensing schemes, grossly discriminate in one way or another against the developing countries, especially the smaller, more distant emerging nations such as Swaziland. Specifically, the Association recommends that any per country quotas be based upon import levels during recent years in order to reflect the reality of current production and export capabilities. Specifically, The Swaziland Sugar Association recommends that country quotas be based upon imports for years 1975 through 1977 with special consideration given to developing countries possessing current GSP sugar eligibility.

While these hearings have not directly addressed the issue of sugar eligibility for the Generalized System of Preferences, The Swaziland Sugar Association wishes to emphasize the importance of sugar eligibility under the GSP for developing countries like Swaziland. The concept of GSP authorized by the Congress as part of the Trade Act of 1974 has served as an inducement for developing countries to undertake important economic development. It was the extension of the United States' policy of offering a needed helping hand to the developing world—in this case, an open market. Pursuant to this program, developing countries like Swaziland are able to obtain slightly higher realized prices for its sugar in the United States market in a manner that does not result in higher sugar prices for the domestic consumer. GSP eligibility requirements and limits are such that GSP sugar eligibility

has not been and does not now threaten to be a market depressant to the U.S. sweetener market. The elimination of sugar from GSP would be a crippling blow to the Swazi sugar industry. The Swaziland Sugar Association urges that legislation should not endanger sugar as an eligible commodity under GSP.

Swaziland urges that this Committee fashion legislation in a manner that considers the long-term interests of the domestic industry, the interests of the American consumer and the needs of traditional and reliable supplier countries in the developing world.

STATEMENT OF ARTHUR LEE QUINN, COUNSEL TO THE SUGAR ASSOCIATION OF THE CARIBBEAN

(**This material has been prepared, edited and distributed by Hamel, Park, McCabe & Saunders, which is registered with the U.S. Department of Justice under the Foreign Agents Registraton Act of 1938, as amended, as an agent of the Sugar** Association of the Caribbean. A copy of such registration statement is available for public inspection at the Department of Justice and, two copies of this statement have been filed with the Department as required by the Foreign Agents Registration Act. Registration of Hamel, Park, McCabe & Saunders does not indicate **approval of this material by the United States Government.**)

Mr. Chairman and Members of the Subcommittee on Tourism and Sugar of the Committee on Finance, I am Arthur Lee Quinn, of the Washington, D.C., law firm of Hamel, Park, McCabe & Saunders, and I appear before you today as Counsel to the Sugar Association of the Caribbean. It is a pleasure to present testimony in these hearings which are of vital concern to the sugar industries of the CARICOM nations.

INTRODUCTION

Sugar has proved a mainstay in the economies of Barbados, Guyana, Jamaica, Trinidad and Tobago and St. Kitts-Nevis-Anguilla over a long period of time. These countries which now form part of an economically integrated unit within CARICOM, all have firmly established sugar industries which have become vital to the economic viability of each of the countries concerned.

Indeed, the sugar industry is a traditional institution and one which continues to provide a livelihood for large numbers of people as well as much of the wherewithal for the preservation of economic stability throughout the group. Accordingly, CARICOM suppliers may be relied upon to meet their market commitments much more so than certain other suppliers to whose economies sugar makes an insignificant contribution. The pages of history publicly reveal this group of countries' proud record in honoring commitments in contracted markets as well as showing proof of the long duration over which a number of such arrangements have been successfully maintained.

In this connection, it should be observed that despite the depressed state of the world's sugar markets, the existing CARICOM exporters are not only continuing their operations in the customary manner, but are all committed to plans involving heavy capital investment and which have been designed to rehabilitate the industries in order to permit them to maintain rated production levels and supply traditional markets. Such schemes have been made possible by financial assistance from the World Bank and other International Agencies after detailed inquiries into the feasibility of such projects, which have the full backing of the Governments and peoples of the countries concerned.

Of the five countries which currently comprise the CARICOM sugar exporters, Barbados, Guyana, Jamaica and Trinidad and Tobago are independent nations. All are situated in the Caribbean and form an arc stretching from Jamaica down to Guyana on the north coast of the South American continent. They thus form a strategic chain of countries with well established friendly relations with the United States. For some of these independent states the U.S.A. is their principal trading partner.

The United States and the CARICOM countries share a common heritage. Each CARICOM country enjoys a completely democratic form of Government, with universal adult suffrage and Governments wholly elected by the people in free elections. They are multi-racial English speaking societies and have an enviable record in the field of race relations. Labor is effectively organized, and trade unionism has functioned successfully for many years, passing through phases of conciliation and arbitration to reach the stage of full consultation and negotiations in in-

dustrial relations to membership on Boards of Directors completely in accordance with standards found acceptable in the United States and elsewhere in the free world today.

Agriculture has always been the major source of employment. Sugar as an export crop has dominated the agricultural economy, providing a firm base upon which more diversified economies can be constructed. Despite comparatively recent growth in the Industrial sectors, and the development of a number of important new enterprises, approximately 12 percent of the total population still depends directly upon the sugar industry for a living. In addition, the industry provides considerable indirect employment in the transport, handling and port industries, in the distribution and retail trades, and in generating other industries (e.g. rum, building and fertilizers). In the majority of instances, work is offered by the sugar industries in rural areas in which there is no real alternative for gainful employment. The whole structure of rural areas is, therefore, dependent upon the viability of the sugar industry.

DESCRIPTION OF THE SUGAR INDUSTRY OF THE WEST INDIES

Although, at the time of independence of the CARICOM countries, most of the sugar interests were owned or controlled from the United Kingdom, this situation is now reversed. Over the past ten years both ownership and control have passed into local hands. While two-thirds of the sugar cane is grown by companies, one-third is grown by some 53,000 independent farmers, whose holdings range from less than one acre to over 1,000 acres.

Sugar cane is bought from farmers under established and recognized cane price formulae which have generally been implemented as the results of the recommendations of independent Commissions of Inquiry and which have been accepted by both millers and farmers and endorsed by Governments. The most important single component factor in all such formulae must inevitably be the revenue accruing from the sales of sugar.

The independent cane farmers are themselves employers of labor and maintain a labor force which stands in excess of 40,000 workers.

The proceeds from sugar sales are equitably distributed among the participants in the industry. Throughout CARICOM the sugar industries are fully unionized. The trade unions are vibrant and vocal, and ensure that sugar workers receive their fair share. Labor automatically benefits from any increased revenues from sugar sales.

The contribution made by the sugar industry to the gross national product varies somewhat from country to country but it is fair to say that it is dominant in Barbados, Guyana and St. Kitts, which all have limited resource bases, and of considerable significance in Jamaica and Trinidad. The multiplier effect of the sugar industry's contribution to the West Indian gross national product is estimated to be 2.5, that is, expenditure of sugar earnings within the economy creates further incomes of this order in the production of goods and services. Despite considerable diversification, CARICOM economies still remain heavily dependent upon sugar exports for foreign exchange. Over 20 percent of the total value of exports is derived from the sale of sugar and molasses. Any decline in sugar earnings must obviously affect not only the balance of payments in each of the countries concerned, but the very livelihood of a substantial proportion of the population.

At present the Sugar Industry offers employment to approximately 10 percent of the total labor force in the five countries. This means that more than 150,000 workers derive the bulk of their livelihood directly from the industry and using what are considered to be conservative estimates, those persons actually employed support about 500,000 people. This must be viewed in the context of high unemployment in the member states. Open unemployment ranges between 12 percent and 18 percent of the total labor force and seasonal unemployment is also high. In addition, the siting of the industry in rural areas has brought about the creation of satellite communities to serve the needs of the workers and vitally affects the whole life-pattern of thousands more villagers most of whom depend upon the custom of the sugar worker to provide their livelihood as small shopkeepers or as the providers of services.

Sugar cane remains by far the outstanding export crop and is the dominant factor in the economy of the agricultural sectors of all the countries concerned. Intensive research has shown that no other crop could be grown extensively in the often poor soil and climatic conditions found in the region, and provide a comparable level of employment and foreign exchange earnings.

Within the limitations of its resources the sugar industry has sought to implement programs aimed at providing suitable housing, schools, pensions, medical services, community services and recreational facilities. Owing to the fact that ownership of the industry is held predominantly locally, all of the earnings of the industry, except sums spent on imported machinery, supplies and services are retained within CARICOM.

From these figures it can be seen that the Sugar Industry not only benefits the CARICOM economies as a whole but also that its effects are widely spread throughout the entire fabric of countries concerned.

PERFORMANCE RECORD IN SUPPLY OF RAW SUGAR IN THE U.S. MARKET

In 1960, the CARICOM countries gained access to the U.S. market and began supplying sugar to meet the shortfalls which were declared. Thereafter, CARICOM consistently supplied the U.S. under the quota system of the Sugar Act until its expiration in 1974. Commencing in 1975, CARICOM continued to supply sugar to the U.S. under the current free market system. Average shipments to the U.S. during the period 1966 through 1970 amounted to 204,508 tons with a peak delivery of 227,455 tons in 1969. For the five years 1971—1975 exports amounted to 847,121 tons. (Shipments in 1973 were very low because intense drought conditions in 1972 and 1973 caused the sugar harvest to decline precipitously.) Despite the transformation of this market from being the most attractive price-wise, the sugar exporting countries of CARICOM have maintained regular shipments to the conveniently placed ports on the Gulf and Eastern Seaboard, thereby providing a constant and dependable source of sugar in areas in which it is most needed.

The figures shown hereunder depict the approximate quantities of West Indian raw sugar which have been shipped to the United States market during the current decade:

Year:	*Short tons raw value*
1970	190,000
1971	211,000
1972	174,000
1973	41,000
1974	282,000
1975	238,000
1976	244,000
1977	160,000

The CARICOM nations viewed the end of the U.S. Sugar Act as the termination of a long standing preferential trading arrangement. What has often been overlooked in the wake of the Act's defeat was the fact that since the early 1960's, many small countries with few exportable commodities, had served our sugar market well and faithfully, often taking *less* for their sugar to honor their quota *commitments,* than if they had chosen to sell on the world market. Also, many foreign industries incurred expensive financial obligations for industry expansion in anticipation of a continuing U.S. program.

The sugar producing nations of CARICOM will continue to regard the United States as a priority sugar market. They prefer the reintroduction of a United States Sugar Program which once again offers guaranteed outlets to the traditional shippers at prices which are based on those applicable at domestic levels. It is assumed that economic prices would be assured at domestic levels.

THE CURRENT STATE OF THE WORLD SUGAR ECONOMY

The problems facing sugar producers in the United States and in the rest of the world are entirely connected with low and unstable prices for sugar vis-a-vis increasing costs of production. The solution to such a situation can never be found by way of the imposition of any increase in tariff. CARICOM countries are now producing sugar at costs which are virtually parallel to those obtaining for United States domestic producers and there is thus urgent need for some joint action to be taken which will bring relief to both the domestic producer and foreign supplier alike.

Under such circumstances, it appears certain that the solution to the problems facing the domestic sugar industry of the United States of America remains sub-

stantially the same as that which would serve to bring much needed relief to the CARICOM countries as well as to the majority of established sugar interests in both the developed and developing countries. This can only be affected by a rationalization of the existing world sugar marketing arrangements in a manner which would permit importers to be assured of receiving regular supplies while providing for exporters, and in particular those in the developing countries, to receive fair returns on their investments. The International Sugar Agreement offers the requisite guarantees and safeguards to achieve these goals.

THE INTERNATIONAL SUGAR AGREEMENT AND S. 2990

The Governments of the CARICOM nations have been very active in efforts to reintroduce an International Sugar Agreement. They were gratified by its provisional implementation at the beginning of this year and have hopes that the Agreement will become, as Assistant Secretary of State Katz has stated, the "Foundation" of U.S. sugar policy.

However, it would appear that S. 2990, the bill before the Committee, which is ostensibly intended to "implement" the I.S.A. goes much further than needed and, if enacted, would actually contravene the purpose and several provisions of the I.S.A., making it even more difficult for developing nations to have access to the U.S. sugar market.

The "Domestic Sugar Program", as provided in Title II of S. 2990, would establish a "global quota" separate from the I.S.A. which would be restrictive and disadvantageous to smaller supplying countries whose economies are so dependent on sugar exports. If there is to be a quota the CARICOM producers contend that a system should be adopted which gives preference to nations of the Western Hemisphere, particularly those which are eligible for duty-free treatment of their sugar under the Generalized System of Preferences.

The "import fee" device proposed under Section 205 as a means of supporting the domestic price of sugar is incompatible with the I.S.A., and, if imposed, could have the direct opposite effect upon world prices that the I.S.A. was designed to achieve. Making it more difficult to import sugar into the United Sates, would have a depressing effect on the world price. The U.S. could be accused of defeating the purpose of the I.S.A. by taking protective measures which the Agreement was designed to do away with. As the world's largest sugar importer the U.S. should lead the way in the I.S.A., not increase trade barriers further restricting market access.

We are confident the Committee can devise means of protecting the U.S. Domestic Sugar Industry which are consistent with and complementary to the I.S.A. and urge consideration of alternative methods to those proposed in S. 2990.

Thank you.

STATEMENT OF ARTHUR LEE QUINN, COUNSEL TO REDPATH SUGARS, LIMITED

(This material has been prepared, edited and distributed by Hamel, Park, McCabe & Saunders, which is registered with the U.S. Department of Justice under the Foreign Agents Registration Act of 1938, as amended, as an agent of Redpath Sugars, Limited (Tate & Lyle, Limited). A copy of such registration statement is available for public inspection at the Department of Justice and two copies of this statement have been filed with the Department as required by the Foreign Agents Registration Act. Registration of the Hamel, Park, McCabe & Saunders does not indicate approval of this material by the United States Government.)

Mr. Chairman and Members of the Subcommittee on Tourism and Sugar of the Comittee on Finance, I am Arthur Lee Quinn, of the Washington, D.C., law firm of Hamel, Park, McCabe & Saunders, and I appear before you today as Counsel to Redpath Sugars, Limited, Montreal, Quebec, Canada. I wish to thank you for the opportunity of presenting views on S. 2990, the "Sugar Stabilization Act of 1978."

The objectives of the Act are indeed very laudable, though we do have some reservations as to its ultimate effects on the U.S. domestic sugar industry, the International Sugar Agreement, and the world sugar trade generally.

On March 17th of this year, Murray D. McEwen, President of Redpath Sugars, Limited, presented a statement to the U.S. International Trade Commission. A copy is attached to this presentation as Appendix A, and with the permission of the Committee, we will quote from the Appendix as required.

30-306—78——18

The Canadian Sugar Industry consists of 17 sugar refineries, processing about 900,000 tons annually, and three beet sugar factories producing about 100,000 tons per year. As in the U.S., our domestic beet sugar growers benefit from an agricultural support program, and requirements of raw cane sugar are purchased on the world market, again, as in the U.S.

Canadian refiners selling into the U.S. do not benefit from any form of Government subsidy whatsoever, and compete with U.S. refiners strictly on service, quality and price.

The volume of refined sugar that is physically possible for Canadian refiners to export to the U.S. is very small by U.S. standards. If it were possible to ship all unused Canadian refined capacity to this country, it would amount to less than 4 percent of U.S. annual consumption. For various reasons this figure is impossible to attain, and it may be that 2 percent is a more likely ceiling. Maximum exports to date have only reached about 1 percent.

Prior to the expiration of the U.S. Sugar Act in 1974, Canada had no U.S. quota, and was precluded from selling into the U.S., whereas the Canadian border has always been open to exports of U.S. sugar into Canada. Since the expiration of the Sugar Act, we have worked very hard to build up sales into the U.S., with some measure of success, in quantity trifling by U.S. standards, but most important to us. If one takes into account the various factors mentioned in paragraph 2, page 3 of the Appendix, it is apparent that the balance of trade is still heavily weighted in favor of the U.S.

In our view, once against summarily closing the border to Canadian refined sugar would be discriminatory against the largest and closest trading partner of the U.S., would be quite unnecessary, and would produce no worthwhile results to the U.S.

One of the major objectives of the negotiations currently taking place in Geneva, is the dismantling of some of the numerous non-tariff barriers that hinder international trade. It appears to us that some of the measures proposed in Title II of the Sugar Stabilization Act, notably Section 203, providing for a Global Quota and Section 206, prohibiting the importation of direct consumption sugar except in conditions of emergency are of this nature. It would be a regressive step to institute any new restrictions, particularly if done so by one of the most important GATT participants, and could hardly be well received by other participating countries.

We are prepared to compete on even terms, so an Act, if fairly administered, allowing the importation of refined sugar, would not cause us undue alarm. We do have grave doubts, however, as to whether in the end the proposed legislation would produce the desired result of a healthy domestic sugar industry. We believe that the high prices produced by the Act would lead to increased use of corn sweeteners to the detriment of the sugar industry. The complications arising from the implementation of Global Quotas and their mandatory adjustment, would be such that the normal flow of business, particularly in such areas as forward contracting for both sales and purchases, and hedging of commitments, would be interfered with and would become very difficult if not impossible to operate.

It is difficult to see how the Act could operate compatibly with the I.S.A. For one thing, the I.S.A. does not differentiate for quota purposes, between raw sugar and refined sugar. It is very possible that operation of the proposed Act would result in the situation that existed under the old Sugar Act, when the U.S. market was a separate entity from the world market, with its own rules and regulations. If this were to happen, with the effective withdrawal of the largest importer, the I.S.A. could no langer exist. The U.S. would be rightly blamed for the breakdown and world criticism of the U.S. would be bitter indeed.

In common with most of the sugar trade, we do not look for substantial price improvement this year. We do not believe this is an indictment of the U.S.A., because overhanging surpluses have to be removed or at least reduced, before quota restrictions and normal market forces can move prices upward. We do believe that in time the Agreement will work, and will produce reasonable prices. We believe also that the present U.S. support program, though perhaps not perfect, is working, and if extended will bridge the time gap until world prices reach the desired level. We believe that new sugar legislation is unnecessary, and in its suggested form could be harmful to the best interests not only of U.S. suppliers, but to U.S. producers and refiners, and lastly to the U.S. itself.

Thank you.

[APPENDIX A]

REDPATH SUGARS LIMITED,
Montreal, Quebec, March 17, 1978.

HON. DANIEL MINCHEW,
Chairman, United States International Trade Commission,
Washington, D. C.

Dear CHAIRMAN MINCHEW: On December 1st, 1976, we were privileged to present a statement to the International Trade Commission hearings in San Francisco, under Investigation No. TA-201-16. We stated at that time that there was one central, all-important point to our presentation, and we beg the Commission's indulgence to quote it directly:

"If the Commission in this investigation determines that imports have increased and those imports are a substantial cause of serious injury, or the threat thereof, to the U.S. domestic sugar industry, it is very clear on the record that such injury, or the threat thereof, cannot be attributed in any respect, to imports of refined sugar, and certainly not refined sugar from Canada."

Our view in regard to the U.S. domestic sugar industry and its problems has not changed since then. Imports of refined sugar from Canada are not and have not been the case of any of the ills presently besetting the U.S. industry.

Total Canadian sugar consumption is about one million tons per year, only 9 percent of the U.S. figure. Imports of raw sugar into Canada comprise around 900,000 tons per year; the balance of 100,000 tons is domestically produced beet sugar, which as in the U.S. benefits from an agricultural support program. Canada has seven cane sugar refineries, and raw requirements are bought on the world market, just as in the U.S. We would like to emphasize as strongly as we can that Canadian refiners do not benefit from any form of Government subsidy whatsoever, and compete in the export trade with American refiners strictly on service, quality and price.

The volume of refined sugar that is physically possible for Canadian refiners to export to the U.S. is very small by U.S. standards. If it were possible to ship all unused Canadian refining capacity to this country, it would amount to less than 4 percent of our annual consumption. For various reasons this figure is impossible to attain, and it may be that 2 percent is a more likely ceiling.

Ever since the expiration of the U.S. Sugar Act, Canadian refiners have been free to develop markets in the northern United States within the economic shipping distance from their refineries in Montreal and Toronto, but the market penetration has been limited to a radius of approximately 250 miles from these two Canadian centers and encompasses such U.S. points as Detroit, Upstate New York, Vermont and New Hampshire. Freight rates preclude any further penetration for our sugar. As with any new market, it was difficult to develop customer relationships initially. However, as time went by, successful performance in the United States market led to increases. Exports of direct consumption sugar to the U.S. have risen from 39,900 short tons raw value in 1975 to 50,568 in 1976 and a preliminary figure of 138,027 in 1977. We are happy with the growth of sales in the U.S. market, but it should be noted that our increase last year was only 179 percent compared to an increase of 368 percent in direct consumption imports from countries other than Canada.

Any examination of the sugar trade between Canada and the United States would be incomplete if we were not to mention the fact that over the years, United States refiners had no restrictions placed upon them in exporting to Canada. Reflecting this, were some 82,622 short tons of raw value exports to Canada from the United States in 1975, 37,626 tons in 1976 and 3,915 tons in 1977.

While the American trend has decreased, any consideration of overall sales, including the year 1974 (during which American refiners exported over 64,000 tons to Canada while, Canada was precluded from shipping into the U.S.), shows that the four year total is roughly in balance. Also, when one considers the fact that the Canadian market is only 9 percent of the total U.S. market, added to the fact that corn sweeteners enjoy a one way trade into Canada of at least 20,000, possibly as much as 50,000 tons per year, and that the trade in related sugar products, such as, beet pulp, beet molasses, sugar machinery, is only into Canada, it is apparent that the overall trade in sugar and its related items is weighted heavily on the U.S. side. In fact, an examination of recent trade statistics indicate that in the food and agricultural products area, the United States enjoys a favorable balance of payments with Canada, in the neighborhood of half a billion dollars.

Under conditions of unrestricted access to the U.S. market, the real threat of massive imports of refined sugar would be from the E.E.C. and Brazil. There is no comparison between the potential of those countries to flood the U.S. market, and the relatively insignificant quantities that could be shipped by Canada. Nevertheless, under the International Sugar Agreement, there are no restrictions on the amount of sugar that the E.E.C., as a non-member, could ship to the U.S. Under terms of the Agreement the maximum quantity that non-members in total can ship to the U.S. is calculated by taking the average annual sugar imports from non-members as a group in years 1973–1976, omitting the year of lowest imports from such countries.

Testimony has been offered during this investigation on the limited extent of protection now enjoyed by U.S. Cane Refiners when their costs are measured against the tariff duty and import fee which must be borne by foreign exporters of refined sugar. Let me point out that Canadian refiners are small in comparison to those in the U.S. and costs are, consequently, higher. Our wage rates are at least equivalent to those paid in the U.S., and in Redpath's case, because of our inland situation, we must carry large Winter stocks with the attendant cost and market risk. Nevertheless, the refining protection under which we operate is only 33 cents per 100 pounds, compared to a figure given in previous testimony at these hearings for U.S. refining protection, of 69 cents per 100 pounds. It should also be pointed out that whether or not 69 cents is insufficient protection, it is 69 cents more than existed previously, when there was none at all. Under the former U.S. Sugar Act, there was no need for refining protection, as imports of refined were very restricted, and it is only recently that U.S. refiners have become subject to competition from imports. Canadian refiners have always lived with very minimal protection. It should be mentioned also that the import duty on sugar entering Canada from the U.S. is $1.40 per 100 pounds, whereas Canadian refined entering the U.S. pays duty of $2.98 plus an import fee of $3,22, a total of $6.20, or an imbalance on the U.S. side of $4.80 per 100 pounds.

We believe the focus of this investigation is to determine whether or not imports are undermining the domestic support program of the United States Government. We would like to state as clearly as possible that the program has indeed worked. We have been unable to sell into the U.S. market since January 21st, due to our inability to match competitive prices. The addition of the $3.22 import fee has literally knocked us out of contention. The only exports which are being made from Canada to the United States market at this time, by Redpath at least, derive almost entirely from agreements which were made before the time of imposition of the import fee. We see no need for further import restrictions. We can very definitely state that over the last two months, our price offerings have been unsuccessful, and believe it is clear that the domestic support program is indeed working well.

We have read with great interest the presentations at these hearings, as well as the questions from the Commission and Staff. We believe the ground has been covered exceedingly well, and have little observation to make on previous testimony. We would, however, like to offer two comments. One is that we agree with the statements made by Mr. Peterson of the Sugar Users Group, that auctioning off quota rights would be an administrative nightmare and unworthy of the U.S. We also agree with the proposal of Mr. Peterson and others, for a fixed import fee which would vary periodically, according to some formula, in preference to one that could change daily. We recognize that no solution is likely to be perfect, but we would like to point out one difficulty we see. That is, that clever traders, of whom there are many, could follow the trend of prices, and toward the end of a period, knowing the formula, and the obligatory action to come, would be able to take advantage of the situation either by heavy buying in advance, or by delaying purchases, thus creating artificial instability.

The Canadian border has always been open to imports of sugar from the U.S., while it is only in the past three years that sugar from Canada has enjoyed the same right. There is little doubt that the recent changes in duties and import fees will have an adverse effect on our U.S. sales, and we believe they will definitely be lower this year than last. Given the small volume, (in relative terms) moving from Canada, and its lack of impact on the U.S. producing industry, there would seem to be no good reason for creating further impediments to Canadian sugar entering the U.S.

We sympathize with the U.S. domestic sugar industry in its present difficulties and earnestly hope that means will be found to overcome their problems, but

preventing sugar refined in Canada from entering the U.S. will be of no help in solving the problems. Such action would, however, result in considerable hardship to Canadian refiners, and would remove from American consumers in the North-East, an alternative source of supply from a natural geographic area, which we believe has been of benefit to them.

Respectfully,

MURRAY D. MCEWEN.

STATEMENT OF NEW YORK COFFEE AND SUGAR EXCHANGE, INC.

The New York Coffee and Sugar Exchange, Inc. provides the world's largest marketplace for trading in sugar contracts for future delivery. The Exchange, which is regulated by the Federal Commodity Futures Trading Commission, makes available two sugar contracts for trading—the Sugar No. 11 or World Sugar Contract which calls for the delivery at country of origin of fifty tons of raw cane sugar from any of twenty-nine producing countries and the Sugar No. 12 or Domestic Contract which calls for the delivery of cane sugar in bulk CIF duty paid at named Atlantic and Gulf ports. During 1977, 1,071,660 sugar contracts representing 53,583,000 tons of sugar were traded on the Exchange. Of these 1,055,984 were Sugar No. 11 or World Contracts.

The Exchange is not a participant in the determination of the price of sugar—the Exchange is price neutral. Rather, the Exchange provides a public setting where members can conduct transactions for the future delivery of sugar and where prices can reach their natural level under the free market system. Competitive prices are determined by "open outcry" on the floor of the Exchange and these prices are rapidly disseminated all over the world.

The New York Coffee and Sugar Exchange appreciates and supports both the domestic sugar growing industry's desire for economic relief from depressed sugar prices and its goal of more stable domestic sugar prices. We believe, however, that there are more equitable and efficient means of achieving this goal than those proposed in the Senate Bill. The costs involved with the greater trade restrictions of import quotas far outweigh any benefits which may accrue to sugar growers from higher sugar prices. It is our view that sugar import quotas will hurt the many domestic industries which use sugar by raising their costs of production; will either completely or partially close off the U.S. sugar market to many developing nations—many of whom rely on sugar as their chief source of foreign exchange; will undermine the International Sugar Agreement, already struggling to survive; will raise the cost of food consumption in the United States and add to the rising rate of overall inflation; will disrupt the world sugar market by limiting its breadth and increasing world sugar price volatility; will be difficult to administer and pose many technical problems; and may in the long run harm the domestic sugar growing industry by accelerating competition from high fructose corn syrup.

As a fundamental principle the Exchange advocates free trade. While recognizing the dislocations which may result from foreign trade competition, the Exchange believes that, within limitations, free international trade best serves consumers, producers, and the national economy.

THE THEORY OPPOSING PROTECTIONISM: TARIFFS VS. QUOTAS

There is a fundamental economic concept which states that each economic action should be viewed not only by its direct effect on a special group but by its impact on all groups and interests, and such action should also be analyzed for its long run as well as its immediate consequences. The Senate Bill under consideration violates this principle. It makes no mention of the long run effects of increased import protection for the sugar growing industry or its impact on economic interests other than sugar growers.

There are very real costs in protecting domestic industries, and these costs are greater with import quotas than with tariffs. While this is not the place to discuss at length the many arguments opposing trade restrictions, it may be useful to briefly set out why protectionism is harmful and why quotas are the least effective way to protect domestic industries.

Tariffs, relative to free trade, restrict consumer choice by excluding foreign goods from the domestic market, encourage production of less efficient industries to produce more at higher costs, raise the overall price level, and by limiting imports, reduce foreign countries' means to buy U.S. goods.

But despite these drawbacks, tariffs are superior to quotas. Tariffs enable foreign traders, by reducing other costs or absorbing higher tariffs in profits, to at least continue competing with domestic industries. But quotas, by totally excluding some exporters from the domestic market, drastically reduce competition. Consequently, quotas raise prices and increase the costs of industries which use the protected good far in excess to what would occur with tariffs. Moreover, by preventing price competition, they lock in existing inefficiency and remove incentives for cost reduction, technological advance, or other price motivated innovation.

COMMENTS ON S. 2990

The following lists our comments on S. 2990's specific proposals to raise domestic sugar prices and impose import quotas.

1. Impact on industries using sugar and sugar refining.

In attempting to bring relief to sugar growers, the Senate Bill disregards the impact higher domestic sugar prices will have on the many industries which use sugar. Industries such as soft drinks; bakeries and confectionaries; cereals; ice cream and dairy products; and frozen foods, jams and jellies will be specifically hurt.

In the sugar price rise of 1973-75, the Council on Wage and Price Stability[1] reports that profits of industries which use sugar in their production process were squeezed by the higher sugar prices. Consequently, some of these industries experienced larger employment declines than those attributable to the 1974 business recession. Particularly hard hit were bakeries and confectionaries and the breakfast cereal industry which could make only limited use of substitute sweeteners. For example, during 1974, employment in the Bakery Products Industry declined 12.6 percent and employment in the Confectionary and Related Products Industry declined 17.3 percent compared to a much smaller decline of 5.4 percent in the all inclusive Food and Kindred Products Industry.[2]

Although the Council's study found that sugar refiners appeared to have increased profit in the 1974 sugar price rise, this will probably not occur if domestic sugar prices are pushed up sharply again. Competition from corn sweeteners (see section below on corn sweeteners) has grown substantially since 1974. Higher sugar prices will only accelerate the portion of the U.S. sweetener market taken by these substitute sweeteners, thus limiting the ability of sugar refiners to pass higher sugar prices on in today's market.

2. Threat to the International Sugar Agreement.

The International Sugar Agreement (ISA), which went into effect in early 1978, is an agreement between sugar producing and consuming nations. Its main purpose is to stabilize the FOB world price of raw sugar between 11¢ and 21¢ per pound through the use of export quotas and reserve stocks. Starting at a time when sugar prices were depressed, averaging 8.25¢ per pound in 1977 and falling as low as 7.10¢ per pound in May, 1978, the ISA has been unable so far to achieve an 11¢ minimum. The fundamental conditions producing low sugar prices—high world sugar production and large stocks of sugar—are projected to continue through 1978 and into 1979. Production estimates run as high as 90.6 million metric tons for the 1977-78 crop year, up from 87.3 million metric tons in 1976-77; and sugar stocks are estimated at 28.5 million metric tons in 1977-78, up 5 million metric tons from 1976-77.

The U.S. demand for sugar has played a very large part in the world sugar market. The bulk of world sugar is consumed in the producing nations or is traded between nations in long term agreements. The residual—currently about 15 million tons—constitutes the free world market. Because the free world market is small compared to the total market, small surpluses have disproportionately big effects on the free world sugar price. Even the addition of 3 million tons to the surplus, such as was added in the 1977-78 crop year, can depress world prices significantly. Consequently, changes in U.S. sugar imports have produced very big shifts in world sugar prices.

U.S. import quotas will have a great impact on the already depressed world sugar market. Significant reductions from the 1977 import level of 5.6 million metric tons of sugar will add to world sugar stocks and could push world prices much lower

[1] Council on Wage and Price Stability, *Staff Report on Sugar Prices*, May 1975.
[2] Ibid, p. 49.

than the prevailing price range of 7¢ to 7.5¢. The ISA, in such market conditions, would be hard pressed to survive.

3. Impact on Developing Nations.

The outlook for the ISA and the economies of many developing nations are intertwined. Failure of the ISA may result in substantial loss of trade revenue to many countries which depend on sugar as a chief export. Small U.S. import quotas in the near future, used to support a higher domestic sugar price, will further hurt the sugar exporting countries that depend particularly on the U.S. for their export market. These large sugar exporting nations, many of whom are from South and Central America, are important U.S. trading partners (See Table 1). There seems to be a contradiction between the long-time U.S. economic aid policy for friendly, developing nations and a sugar program which erects trade barriers that reduce those countries' trade with the U.S.

4. Inflationary Effects.

An increase in the domestic price for sugar will substantially raise the domestic rate of inflation. Food prices, an important component of the wholesale and consumer price indices, have primarily accounted for the accelerating cost of living thus far in 1978. Increased raw sugar prices passed along into the price of final goods containing sugar will therefore contribute to the already disquieting national inflationary trend.

5. Disruption to World Sugar Markets.

Raising the sugar support price through the use of import quotas will depress the world price of sugar and reduce the liquidity and breadth of the world sugar market. As discussed above, reduction of U.S. imports from the current level of 5.6 million metric tons will increase already existing world sugar stocks and further depress the price of sugar from the current 7 to 7.5¢ level. Furthermore, by lessening U.S. demand for foreign sugar stocks, quotas will diminish the volume of trading in world sugar and reduce the liquidity of the free world sugar market. The combination of this loss of liquidity with periodic shortages and surpluses and uncertain access to the U.S. market produced by import quotas and fees (see section on quotas below) will increase the instability of world sugar prices.

6. Technical Problems with Import Quotas.

The proposed legislation calls for global quotas set on a quarterly review basis. Global quotas provide for a pre-determined quantity of sugar to be exported to the U.S. market on a first come, first serve basis. Global quotas will create great uncertainty for exporting countries. Depending on the quota set each quarter, these countries will be unsure as to whether they can market their sugar in the U.S. or must sell it elsewhere.

Country by country quotas resolve the uncertainty problem by assuring countries access to the U.S. market. However, country by country quotas turn the sugar exporting business from an economic to a political process. Countries will compete with one another to increase their quotas, and Congressional and bureaucratic lobbying will determine who exports sugar to the U.S. and in what quantity.

The combination of an import fee and quotas—as proposed in the Senate legislation—is designed to eliminate windfall gains to sugar exporting nations. In the absence of an import fee, the difference between the domestic and world price of sugar (the quota premium) usually accrues to the exporting nation. The current legislative proposal anticipates that the import fee will cover the quota premium, thereby giving the U.S. Government the quota premium in the form of the fee. But setting the fee and the quota in advance of each quarter will be an imprecise procedure. At times the U.S. price will be at a discount to the equivalent raw world sugar price (FOB country of origin) and at times it will be at a premium. In the event of a quota premium, windfalls will accrue to sugar exporters. Moreover, the swings from discount to premium will result in alternating shifts from world sugar shortage to surplus, thus increasing world price volatility.

In addition, global quotas will disrupt sugar refiners' schedules, making refiners' costs higher. Periodic shortages, caused by exporters' attempts to gain access to the U.S. market by targeting exports for the beginning of each quarter, could result in uneven sugar deliveries. Refiners' sugar arrival schedules will be affected, creating uncertainty in the refining process and raising costs of production. This will ultimately be felt in an increased price of refined sugar.

7. Competition from High Fructose Corn Syrup.

High Fructose Corn Syrup (HFCS), a sweetener from corn, is at least as sweet as sugar, and, except in granulated form, can substitute for sugar in most of its other uses. In production since 1972, HFCS sales have grown from 246 million pounds in 1972 to over 2 billion pounds in 1977 (See Table 2). This growth, although considerable, has been held down by the recent low price of sugar, but any substantial sugar price increase could accelerate HFCS's growing share of the sweetener market. Thus, the current legislation, over time, may not even be in the best interests of the U.S. sugar growing industry.

CONCLUSION

The proposed legislation hopes to return to the relatively stable sugar prices achieved during the years of the U.S. Sugar Act (1934–1974). However, 1978 conditions are quite different from the sugar markets which prevailed from 1934 to 1974. The current world is characterized by rapidly rising prices and costs of production and changing technology. Attempts to stabilize sugar prices in such an environment will be difficult at best. Moreover, the development of high fructose corn syrup in the last five years limits the levels at which domestic sugar prices can be supported. As demonstrated, the costs of attempting to support domestic sugar prices at high levels through import quotas weigh heavily against the short run benefits to U.S. sugar growers.

In the absence of free markets, a better approach to protecting sugar growers would be to limit price support increases to reasonable levels, and to rely when possible on market mechanisms to achieve these ends. If greater protection for sugar growers is needed, then use of import fees and, if necessary, direct subsidy payments would be preferable to import quotas.

TABLE 1.—U.S. SUGAR IMPORTS BY EXPORTING COUNTRY—1977

[In short tons raw value]

Source	Imports	Percent to total
Philippines	1,443,131	23.52
Dominican Republic	975,056	15.89
Brazil	660,427	10.76
Australia	493,620	8.04
Peru	312,794	5.10
Guatemala	300,938	4.90
South Africa	274,227	4.47
Argentina	267,177	4.35
El Salvador	166,028	2.71
West Indies	159,745	2.60
Canada	138,027	2.25
Panama	131,162	2.14
Nicaragua	119,760	1.95
Others	694,390	11.32
Total	6,136,482	100.00

TABLE 2.—SALES AND PRICE OF HIGH FRUCTOSE CORN SWEETENERS, 1972-77

Year	Quantity (thousands of pounds)	Value (thousand)	Price (cents per pound)
1972	246,348	$22,008	8.93
1973	444,095	41,772	9.41
1974	597,908	108,499	18.11
1975	1,063,808	237,562	22.33
1976	1,574,024	216,407	13.75
1977	2,127,391	434,427	11.02

MIGRANT LEGAL ACTION PROGRAM, INC.,
Washington, D.C., May 18, 1978.

Re: S. 2990

Hon. SPARK M. MATSUNGA,
Chairman, Subcommittee on Tourism and Sugar of the Finance Committee, United States Senate, Washington, D.C.

Dear Mr. CHAIRMAN: This letter is written to express the general comments of the Migrant Legal Action Program, Inc., on S. 2990.

The Migrant Legal Action Program is a support center funded by the Legal Services Corporation to assist in the representation of migrant and seasonal farmworkers in litigative, administrative and legislative form. The Migrant Legal Action Program has represented farmworkers in a number of cases under the Sugar Act of 1948 and before various Senate and Congressional Committees regarding sugar legislation.

S. 2990, like the Sugar Act of 1948, seeks to protect the industry by the establishment of a "price objective" and other mechanisms for achieving it. Unlike the Sugar Act of 1948, S. 2990 contains no parallel protection for the worker. Simply stated, the rationale of the Sugar Act of 1948 was that if growers benefit, then workers must benefit. We urge this Subcommittee to adopt the same rationale with regard to new legislation to protect the sugar industry.

As you must know, the Sugar Act of 1948 provided for government subsidies to those producers of sugar cane and sugar beets who paid fair and reasonable minimum wages to workers who worked in the production of sugar beets and sugar cane. The Sugar Act of 1948 was concerned with enabling sugar workers to share the benefits of federal subsidization and protection of the sugar industry. After careful plotting by agricultural interests, the Sugar Act of 1948 expired on December 31, 1974. The expiration of the Act, and anticipation of its expiration, resulted in incredible profits for the sugar industry during 1974–1975.

The Sugar Act of 1948 had created support for the price of sugar by limiting the acreage of sugar allowed to be grown in the U.S., limiting the importation of foreign sugar, and monitoring the effect of both of these mechanisms so as to achieve a "price objective" for sugar. The price objective was pegged to levels substantially higher than the domestic market price for sugar would have been without the Sugar Act's mechanisms.

Since 1975, the market price for sugar has been so low that sugar producers have clammored for, and received, price support in the form of Section 902 of the Food and Agriculture Act of 1977. That Act also conditioned price support on the payment of special minimum wages to sugar field workers.

In sum, all legislation from 1934 to the present which has protected the sugar industry has also protected field workers. It would be unconscionable to pass legislation protective of the sugar industry without parallel provisions protecting the workers.

No doubt many growers will argue an inability to pay higher wages. In light of the profits experienced in 1974–1975 (which the workers failed to share in) and the well-known poverty conditions in which sugar workers live, these views must be rejected. When workers sought a reconsideration of the wage levels for the 1974–1975 season, the growers spent considerable time, energy and money to prevent such reconsideration.

Finally, the Subcommittee cannot ignore the fact that foreign workers cutting sugar cane in Florida will earn $3.48 an hour in 1978–1979. That rate has been established as the adverse effect rate by the Department of Labor at 20 C.F.R. § 655,207 (43 Fed. Reg. 16431, April 18, 1978). It is unconscionable that foreign workers in the United States should make $.50 to $.85 per hour more than U.S. workers.

Mr. Chairman, the Migrant Legal Action Program urges that you and the members of your Committee include farmworkers in the protections guaranteed by S. 2990. It is the political powerlessness of farmworkers, not the equities of the situation, that prevents them from sharing in the protections which the government and consumers will bestow upon the sugar industry.

Sincerely,

HOWARD H. SCHER,
BURTON D. FRETZ.

STATEMENT OF THE SUGAR CORPORATION OF PUERTO RICO, SR. GUILLERMO ESTEVES, EXECUTIVE DIRECTOR

The Sugar Corporation of Puerto Rico appreciates this opportunity to present the Senate Committee on Finance with its views with respect to S. 2990, the Sugar Stabilization Act of 1978.

Puerto Rico is one of five sugarcane producing areas in the United States, along with Texas, Louisiana, Florida and Hawaii.

The Sugar Corporation of Puerto Rico, an instrumentality of the Government of Puerto Rico, was created in 1973 for the purpose of containing the sugarcane growing, grinding and refining operations that had been abandoned by the private sector in the years prior to 1973. Intervention by the Commonwealth government into a previously private sector activity was necessary to prevent the economic chaos and unemployment which would have resulted from the elimination of this important industry on the island. The economic conditions both in the Commonwealth and in the world sugar market were such that it became increasingly difficult for the private sector to effectively maintain the island's sugar industry, which included 11 raw sugar factories and four refineries. Since 1977 the Sugar Corporation has instituted extensive cost reduction and efficiency measures and now operates seven raw sugar factories and two refining mills. In addition, the Department of Agriculture of Puerto Rico currently operates a local subsidy program that allows some 2,000 cane growers to continue their essential farming activities. The Sugar Corporation works continuously with the Puerto Rico Department of Agriculture and the Agricultural Conservation and Stabilization Service of USDA to preserve the sugar industry on the island.

Despite its efforts during the last five years, the Sugar Corporation has not yet been able to eliminate the gap between cost and income in sugar production and continues to operate at a deficit. However, current projections indicate that this gap should be closed within the next five years. Despite recent drastic cost reduction efforts, including a 15,000 acre redutcion in cane acreage, the closing down of four raw sugar factories and two refineries, and the laying off of over 1,000 workers, high production costs continue to prevail in the Puerto Rican sugar industry. These high production costs stem in large part from the following factors:—

(1) The Sugar Corporation must observe Federal Wage and Hour provisions, regardless of their relevance to the island's economy;

(2) The Sugar Corporation must contend with a high level of organized labor in all phases of can and sugar production, resulting in fringe benefits that amount to more than 40 percent of base wages;

(3) The Sugar Corporation must observe long-term collective bargaining agreements which limit the use of mechanical harvesters and other labor-reducing mechanisms in the operation of the sugar industry;

(4) The Sugar Corporation must observe Federal Environmental Protection Agency regulations, which, if implemented, would require capital investment in amounts which would exceed the current market value of capital stock owned by the corporation;

(5) The Sugar Corporation must accept Federal limitations on the use of essential pesticides, which result in lower sugar yield and require frequent and expensive replanting of all fields;

(6) The Puerto Rican Sugar Corporation relies almost exclusively on foreign petroleum to operate its factories at costs which are currently close to 12–15 percent above domestic costs;

(7) The Sugar Corporation must import over 90 percent of its production equipment, parts and materials necessary to maintain the island's sugar operations from the mainland, and additionally must ship such equipment in high-cost American flag ships; and

(8) The Sugar Corporation must ship sugar not refined on the island to the mainland in ships flying the American flag.

Finally, the dramtic impact of the above factors is compounded when unpredictable factors such as the weather are entered into the equation. During 1977, Puerto Rico produced 263,000 short tones of raw sugar. In 1978, the same amount of sugarcane will be harvested, ground and processed, but adverse weather conditions have been such that the production is estimated at only 217,000 short tons. Thus, costs equal to or greater than those incurred in 1977 will again be incurred in 1978 with production 18 percent below that of the 1977 crop.

All of the above condtions reflect the need for continued near-term assistance for the domestic sugar industry. The Sugar Corporation of Puerto Rico continues to be acutely interested in the direction taken by the Congress and the Department of Agriculture with respect to the domestic industry.

The difficulties plaguing the domestic sugar industry have been well documented in the last eighteen months. The International Trade Commission has made two investigations into the effects of foreign sugar imports on the domestic industry and found an adverse impact in both instances. The President and Congress have both addressed the damage brought on the domestic industry and taken actions at various junctures. The Sugar Corporation views the solutions to the numerous problems identified as requiring a two-phased attack. First, the damage that has been incurred must be rectified and incentives provided to revitalize the industry, and second, the role of the domestic sugar production industry must be defined in context of world sugar trade. The former will result in a stable domestic industry that will in turn benefit both domestic producers and consumers of sugar. The latter, which is designed to encourage needed harmony in world trade, will not address the more immediate problems of revitalizing the domestic sugar industry. We feel that S. 2990, the Sugar Stabilization Act of 1978, addresses the second point to the exclusion of the first. The support payments program, and presumably the loan programs when implemented, provide "immediate" assistance aimed at getting the domestic industry back on its feet. S. 2990 will result at best in a trickledown effect on the domestic industry, and which might not be felt until the time for assistance is long past. While the exercise of setting a quota ceiling by subtracting domestic production capacity from domestic needs is a logical one, it can only be effective when juxtaposed within an incentive program to increase domestic production and productivity and thus lessen dependence on foreign sugar.

In keeping with the Sugar Corporation's belief in a two-pronged stategy, we would recommend consideration of the following measures:

(1) Due to the fact that the current support program expires at the end of the 1978 crop season, and the domestic industry has still not fully recovered from the damage caused by market developments in the last few years, some type of extension of the current support programs should be considered to provide near-term assistance on a continued basis; and

(2) As with almost all agricultural commodities, frequent and/or significant variations in the scheme of production and marketing make it difficult for producers to effectively plan production. Therefore, a long-term strategy with respect to the domestic sugar industry must be developed in the relatively near future. Such a long-term strategy should be developed with the active participation of the Department of Agriculture and all of the domestic producing areas.

In short, the Sugar Corporation is concerned that S. 2990 does not adequately address the problem of the near-term assistance necessary to continue the revitalization of the domestic sugar industry. We hope that S. 2990 will be expanded to more comprehensively address all the pressing problems that impact on the domestic sugar industry, both in the near and long term.

The Sugar Corporation of Puerto Rico looks forward to continued participation in the process of developing an effective domestic sugar strategy.

Statement of Jerry C. Trippe in Behalf of the Government of Malawi

My name is Jerry C. Trippe and I am an attorney with offices in Washington, D.C. I am registered with the Department of Justice in accordance with the Foreign Agents Registration Act of 1938, as amended. I am counsel for the Government of Malawi and wish to take this opportunity to present the views of the Government of Malawi on S. 2990, the Sugar Stabilization Act of 1978.

The Government of Malawi is aware of the United States Government's interest in the economic well being of developing countries and of actions it has taken to make the United States market available to products of those countries. It is for this reason that the Government of Malawi wishes to express its views on what it believes to be the potential impact of the Sugar Stabilization Act upon developing countries like Malawi.

The Government of Malawi, a signatory of the International Sugar Agreement, applauds the intent of Title I of the Sugar Stabilization Act of 1978 which authorizes actions to implement that Agreement. The participation of the United States

in the International Sugar Agreement is vital to its success. The Government of Malawi believes that the International Sugar Agreement offers a real opportunity to stabilize world sugar prices to the benefit of all sugar exporters and importers.

Title II of the Sugar Stabilization Act sets forth a domestic sugar program which appears well suited for carrying out the primary purposes of the Act, protection of the welfare of American consumers of sugar and the domestic sugar producing industry.

We believe, however, that Title II of the Act may have the effect of denying the United States sugar market to a group of developing countries. I would like to address this issue and propose an amendment to the Act which we believe will cure the problem we foresee.

Malawi is a developing country in Southeast Africa. Malawi sugar production began in 1966, primarily to supply domestic requirements. Since Malawi was not a member of any special supply arrangement its export opportunities were limited. The decision to expand sugar production significantly beyond what was needed for domestic consumption was based upon obtaining a United States sugar quota under the Sugar Act. This quota was granted as a part of the Sugar Act Amendment of 1971. Expansion plans were implemented and sugar became an important export crop.

The defeat of the Sugar Act in 1974 meant the end to a guaranteed market for Malawi sugar and was a serious threat to continued development. Implementation of the Generalized System of Preferences in late 1975 helped to restore confidence that Malawi would have an export market for its sugar and previously planned expansion was undertaken. Sugar has now become Malawi's third largest producer of export revenues.

The point I would like to make is that actions taken by the United States, the largest free world importer of sugar, with regard to its sugar import program have direct and significant impact on developing nations like Malawi. Title II of the proposed Sugar Stabilization Act, however, is silent on the question of how foreign suppliers like Malawi are to fare under the import program it provides for.

The problem seen by the Government of Malawi is that a global quota favors large producers, and those closest to the United States. This was the conclusion of the International Trade Commission in its most recent report to the President on the sugar situation in the United States. Assistant Secretary of State Katz made the same observation in his testimony before the Committee on Finance on May 11, 1978, and then expressed how the inherent bias of such a system would lead to difficult foreign relations problems and pressures for change.

Malawi is both a small producer and located far from the United States and therefore is particularly sensitive to this aspect of the proposed legislation. We believe that this problem can be solved, however, in a manner consistent with the basic purposes of the legislation. The solution we propose is based upon the Generalized System of Preferences (GSP) first introduced by the Committee on Finance in the Trade Act of 1974.

GSP, though a system of tariff preferences, aids developing nations in marketing their products in the United States. Other developed nations recognizing the need to provide assured markets for products of the third world have created similar arrangements. Emphasis is on trade rather than aid, and without doubt this is an effective means of promoting economic growth and international responsibility in developing nations.

Sugar was made an item eligible for GSP purposes in late 1975. This was a particularly significant application of GSP since the demise of the Sugar Act had put U.S. sugar imports into the world market. Developing countries, formerly with quotas under the Sugar Act, were forced to compete in the open market for U.S. sales. Under GSP, with the price advantage gained by preferential tariff treatment, the small producers once again could count on the availability of a U.S. market for their sugar, as they had under the country quota system of the Sugar Act.

The problem with GSP in the context of the Sugar Stabilization Act is that it can be withdrawn by the Executive. It lacks, therefore, the certainty of elements of the program established by legislation such as the global quota. During the last two years of turmoil in United States sugar policy GSP eligibility for sugar has been continuously in jeopardy. GSP, unfortunately, appears to some to be an easy sacrifice to expediency in the complex interdepartmental deliberations over U.S. sugar policy. Although the President has resisted withdrawing GSP for sugar, the possibility that it could be eliminated has been the source of real concern by the beneficiary developing countries as to the continued availability of the U.S. market for their sugar.

Uncertainty could be eliminated and stability provided for small developing country sugar producers if the eligibility of GSP for sugar is made a specific provision of the Sugar Stabilization Act. We propose that the current Bill be amended, accordingly. Under our proposal the GSP framework established by the Trade Act of 1974 would continue to apply, however, eligibility of GSP for sugar could not be withdrawn for the duration of the Act. Such a step would be totally consistent with the basic purposes of the proposed Act since the global quota and import fee system give absolute assurance that duty free status for the relatively small amounts of imports under GSP, 17 percent of imports in 1976 and 13 percent in 1977, will have no adverse effect on the domestic sugar industry. Of course, GSP has never contributed to the threat of higher prices to the consumer.

The inclusion of GSP eligibility for sugar in the Sugar Stabilization Act of 1978 will make it a comprehensive sugar import program much like the Sugar Act, dealing with both the domestic and foreign interests. The small, and distant producers who are at a disadvantage under a global quota system would be protected and the pressures for change and the difficult foreign policy problems cited by the Department of State would be significantly reduced if not eliminated. Moreover, such a step would be a clear and public statement that the United States intends to follow through on its policy declarations of help for the economies of the developing countries by enhancing opportunities for trade.

Finally, the adoption of the proposal made here concerning GSP will form another link in the chain of participation by small country producers in a United States sugar program designed to bring about equitable treatment to all elements involved.

Statement of Senator Robert Dole

I have joined with 34 of my colleagues in cosponsoring S. 2990, a bill that was introduced by Senator Church on April 25, 1978. This legislation, as pointed out when it was introduced, is designed to implement the International Sugar Agreement, and to protect the interest of those engaged in the sugar-producing industry and the consumer. I believe farmers who grow sugar beets, sugar cane and corn are in agreement on the major features of S. 2990. I am aware, however, of some concerns of refiners and industrial end-users of sugar and sweeteners.

These hearings will afford an opportunity for discussion of the pros and cons of sugar legislation. We must have sugar legislation this year for several reasons.

Among the reasons are (1) the de la Garza provision of the Food and Agriculture Act of 1977 expires at the end of the 1978 crop, and (2) we cannot depend on the International Sugar Agreement to take care of our domestic sugar problems. The ineffectiveness of international commodity agrements in past years is well known.

Just to elaborate on my first reason, I recall with concern the Administration's direct payment program, which was both costly and ineffective. It took concerted Congressional efforts to get the de la Garza provisions implemented by the Administration after it became law September 29, 1977. While this implementation was being accomplished, foreign sugar was being rushed into the U.S. market with a detrimental effect on U.S. producers who were suffering below-cost-of-production prices. Thus, in designing new sugar and sweetener legislation we must remember this recent sugar policy history.

Regarding my second point relating to sugar agreements, Secretary of State Vance, in a letter to the President on December 24, 1977, expressed the following reservations:

"In recommending submission of the Agreement to the Senate the Department must add certain cautions. The first is that, because of current world sugar market conditions, the Agreement is not expected to achieve immediately the minimum price objectives of the U.S. domestic program. Also, if the European Economic Community does not join the Agreement, its large stocks and export capacity could further delay the price effect, though the Department does not believe this would be in their interests. Second, the Agreement represents an opportunity, but not a guarantee, for stable and reasonable prices. Just as the Agreement cannot immediately cure the depressed prices, it also cannot prevent shortages and high prices resulting from extensive crop disasters."

While I support and am a cosponsor of S. 2990, I am anxious to hear the thoughts of those who will be testifying—both those who feel that S. 2990 is the best possible legislation and those that feel that it could be strengthened.

O