

# SUGAR ACT AMENDMENTS OF 1971

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**HEARINGS**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
NINETY-SECOND CONGRESS

FIRST SESSION

ON

## **H.R. 8866**

AN ACT TO AMEND AND EXTEND THE PROVISIONS OF THE  
SUGAR ACT OF 1948, AS AMENDED, AND FOR OTHER PURPOSES

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JUNE 16, 17, 21, AND 22, 1971

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**Part 1 of 2 Parts**  
**(June 16, 17, and 21, 1971)**

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Printed for the use of the Committee on Finance



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## SUGAR ACT AMENDMENTS OF 1971

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WEDNESDAY, JUNE 16, 1971

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U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Harris, Byrd, Jr. of Virginia, Bennett, Curtis, Miller, Fannin, and Hansen.

The CHAIRMAN. This hearing will come to order. Other Senators on the committee will be along shortly.

This morning, the Committee on Finance begins hearings on H.R. 8866, the Sugar Act Amendments of 1971. This bill, as passed by the House, would extend the Sugar Act for 3 years. It would realine domestic quotas somewhat and make a number of rather significant changes in the foreign quota provisions of the law.

The sugar program is one commodity program which has worked well. Because of its success, it has served as a prototype for other commodity arrangements such as the coffee program. In few instances have the interest of consumers been guarded as effectively as under the sugar program. While prices of other products have gone up sharply over the years, the rise in sugar prices has lagged far behind.

It is the committee's intention to hear the administration testimony today and the presentation of domestic industry spokesmen tomorrow. Representatives of foreign nations will be heard on Monday and Tuesday of next week. Thereafter, the committee will consider the bill in executive session.

At this point in the record we will include a copy of the bill before us, H.R. 8866, a summary of the principal provisions of the bill prepared by the staff of the committee, and the committee's press release announcing these hearings.

(The material referred to follows. Testimony begins on p. 38.)

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PRESS RELEASE

FOR IMMEDIATE RELEASE  
June 10, 1971

COMMITTEE ON FINANCE  
UNITED STATES SENATE  
2227 New Senate Office Bldg.

SUGAR HEARINGS ANNOUNCED

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that on Wednesday, June 16, the Committee would begin public hearings on H. R. 8866, the Sugar Act Amendments of 1971, which passed the House earlier today. It would extend the sugar program, which has been in existence since 1934, for another three years, until December 31, 1974.

The Honorable Clarence D. Palmby, Assistant Secretary of the Department of Agriculture, will be lead-off witness for the Administration. He will be followed by Honorable Julius L. Katz, Deputy Assistant Secretary for International Resources and Food Policy of the Department of State. The hearing will be held in Room 2221, New Senate Office Building, and will begin at 10:00 a. m. on June 16.

Chairman Long reported that on Thursday, June 17, the combined statement of the domestic sugar industry would be presented to the Committee, and that beginning on Monday, June 21, representatives of foreign nations desiring to testify would be heard.

Requests to Testify . -- Senator Long also urged those persons desiring to present testimony on H. R. 8866 should make their request to Tom Vail, Chief Counsel of the Finance Committee, 2227 New Senate Office Building, no later than Wednesday, June 16, 1971.

The Chairman emphasized that the Committee on Finance has been provided with testimony received in public hearings by the House Committee on Agriculture, and that the information contained in these hearings would be studied by the Committee. Oral presentation of repetitious testimony before the Committee on Finance accordingly would be unnecessary and undesirable, he said, and witnesses who choose to submit their statements to the Committee in written form would have them published in the Committee hearing. He emphasized that these written statements would be given the same consideration by the Committee as though they had been made orally.

Representatives of Foreign Countries . -- Senator Long advised all representatives of foreign nations to include in their written testimony indication of how, and the extent to which, the benefits of participation in the U. S. sugar program flow through to the working man and serve to improve the standard of living in the nation involved. He also requested that they include information regarding U. S. trade with the foreign country concerned and how it might be increased by participation in the program.

Representatives of foreign nations who desire to present their testimony in person are requested to confine their oral presentations to not more than five minutes, and should be prepared to answer such questions as may be posed by Committee members.

Foreign Agents Registration Act . -- Chairman Long stated that representatives of foreign countries who desire to present testimony to the Committee in either oral or written form must comply fully with the provisions of the Foreign Agents Registration Act. This involves the submission to the Committee of the most recent registration statement filed by such person with the Department of Justice and notations on his testimony to the effect that such person is registered as an agent of a foreign principal.

Legislative Reorganization Act . -- The Chairman observed that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress --

"...to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

The statute also directs the staff of each Committee to prepare digests of all testimony for the use of Committee members.

Senator Long stated that in light of this statute, all witnesses who are scheduled to testify must comply with the following rules:

- (1) All statements must be filed with the Committee at least one day in advance of the day on which the witness is to appear. If a witness is scheduled to testify on a Monday, he must file his written statement with the Committee by the Friday preceding his appearance.
- (2) All witnesses must include with their written statement a summary of the principal points included in the statement.
- (3) The written statements must be typed on lettersize paper (not legal size) and at least 100 copies must be submitted to the Committee.
- (4) Witnesses are not to read their written statements to the Committee, but are to confine their oral presentation to a summary of the points included in the statement. The oral presentation should not exceed ten minutes, except that oral statements by representatives of foreign countries should not exceed five minutes.

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

Staff Digests . -- The Chairman emphasized that the Committee staffs had been instructed to fully digest all statements submitted to the Committee so that every important point made by any witness would be called to the Committee's attention. He stated that these digests would be made available to the Committee members before executive sessions to mark up the bill are begun.

Written Submissions . -- The Chairman observed that written statements must be received by the Committee not later than Wednesday, June 23. He requested that 100 copies of such statement be supplied.

92<sup>D</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 8866

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IN THE SENATE OF THE UNITED STATES

JUNE 11, 1971

Read twice and referred to the Committee on Finance

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## AN ACT

To amend and extend the provisions of the Sugar Act of 1948,  
as amended, 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 Act Amendments  
4 of 1971".

5 SEC. 2. Section 101 of the Sugar Act of 1948, as  
6 amended, is amended—

7 (1) by adding a new subsection (p) as follows:

8 "(p) The term 'mainland cane sugar area' means the  
9 States of Florida and Louisiana."; and

10 (2) by striking out of subsection (j) the words  
11 "the Virgin Islands,".

1       SEC. 3. Section 201 of the Sugar Act of 1948, as  
2 amended, is amended:

3           (1) by striking out the first sentence and substi-  
4 tuting the following: "The Secretary shall determine  
5 for each calendar year, beginning with the calendar  
6 year 1972, the amount of sugar needed to meet the  
7 requirements of consumers in the continental United  
8 States. Such determination shall be made during October  
9 of the year preceding the calendar year for which the  
10 determination is being made, and at such other times  
11 thereafter as may be required to attain the price objec-  
12 tive pursuant to the formula set forth herein.";

13           (2) by striking out of the second sentence "Septem-  
14 ber 30" and substituting "August 31";

15           (3) by changing the period at the end of the second  
16 sentence to a colon and adding the following: "*Provided,*  
17 That notwithstanding the foregoing, beginning with the  
18 month of January 1972, the price objective shall be a  
19 price for raw sugar which would maintain the same  
20 ratio between such price and the average of the parity  
21 index (1967=100) and the wholesale price index  
22 (1967=100) as the ratio that existed between (i) the  
23 simple average of the monthly price objective calculated  
24 for the period September 1, 1970, through August 31,  
25 1971, under section 201 of the Act in effect immedi-

1 ately prior to the date of enactment of the Sugar Act  
 2 Amendments of 1971, and (ii) the simple average of  
 3 such two indexes for the same period.”; and

4 (4) by adding at the end of the section a sentence  
 5 as follows: “The term ‘wholesale price index’ as used  
 6 herein shall mean such index as determined monthly by  
 7 the United States Department of Labor.”

8 SEC. 4. Section 202 of the Sugar Act of 1948, as  
 9 amended, is amended as follows:

10 (1) Subsection (a) is amended to read as follows:

11 “(a) (1) For domestic sugar-producing areas, by ap-  
 12 portioning among such areas seven million fifty-five thou-  
 13 sand short tons, raw value, as follows:

“Area:	Short tons, raw value
Domestic beet sugar-----	3, 406, 000
Mainland cane sugar-----	1, 539, 000
Hawaii -----	1, 110, 000
Puerto Rico -----	1, 000, 000
	<hr/>
Total -----	7, 055, 000

14 “(2) To or from the sum of four million nine hundred  
 15 and forty-five thousand short tons, raw value, of the quotas  
 16 for the domestic beet sugar and mainland cane sugar areas  
 17 there shall be added or deducted, as the case may be, an  
 18 amount equal to 65 per centum of the amount by which  
 19 the Secretary’s determination of requirements of consumers  
 20 in the continental United States pursuant to section 201 for  
 21 the calendar year is greater than or less than eleven million

1 two hundred thousand short tons, raw value. Such amount  
2 shall be apportioned between the domestic beet sugar area  
3 and the mainland cane sugar area on the basis of the quotas  
4 for such areas established under paragraph (1) of this sub-  
5 section in effect immediately prior to the date of enactment  
6 of the Sugar Act Amendments of 1971.

7 “(3) Notwithstanding the foregoing provisions of this  
8 subsection—

9 “(A) For the calendar years 1972 and 1973 the  
10 quota for Puerto Rico shall be eight hundred and fifty-  
11 five thousand short tons, raw value, subject to the pro-  
12 visions of subparagraph (B) of this paragraph (3).

13 “(B) Whenever the production of sugar in Hawaii  
14 or Puerto Rico in any year results in there being avail-  
15 able for marketing in the continental United States in  
16 any year sugar in excess of the quota for such area for  
17 such year established under paragraph (1) of this sub-  
18 section, the quota for the immediately following year es-  
19 tablished for such area under paragraph (1) of this sub-  
20 section shall be increased to the extent of such excess  
21 production: *Provided*, That in no event shall the quota  
22 for Hawaii or Puerto Rico, as so increased, exceed the  
23 quota which would have been established for such area



1 at the same level needed to meet the requirements of  
2 consumers under the provisions of section 202 (a) of the  
3 Sugar Act of 1948, as amended, in effect immediately  
4 prior to the date of enactment of the Sugar Act Amend-  
5 ments of 1962: *Provided further*, That sugar which is  
6 produced in Hawaii or Puerto Rico in any year and  
7 which is prevented from being marketed or brought into  
8 the continental United States in that year for reasons be-  
9 yond the control of the producer or the shipper of such  
10 sugar shall, within the limitations of the foregoing pro-  
11 viso and section 207, and in addition to the quota which  
12 would otherwise be established under section 202, be per-  
13 mitted to be marketed or brought into the continental  
14 United States in the next calendar year, except that such  
15 amount of sugar which is permitted to be marketed under  
16 this proviso shall be reduced by an amount equal to the  
17 amount of such sugar which has been sold to any other  
18 nation instead of being held for marketing in the con-  
19 tinental United States.”

20 “(4) Beginning with 1973 or as soon thereafter as the  
21 quota or quotas can be used, there shall be established for  
22 any new continental cane sugar producing area or areas a  
23 quota or quotas of not to exceed a total for all such areas of  
24 one hundred thousand short tons, raw value, subject to the  
25 requirements of section 302 of this Act.”

## 6

1 (2) Subsection (b) is amended to read as follows:

2 “(b) For the Republic of the Philippines in the amount  
3 of one million one hundred twenty-six thousand and twenty  
4 short tons, raw value.”

5 (3) Subsection (c) is amended:

6 (i) by striking out paragraph (2) ;

7 (ii) by amending paragraph (3) to read as follows:

8 “(3) For individual foreign countries other than the  
9 Republic of the Philippines and Ireland, by prorating the  
10 amount of sugar determined under paragraph (1) of this  
11 subsection, less the amount required to establish a quota as  
12 provided in paragraph (4) of this subsection for Ireland,  
13 among foreign countries on the following basis:

14 “(A) For countries in the Western Hemisphere:

“Country:	Per centum
Cuba .....	23. 74
Mexico .....	11. 38
Brazil .....	11. 13
Dominican Republic.....	11. 13
Peru .....	8. 87
West Indies.....	4. 07
Ecuador .....	1. 71
Argentina .....	1. 61
Colombia .....	1. 56
Costa Rica.....	1. 38
Nicaragua .....	1. 38
Panama .....	1. 35
Guatemala .....	1. 17
El Salvador.....	0. 85
Venezuela .....	0. 78
Bahamas .....	0. 71
British Honduras.....	0. 71
Haiti .....	0. 65
Bolivia .....	0. 36
Honduras .....	0. 36
Paraguay .....	0. 32

## 7

1       “(B) For countries outside the Western Hemisphere:

“Country:	Per centum
Australia .....	4. 92
Republic of China.....	2. 05
India .....	1. 97
South Africa.....	1. 44
Fiji .....	1. 07
Mauritius .....	0. 72
Swaziland .....	0. 72
Thailand .....	0. 45
Malagasy Republic.....	0. 36
Malawi .....	0. 36
Rhodesia .....	0. 36
Uganda .....	0. 36

2       “(C) Notwithstanding the provisions of paragraphs  
3 (A) and (B), for the calendar year 1972 the proration  
4 for Panama shall be 0.88 per centum and for Malawi shall  
5 be zero per centum and the prorations for the other coun-  
6 tries named in paragraphs (A) and (B) shall be increased  
7 proportionately.”; and

8           (iii) by amending paragraph (4) to read as  
9 follows:

10       “(4) For Ireland, in the amount of five thousand three  
11 hundred and fifty-one short tons, raw value, of sugar.”

12       (4) Subsection (d) is amended as follows:

13           (i) by amending paragraph (1) (A) to read as  
14 follows:

15       “(1) (A) During the current period of suspension of  
16 diplomatic relations between the United States and Cuba,  
17 the quota provided for Cuba under subsection (c) shall be  
18 withheld and a quantity of sugar equal to such quota shall be

1 prorated to other foreign countries named in paragraph (3)  
2 of subsection (c) on the basis of the percentages stated  
3 therein.”;

4 (ii) by striking out the words “the Bahama Islands,  
5 Bolivia, Honduras, and” in paragraph (3) ;

6 (iii) by striking out the word “August” and substi-  
7 tuting the word “June” in paragraph (4) ; and

8 (iv) by striking out “1965” each time it appears  
9 in paragraph (6) and inserting in lieu thereof “1971”.

10 (5) Subsection (e) is amended by inserting after the  
11 words “subsection (d) (1) of this section,” the words “or  
12 subsection 408 (c) of this Act,”.

13 (6) Subsection (f) is amended to read as follows:

14 “(f) Whenever any quota is required to be reduced  
15 pursuant to subsection (e) or because of a reduction in the  
16 requirements of consumers under section 201 of this Act, and  
17 the amount of sugar imported from any country or marketed  
18 from any area at the time of such reduction exceeds the  
19 reduced quota, the amount of such excess shall, notwith-  
20 standing any other provision of this section, be charged to  
21 the quota established for such country or domestic area for  
22 the next succeeding calendar year. Sugar from any country  
23 which at the time of reduction in quota has not been im-  
24 ported but is covered by authorizations for importation  
25 issued by the Secretary not more than five days prior to the

1 scheduled date of departure shown on the authorization  
2 shall be permitted to be entered and charged to the quota  
3 established for such country for the next succeeding calendar  
4 year.”

5 (7) Subsection (g) is amended to read as follows:

6 “(g) (1) The Secretary is authorized to limit, on a  
7 quarterly basis only, the importation of sugar within the  
8 quota for any foreign country during the first quarter of  
9 1972 if he determines that such limitation is necessary to  
10 achieve the objectives of the Act.

11 “(2) The Secretary shall not be authorized during the  
12 last three quarters of 1972 and the full year 1973, or in any  
13 year thereafter except as provided herein, to limit the im-  
14 portation of sugar within the quota for any foreign country  
15 through the use of limitations applied on other than a  
16 calendar year basis.

17 “(3) In order to attain on an annual average basis the  
18 price objective determined pursuant to the formula specified  
19 in section 201 of this Act, the Secretary shall make adjust-  
20 ments in the determination of requirements of consumers in  
21 accordance with the following provisions: (i) the determina-  
22 tion of requirements of consumers shall not be adjusted  
23 whenever the simple average of the prices of raw sugar for  
24 seven consecutive market days is less than 4 per centum

1 above or below the average price objective so determined for  
2 the preceding two calendar months; (ii) the determination of  
3 requirements of consumers shall be adjusted to the extent  
4 necessary to attain such price objective whenever the simple  
5 average of prices of raw sugar for seven consecutive market  
6 days is 4 per centum or more above or below the average  
7 price objective so determined for the preceding two calendar  
8 months; and (iii) the determination of requirements of con-  
9 sumers for the current year shall not be reduced after Novem-  
10 ber 30 of such year, but any required reduction shall in-  
11 stead be made in such determination for the following year.  
12 If in the twelve-month period ending October 31 of any  
13 year after 1972 the average price of raw sugar is less than 99  
14 per centum of the price objective determined pursuant to the  
15 formula set forth in section 201 (except in the twelve-month  
16 period ending October 31, 1973—97 per centum) then, with  
17 respect to each subsequent quota year, the Secretary is au-  
18 thorized after November 30 of the preceding year to limit,  
19 on a quarterly basis only, the importation of sugar within the  
20 quota of any foreign country during the first or second quar-  
21 ter, or both, of such year if he determines that such limitation  
22 is necessary to achieve the objectives of the Act.

23       “(4) The Secretary shall not be authorized to issue any  
24 regulation under this Act restricting the importation, ship-

1 ment, or storage of sugar to one or more particular geograph-  
2 ical areas.”

3 SEC. 5. Sections 204, 205, 206, 207, 209, and 211 of  
4 the Sugar Act of 1948, as amended, are amended as follows:

5 (I) Section 204 is amended as follows:

6 (1) Subsection (a) is amended as follows:

7 (i) by changing the first sentence to read as follows:

8 “The Secretary shall, at the time he makes his determi-  
9 nation of requirements of consumers for each calendar  
10 year and as often thereafter as the facts are ascer-  
11 tainable by him, but in any event not less frequently  
12 than each sixty days after the beginning of the quota  
13 year, determine whether, in view of the current inven-  
14 tories of sugar, the estimated production from the acre-  
15 age of sugarcane or sugar beets planted, the normal  
16 marketings within a calendar year of new-crop sugar,  
17 and other pertinent factors, any area or country will not  
18 market the quota for such area or country.”;

19 (ii) by changing the first word of the second sen-  
20 tence from “If” to “Whenever” and by striking out the  
21 words “will be unable to” and substituting the words  
22 “will not”;

23 (iii) by amending the first proviso in the second  
24 sentence to read as follows: “: *Provided*, That any deficit

1 resulting from the inability of a country which is a mem-  
2 ber of the Central American Common Market to fill its  
3 quota or its share of any deficit determined under the  
4 foregoing provisions of this subsection shall first be allo-  
5 cated to the other member countries on the basis of the  
6 quotas determined pursuant to section 202 for such  
7 countries:";

8 (iv) by striking out of the third, fifth, sixth, and  
9 eighth sentences the words "will be unable to" and sub-  
10 stituting the words "will not";

11 (v) by striking out the third and fourth sentences  
12 from the end of the subsection and substituting the fol-  
13 lowing: "In determining and allocating deficits the Sec-  
14 retary shall act to provide at all times throughout the  
15 calendar year the full distribution of the amount of sugar  
16 which he has determined to be needed under section 201  
17 of this Act to meet the requirements of consumers.";

18 (vi) by striking out "quotas then in effect" wher-  
19 ever it appears in the subsection and inserting in lieu  
20 thereof "quotas determined pursuant to section 202";

21 (vii) by striking out "47.22" wherever it appears  
22 therein and substituting "37.6"; and

23 (2) by adding a new subsection (c) as follows:

24 "(c) Notwithstanding the foregoing provisions of this  
25 section and section 211 (c), if the Secretary determines that



1 Hawaii or Puerto Rico will be unable to fill its quota estab-  
2 lished under section 203 for marketing for local consumption  
3 on a day-to-day basis, he shall allocate an amount of sugar  
4 not in excess of such deficit to the domestic beet sugar area  
5 or the mainland cane sugar area to be filled by direct con-  
6 sumption or raw sugar, as he determines to be required for  
7 local consumption.”

8 (II) Section 205 is amended by amending the third  
9 sentence of subsection (a) to read as follows: “The Secretary  
10 is authorized in making such allotments, whenever there is  
11 involved any allotment that pertains to a new or substantially  
12 enlarged existing sugar beet processing facility serving a  
13 locality or localities which have received an acreage allotment  
14 under section 302 (b) (3), to take into consideration in lieu  
15 of or in addition to the foregoing factors of processing, past  
16 marketings and ability to market, the need for establishing  
17 an allotment which will permit such marketing of sugar as is  
18 necessary for reasonably efficient operation of any such new  
19 or substantially enlarged sugar beet processing facility during  
20 each of the first three years of its operation.”

21 (III) Section 206 is amended by amending subsections  
22 (a) and (b) to read as follows:

23 “(a) If the Secretary determines that the prospective  
24 importation or bringing into the continental United States,

1 Hawaii, or Puerto Rico of any sugar containing product or  
2 mixture or beet sugar molasses will substantially interfere  
3 with the attainment of the objectives of this Act, he may limit  
4 the quantity of such product, mixture, or beet sugar molasses  
5 to be imported or brought in from any country or area to a  
6 quantity which he determines will not so interfere: *Provided,*  
7 That the quantity to be imported or brought in from any  
8 country or area in any calendar year shall not be reduced  
9 below the average of the quantities of such product, mixture,  
10 or beet sugar molasses annually imported or brought in dur-  
11 ing such three-year period as he may select for which reliable  
12 data of the importation or bringing in of such product, mix-  
13 ture, or beet sugar molasses are available.

14 “(b) In the event the Secretary determines that the  
15 prospective importation or bringing into the continental  
16 United States, Hawaii, or Puerto Rico, of any sugar-contain-  
17 ing product or mixture or beet sugar molasses will substan-  
18 tially interfere with the attainment of the objectives of this  
19 Act and there are no reliable data available of such importa-  
20 tion or bringing in of such product, mixture, or beet sugar  
21 molasses for three consecutive years, he may limit the quan-  
22 tity of such product, mixture, or beet sugar molasses to be  
23 imported or brought in annually from any country or area  
24 to a quantity which the Secretary determines will not sub-  
25 stantially interfere with the attainment of the objectives of

1 the Act: *Provided*, That, in the case of a sugar-containing  
2 product or mixture, such quantity from any one country or  
3 area shall not be less than a quantity containing one hundred  
4 short tons, raw value of sugar or liquid sugar.”

5 (IV) Section 207 is amended:

6 (1) by deleting “such” in subsection (a) and  
7 inserting in lieu thereof “the preceding”; and

8 (2) by changing subsection (b) to read as fol-  
9 lows: “(b) The quota for Puerto Rico established under  
10 section 202 for any calendar year may be filled by direct-  
11 consumption sugar not to exceed an amount equal to  
12 1.5 per centum of the first eleven million short tons,  
13 raw value, of the Secretary’s determination for the pre-  
14 ceding year issued pursuant to section 201, plus 0.5 per  
15 centum of any amount of such determination above  
16 eleven million short tons, raw value: *Provided*, That one  
17 hundred and twenty-six thousand and thirty-three short  
18 tons, raw value, of such direct-consumption sugar shall  
19 be principally of crystalline structure.”; and

20 (3) by striking out subsection (c).

21 (V) Section 209 (a) is amended by striking out the  
22 words “the Virgin Islands,” and inserting in lieu thereof the  
23 words “any areas”.

24 (VI) Section 211 is amended by striking out of subsec-  
25 tion (a) the words “continental United States” and inserting

1 in lieu thereof the words "United States, including Puerto  
2 Rico,".

3 (VII) Section 212 is amended by striking out 'sugar  
4 or liquid' and substituting 'direct consumption sugar or  
5 liquid' ", in clauses (1) and (2).

6 SEC. 6. Title III of the Sugar Act of 1948, as amended,  
7 is amended as follows:

8 (I) Section 302 is amended:

9 (1) by adding at the end of paragraph (2) of  
10 subsection (b) the following: "The personal sugar beet  
11 production history of a farm operator who dies, or be-  
12 comes incapacitated, shall accrue to the legal representa-  
13 tive of his estate or to a member of his immediate family  
14 if such legal representative or family member continues  
15 within three years of such death or incapacity the cus-  
16 tomary sugar beet operations of the deceased or inca-  
17 pacitated operator. If in any year during this period  
18 sugar beets were not planted by such legal representa-  
19 tive or member of the family, production history shall  
20 be credited to such year equal to the acreage last planted  
21 by the deceased or incapacitated farm operator.";

22 (2) by amending paragraph (3) of subsection (b)  
23 to read as follows: "(3) In order to make acreage avail-  
24 able for growth and expansion of the beet sugar industry,  
25 the Secretary, in addition to protecting the interests of

1 new and small producers by regulations generally similar  
2 to those heretofore promulgated by him pursuant to this  
3 Act, shall allocate each year as needed from the national  
4 sugar beet requirements established by him, during the  
5 extension of this Act, the acreage required to yield not  
6 more than 100,000 short tons, raw value, of sugar for  
7 localities to be served by new or substantially enlarged  
8 existing sugar beet processing facilities. Priority shall  
9 be given to processing facilities located or to be located  
10 in or adjacent to growing areas where processing facili-  
11 ties were closed during 1970 or thereafter. Allocations  
12 shall be for a period of three years and limited for any one  
13 processing facility to the acreage required to yield a  
14 maximum of 50,000 short tons, raw value, of sugar and  
15 a minimum of 25,000 short tons, raw value, of sugar  
16 each year. The acreage so allocated shall be distributed  
17 on a fair and reasonable basis to new and old sugar beet  
18 farms to the extent that it can be utilized without regard  
19 to any other acreage allocations to States determined  
20 by the Secretary. At the time the Secretary allocates  
21 acreage for a new or substantially enlarged existing  
22 sugar beet processing facility for any year, which deter-  
23 mination shall be made as far in advance of such year  
24 as practicable, such allocation shall thereby be commit-  
25 ted to be in effect for the year in which production of

1       sugar beets is scheduled to commence or to be substan-  
2       tially increased in the locality or localities determined  
3       by the Secretary to receive such acreage allocation for  
4       such year, such determination by the Secretary shall be  
5       final, and such commitment of acreage allocation shall  
6       be irrevocable upon issuance of such determination of the  
7       Secretary by publication in the Federal Register; except  
8       that if the Secretary finds in any case that the construc-  
9       tion of new or the substantial enlargement of existing  
10      sugar beet processing facilities and the contracting for  
11      processing of sugar beets has not proceeded in substan-  
12      tial accordance with the representations made to him as  
13      a basis for his determination of acreage allocation, he  
14      shall revoke such determination in accordance with and  
15      upon publication in the Federal Register of such find-  
16      ings. In determining acreage allocations for a locality or  
17      localities serving new or substantially enlarged existing  
18      sugar beet facilities and whenever proposals are made  
19      to construct new or to substantially enlarge existing  
20      sugar beet processing facilities in two or more localities  
21      (where sugar beet production is scheduled to commence  
22      or to be substantially increased in the same year), the  
23      Secretary shall base his determination and selection  
24      upon the firmness of capital commitment, the proven suit-  
25      ability of the area for growing sugar beets and the rela-

1 tive qualifications of localities and proposals under such  
2 criteria. If proportionate shares are in effect in either of  
3 the two years immediately following the year for which  
4 such initial acreage allocation is made in any locality,  
5 the Secretary shall adjust the initial allocation in the  
6 same proportion as the State's acreage is adjusted from  
7 its acreage of the year in which such initial allocation  
8 was made”;

9 (3) by amending paragraph (4) of subsection (b)  
10 to read as follows: “(4) The allocation of the national  
11 sugar beet acreage requirement to States for sugar beet  
12 production, as well as the acreage allocation for new  
13 or substantially enlarged existing sugar beet processing  
14 facilities, shall be determined by the Secretary after in-  
15 vestigation and notice and opportunity for an informal  
16 public hearing.”;

17 (4) by deleting from paragraph (5) of subsection  
18 (b) “in any local producing area”;

19 (5) by adding at the end of subsection (b) a new  
20 paragraph as follows:

21 “(10) The Secretary shall credit to the farm of any  
22 producer (or to the producer in a personal history State)  
23 who has lost a market for sugar beets as a result of (i)  
24 the closing of a sugar beet factory in any crop year after  
25 1970; (ii) the complete discontinuance of contracting by a

1 processor after 1970 in a State; or (iii) the discontinuance  
2 of contracting by a processor after 1970 in a substantial  
3 portion of a State in which the processor contracted a total  
4 of at least four thousand acres of the 1970 crop of sugar  
5 beets, an acreage history (or production history) for each  
6 of the next three years equal to the average acreage planted  
7 on the farm (or by the producer) in the last three years of  
8 such factory's operation or processor's contracting, and any  
9 unused proportionate share shall not be transferred to other  
10 farms (or producers)."; and

11 (6) by amending subsection (c) to read as follows:

12 " (c) In order to enable any new cane sugar producing  
13 area to fill the quota to be established for such area under  
14 section 202 (a) (4), the Secretary shall allocate an acreage  
15 which he determines is necessary to enable the area to meet  
16 its quota and provide a normal carryover inventory. Such  
17 acreage shall be fairly and equitably distributed to farms on  
18 the basis of land, labor, and equipment available for the  
19 production of sugarcane, and the soil and other physical  
20 factors affecting the production of sugercane. The acre-  
21 age allocation for any year shall be made as far in  
22 advance of such year as practicable, and the commitment of  
23 such acreage to the area shall be irrevocable upon issuance of  
24 such determination by publication thereof in the Federal  
25 Register: *Provided*, That if the Secretary finds in any case



1 that construction of sugarcane facilities and the contracting  
2 for processing of sugarcane has not proceeded in substantial  
3 accordance with the representation made to him as a basis for  
4 his determination of distribution of acreage, he shall revoke  
5 such determination in accordance with and upon publication  
6 in the Federal Register of such findings. In making his deter-  
7 mination for the establishment of a quota and the allocation of  
8 the acreage required in connection with such quota, the Sec-  
9 retary shall base such determination upon the firmness of  
10 capital commitment and the suitability of the area for grow-  
11 ing sugarcane and, where two or more areas are involved,  
12 the relative qualification of such areas under such criteria. If  
13 proportionate shares are in effect in such area in the two  
14 years immediately following the year for which the sugar-  
15 cane acreage allocation is committed for any area, the total  
16 acreage of proportionate shares established for farms in such  
17 area in each such two years, shall not be less than the larger  
18 of the acreage committed to such area or the acreage which  
19 the Secretary determines to be required to enable the area to  
20 fill its quota and provide for a normal carryover inventory.”

21 (II) Section 303 is amended by striking out the words  
22 “which cause such damage to all or a substantial part of the  
23 crop of sugar beets or sugarcane in the same factory district  
24 (as established by the Secretary), county, parish, munici-  
25 pality, or local producing areas,”.

1 (III) Section 307 is amended to read as follows: "This  
2 title shall apply to the continental United States, Hawaii,  
3 and Puerto Rico."

4 SEC. 7. Title IV of the Sugar Act of 1948, as amended,  
5 is amended as follows:

6 (I) Section 404 is amended by changing the period at  
7 the end of the first sentence to a comma and adding the  
8 following: "and, except as provided in sections 205 and 306  
9 of this Act, to review in accordance with 5 U.S.C., chapter  
10 7, any regulation issued pursuant to this Act."

11 (II) Section 408 is amended by amending subsection  
12 (c) to read as follows:

13 "(c) In any case in which a nation or a political sub-  
14 division thereof has hereafter (1) nationalized, expropri-  
15 ated, or otherwise seized the ownership or control of the  
16 property or business enterprise owned or controlled by  
17 United States citizens or any corporation, partnership, or  
18 association not less than 50 per centum beneficially owned  
19 by United States citizens or (2) imposed upon or enforced  
20 against such property or business enterprise so owned or  
21 controlled, discriminatory taxes or other exactions, or re-  
22 strictive maintenance or operational conditions (including  
23 limiting or reducing participation in production, export, or  
24 sale of sugar to the United States under quota allocation  
25 pursuant to this Act) not imposed or enforced with respect

## 23

1 to the property or business enterprise of a like nature owned  
2 or operated by its own nationals or the nationals of any  
3 government other than the Government of the United States  
4 or (3) imposed upon or enforced against such property or  
5 business enterprise so owned or controlled, discriminatory  
6 taxes or other exactions, or restrictive maintenance or opera-  
7 tional conditions (including limiting or reducing participation  
8 in production, export, or sale of sugar to the United States  
9 under quota allocation pursuant to this Act), or has taken  
10 other actions, which have the effect of nationalizing, ex-  
11 propriating or otherwise seizing ownership or control of such  
12 property or business enterprise or (4) violated the provisions  
13 of any bilateral or multilateral international agreement to  
14 which the United States is a party, designed to protect such  
15 property or business enterprise so owned or controlled, and  
16 has failed within six months following the taking of action  
17 in any of the above categories to take appropriate and ade-  
18 quate steps to remedy such situation and to discharge its  
19 obligations under international law toward such citizen or  
20 entity, including the prompt payment to the owner or own-  
21 ers of such property or business enterprise so nationalized,  
22 expropriated or otherwise seized or to provide relief from  
23 such taxes, exactions, conditions or breaches of such inter-  
24 national agreements, as the case may be, or to arrange, with  
25 the agreement of the parties concerned, for submitting the

1 question in dispute to arbitration or conciliation in accord-  
2 ance with procedures under which final and binding decision  
3 or settlement will be reached and full payment or arrange-  
4 ments with the owners for such payment made within  
5 twelve months following such submission, the President may  
6 withhold or suspend all or any part of any quota, proration  
7 of quota, or authorization to import sugar under this Act of  
8 such nation, and either in addition or as an alternative, the  
9 President may, under such terms and conditions as he may  
10 prescribe, cause to be levied and collected at the port of entry  
11 an impost on any or all sugar sought to be imported into  
12 the United States under the quota of such nation established  
13 pursuant to this Act in an amount not to exceed \$20 per ton,  
14 such moneys to be covered into the Treasury of the United  
15 States into a special trust fund, and he shall use such fund  
16 to make payment of claims arising subsequent to January 1,  
17 1969, as a result of such nationalization, expropriation, or  
18 other type seizure or action set forth herein, except that if  
19 such nation participates in the quota for the West Indies,  
20 the President may suspend a portion of the quota, or pro-  
21 ration of the quota, for the West Indies which is not in excess  
22 of the quantity shipped from that nation during the preceding  
23 year, until he is satisfied that appropriate steps are being  
24 taken, and either in addition or as an alternative, he may  
25 cause to be levied and collected an impost on any or all sugar

1 sought to be imported into the United States under the quota  
2 of such nation for the payment of claims as provided herein.  
3 Any quantity so withheld or suspended shall be allocated  
4 under section 202 (d) (1) (B) of this Act.”

5 (III) Section 412 of the Sugar Act of 1948, as  
6 amended, is amended to read as follows:

7 “SEC. 412. The powers vested in the Secretary under  
8 this Act shall terminate on December 31, 1974, or March  
9 31 of the year of termination of the sugar excise tax im-  
10 posed under section 4501 (a) of the Internal Revenue Code  
11 as amended, whichever is the earlier date, except that the  
12 Secretary shall have power to make payments under title  
13 III under programs applicable to the crop year in which  
14 the date of termination occurs and previous crop years.”

15 SEC. 8. Section 4501 (b) of the Internal Revenue Code  
16 of 1954 is amended as follows:

17 (1) by striking out of the first sentence the words  
18 “June 30, 1972” and inserting in lieu thereof the phrase  
19 “June 30, 1975, or June 30 of the year immediately  
20 following the effective date of any law limiting pay-  
21 ments under title III of the Sugar Act of 1948, as  
22 amended, whichever is the earlier date”; and

23 (2) by striking out of the second sentence the  
24 phrase “June 30, 1972, or with respect to sugar or  
25 articles composed in chief value of sugar held in customs

1 custody or control on such date” and inserting in lieu  
2 thereof the phrase “June 30, 1975, or June 30 of the  
3 year immediately following the effective date of any  
4 law limiting payments under title III of the Sugar Act  
5 of 1948, as amended, whichever is the earlier date, or  
6 with respect to sugar or articles composed in chief value  
7 of sugar held in customs custody or control on such  
8 earlier date.”.

9 SEC. 9. Except as herein provided, the provisions of  
10 this Act shall be effective January 1, 1972. The amendments  
11 made by sections 3 and 4 of this Act, and the amendment  
12 made to section 204 by section 5 of this Act, shall be effective  
13 upon the date of enactment of this Act for purposes of actions  
14 relating to the 1972 and subsequent quota years.

Passed the House of Representatives June 10, 1971.

Attest:

W. PAT JENNINGS,

*Clerk.*

**SUMMARY OF THE PRINCIPAL PROVISIONS OF H.R. 8866, THE SUGAR ACT AMENDMENTS OF 1971 AS PASSED BY THE HOUSE OF REPRESENTATIVES**

Prepared by the Staff of the Committee on Finance

**INTRODUCTION**

H.R. 8866 passed the House of Representatives on June 10, 1971. The roll call vote on final passage was 229 yeas to 128 nays.

The bill proposes a number of changes in the domestic quota provisions, the foreign quota provisions, and the administrative provisions of the Sugar Act. In general, it retains the present distribution of sugar quotas between domestic and foreign areas. Under this distribution, about 62 percent of the first 11.2 million tons of sugar consumed in the United States would be filled within the domestic area. The domestic area comprises the mainland cane area in Louisiana and Florida, the sugar beet area in the mid-western and western states, and Hawaii and Puerto Rico.

Sixty-five percent of total market growth above 11.2 million tons would be assigned to domestic areas as follows: 47.67 percent to the domestic beet area and 17.33 percent to the mainland cane area. (Hawaii and Puerto Rico do not share in market growth.) The remaining 35 percent of market growth would be assigned to the quotas of foreign countries.

**EXTENSION OF THE ACT**

The bill provides for a three-year extension of the Sugar Act, until December 31, 1974.

**DOMESTIC QUOTAS**

The House bill proposes four principal changes in the domestic quota provisions. Most important, it would increase the quota for the mainland cane area by 300,000 tons, in effect by transferring to it 285,000 tons of the Puerto Rican quota and all of the 15,000 ton quota formerly assigned to the Virgin Islands. The Virgin Islands have ceased the production of sugar and no longer require a quota, while production in Puerto Rico has declined sharply in recent years, producing large deficits which heretofore have been filled by the Philippines and Western Hemisphere countries.

The quotas for the domestic areas under present law and the House bill at a consumption estimate of 11.2 million tons is as follows:

*Comparison of Domestic Quotas*

[Short tons, raw value]

Area	Present law	H.R. 8866
Domestic beet sugar.....	3, 406, 333	3, 406, 000
Mainland cane sugar.....	1, 238, 667	1, 539, 000
Hawaii.....	1, 110, 000	1, 110, 000
Puerto Rico.....	1, 140, 000	1, 855, 000
Virgin Islands.....	15, 000	0
Total.....	6, 910, 000	<sup>2</sup> 6, 910, 000

<sup>1</sup> Becomes 1,000,000 tons in 1974.

<sup>2</sup> Becomes 7,055,000 tons in 1974.

In addition, the bill would provide for expansion of sugar cane production into additional states, beginning in 1973. For this purpose, a quota of 100,000 tons would be provided, to be offset by corresponding reductions in foreign quotas. The states generally mentioned for new cane sugar production are Texas and California.

In the beet sugar area, the bill contemplates production of 100,000 tons in new localities where processing facilities are being expanded or new ones constructed. Special priority would be given to localities where processing facilities were closed in 1970 or thereafter. Unlike the new cane area quota which would be offset by reductions in foreign quotas, this provision for new beet localities would come by earmarking production allowances within the overall beet quota.

**FOREIGN QUOTAS**

The House bill proposes a number of changes in the foreign quota provisions of the Sugar Act as indicated by the following chart:

*Comparison of foreign sugar quotas present law pattern*

Production area	1970 actual <sup>1</sup>	1971 present law pattern <sup>2</sup>	1972 House bill <sup>3</sup>	Change from 1971 present law pattern	
				Increase	Decrease
Total: Domestic areas..	6, 410, 486	6, 110, 000	6, 410, 000	300, 000	-----
Philippines.....	1, 301, 020	1, 503, 780	1, 314, 020	-----	189, 760
Mexico.....	652, 559	588, 240	537, 545	-----	50, 704
Dominican Republic.....	678, 209	575, 312	525, 737	-----	49, 575
Brazil.....	638, 210	575, 312	525, 737	-----	49, 575
Peru.....	455, 991	458, 881	418, 982	-----	39, 899
West Indies.....	216, 645	199, 579	192, 251	-----	7, 328
Ecuador.....	92, 860	83, 710	80, 774	-----	2, 936
French West Indies.....	68, 149	62, 782	0	-----	62, 782
Argentina.....	78, 509	70, 772	76, 050	5, 278	-----
Costa Rica.....	75, 133	67, 728	65, 185	-----	2, 543
Nicaragua.....	75, 133	67, 728	65, 185	-----	2, 543
Colombia.....	67, 587	60, 880	73, 688	12, 808	-----



## Comparison of foreign sugar quotas present law pattern—Continued

Production area	1970 actual <sup>1</sup>	1971 present law pattern <sup>2</sup>	1972 House bill <sup>3</sup>	Change from 1971 present law pattern	
				Increase	Decrease
Guatemala.....	63,314	57,074	55,265	-----	1,809
Panama.....	39,500	42,616	41,567	-----	1,049
El Salvador.....	46,429	41,852	40,151	-----	1,701
Haiti.....	26,176	31,962	30,704	-----	1,258
Venezuela.....	32,070	28,918	36,845	7,927	-----
British Honduras.....	16,782	14,539	33,537	18,998	-----
Bolivia.....	7,599	6,850	17,005	10,155	-----
Honduras.....	7,599	6,850	17,005	10,155	-----
Bahamas.....	10,000	10,000	33,537	23,537	-----
Paraguay.....	0	0	15,116	15,116	-----
Australia.....	206,270	203,785	206,025	2,240	-----
Republic of China.....	85,946	84,910	85,844	934	-----
India.....	82,508	81,514	82,494	980	-----
South Africa.....	60,735	60,003	60,300	297	-----
Fiji Islands.....	45,265	44,719	44,806	87	-----
Thailand.....	18,909	18,681	18,844	163	-----
Mauritius.....	18,909	18,681	30,150	11,469	-----
Malagasy Republic.....	9,740	9,623	15,075	5,452	-----
Swaziland.....	7,448	7,359	30,150	22,791	-----
Malawi.....	0	0	0	0	-----
Uganda.....	0	0	15,075	15,075	-----
Ireland.....	5,351	5,351	5,351	( <sup>4</sup> )	( <sup>5</sup> )
<b>Total foreign.....</b>	<b>5,189,514</b>	<b>5,090,000</b>	<b>4,790,000</b>	<b>463,462</b>	<b>463,462</b>
<b>Total.....</b>	<b>11,600,000</b>	<b>11,200,000</b>	<b>11,200,000</b>	-----	-----

<sup>1</sup> Based on actual consumption estimate of 11,600,000 tons as adjusted for declared deficits.

<sup>2</sup> Based on consumption estimates of 11,200,000 tons and domestic area deficits of 800,000 tons.

<sup>3</sup> Based on consumption estimates of 11,200,000 tons and deficits of 500,000 tons after reallocating 300,000 tons of the Puerto Rican deficit to mainland cane areas.

<sup>4</sup> In 1973 the quota for Panama at a consumption estimate of 11,200,000 tons would be increased to 62,047 tons, an increase of 20,321 tons over the 1971 law pattern of distribution.

<sup>5</sup> The quota for Malawi would not become effective until 1973.

<sup>6</sup> No change.

Three countries—Malawi, Uganda and Paraguay—which heretofore have not had a sugar quota would be brought into the program and provided with a quota. For Malawi, the new quota would not be available until 1973.

Eleven countries would be provided with significant quota increases.<sup>1</sup> For one of them, Panama, the larger quota would not apply until 1973; for the others, the increases would be available in 1972. Another twelve would have substantial cuts in their quotas, not only to offset the quota increases for foreign countries enjoying larger quotas, but also to offset the increase in quota for the mainland cane area.

The French West Indies would be withdrawn from the sugar program, and its 62,782 ton allowance serves to moderate the reductions for those countries which did not receive increases under the House bill.

The quota for the Philippines, which is stated in tons rather than in percentages, would be brought up to date and restated as 1,126,000 tons; this upgrading would not involve any increase or decrease in the basic allowance for this country.

In fixing quotas for foreign countries, the House bill proposes to reduce the Cuban reserve by 761,861 tons—approximately one-half—and distribute this amount to foreign supplies on a permanent basis. The Cuban reserve is an

<sup>1</sup> Argentina, Colombia, Panama, Venezuela, British Honduras, Bolivia, Honduras, Bahamas, Mauritius, Malagasy Republic, Swaziland.

amount set aside by law for restoration to Cuba in the event that nation rejoins the Free World. In the meanwhile, this amount is assigned to other countries year-by-year on a temporary basis.

The House bill deletes the provision in existing law which requires that the portion of the Cuban reserve determined when consumption estimates exceed 10 million tons be allocated to countries in the western hemisphere which are members of the Organization of American States. The allocation of quotas prescribed by the House bill reflects the OAS provision up to the current consumption estimate of 11.2 million tons, but future growth would be allocated on a world-wide basis.

As already indicated, the bill as passed by the House recommends increases in quotas for the mainland cane area and for certain foreign countries. These would be offset by reductions in other quotas substantially as follows:

The 300,000 ton increase occurring from reallocating 285,000 tons of the unused Puerto Rican quota and the 15,000 ton Virgin Island quota to the mainland cane area would be offset by reductions in the final allowances of the Philippines and the western hemisphere countries which heretofore have filled the Puerto Rican and Virgin Island deficits.

The 100,000 ton allowance for new cane areas (beginning in 1973) would be offset by pro rata reductions in the quotas for all other countries (except the Philippines and Ireland whose quotas are stated in specified amounts, rather than percentages).

The increases provided for eleven countries under the House bill would be offset by reductions in the amount of sugar that may be imported from the "big 5" suppliers—the Philippines, Mexico, the Dominican Republic, Brazil and Peru. In the case of the Philippines, this would be accomplished by further reducing its share of deficit allocations; from 47.22 percent to 37.60 percent. In the case of the other four producers, it would involve cuts in their basic quotas.

The House bill also updates the so-called "Long amendment" which requires foreign countries to give advance assurances that they will supply to this country the quantity of sugar specified in their quota over the period the program is being extended.

Finally, the House bill contains a new feature providing that deficits in a sugar quota incurred by one member of the Central American Common Market (composed of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica) may be used by other members of the group in the same manner by which shortfalls in basic quotas by one member of the group may be used by the other members.

#### ADMINISTRATIVE PROVISIONS

The House bill proposes a number of changes in the administration of the Sugar Act, generally designed to provide an orderly flow of sugar to refiners and to assure stable prices to consumers.

First, it would require the Secretary of Agriculture to estimate consumption for the new year in October of the preceding year, rather than at any time during the last quarter of the year, thereby providing greater lead-time in planning shipments to the United States.

Quarterly quotas (which under existing law may be imposed during the first two quarters of the year to prevent bunching of shipments early in the year) would be allowed after the first quarter of 1972 only if new sugar prices go below (a) 97 percent of the formula price in the 12-month period ending October 31, 1973, or (b) 99 percent of the formula price in the corresponding period ending in 1974 and subsequent years. In such a case, quarterly quotas could be imposed during the first two quarters of succeeding years.

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In determining consumption estimates for sugar, the House bill would superimpose on the subjective formula of existing law a requirement that beginning January 1, 1972, price would be the determining factor. The target price used for this purpose would be determined for each month by adjusting the base period price for raw sugar by changes in the simple average of the wholesale price index and the parity index. The base period price would be the simple average of monthly sugar prices during the period September 1, 1970, through August 31, 1971. Changes in the parity index and the wholesale price index would be measured from a base of 1967 (1967=100). Thus, if the average of these indices has increased by, say, 12 percent since 1970, the current price objective under the Sugar Act would be calculated by increasing the base period price by 12 percent. This price objective would then be achieved by fixing consumption estimates at a level sufficient to bring the price of sugar to the objective.<sup>1</sup>

"RAW SUGAR COMPUTATION OF PRICE GUIDE UNDER H.R. 8866

"Under H.R. 8866, the price objective for a given month would be computed by determining the relationship between (1) the average of the parity index and the wholesale price index (both with 1967 equaling 100) for the 12-month period September 1970–August 1971 and (2) the price objective under current legislation for the same 12-month period and then applying that relationship to the average of the two indexes for the month in question.

"With the average of those indexes estimated at 115.35 and the target price under current legislation of 8.56 cents per pound for the 12-month period September 1970–August 1971 the January 1972 price objective, based on estimated indexes, would be computed as follows:

$$115.35:8.56¢ = 120.85:x$$

$$x = 8.97¢$$

"The price objective for January 1972 under current legislation, assuming the same estimated parity index, would be 9.07¢ or 1.1 percent higher.

	Parity index (1910-14=100)	Parity index (1967=100)	Wholesale price index (1967=100)	Average of indexes (1967=100)	Current raw sugar price guide
September 1970.....	393.0	115	111.0		8.33
October 1970.....	394.0	115	111.0		8.35
November 1970.....	395.0	115	110.9		8.37
December 1970.....	396.0	116	111.0		8.39
January 1971.....	399.0	117	111.8		8.46
February 1971.....	403.0	118	112.8		8.54
March 1971.....	404.0	118	113.0		8.56
April 1971.....	407.0	119	113.3		8.63
May 1971.....	410.0	120	113.8		8.69
(September–May average).....	(400.1)	(117)	(112.1)	(114.55)	(8.48)
June 1971 <sup>1</sup> .....	412.0	120	114.2		8.73
July 1971 <sup>1</sup> .....	414.0	121	114.5		8.77
August 1971 <sup>1</sup> .....	417.0	122	114.9		8.84
Estimated 12-month average.....	404.0	118	112.7	115.35	8.56
September 1971 <sup>1</sup> .....	419.0	123	115.2		8.88
October 1971 <sup>1</sup> .....	421.0	123	115.6		8.92
November 1971 <sup>1</sup> .....	423.0	124	116.0		8.97
December 1971 <sup>1</sup> .....	425.0	124	116.3		9.01
January 1972 <sup>1</sup> .....	428.0	125	116.7	120.85	9.07

<sup>1</sup> Indexes estimated on actual rate of increase per month from September 1970 through May 1971.

<sup>1</sup> The Department of Agriculture has submitted the following calculation of the target price for January 1972 under the House bill as compared to existing law:

The Secretary of Agriculture would be directed to adjust consumption estimates whenever raw sugar prices vary by more than 4 percent from the price objective over a period of 7 consecutive marketing days. If prices should go either up or down beyond this, additional sugar would be allowed under (or withheld from) the quota until prices were stabilized within the 4 percent "corridor."

The bill requires the Secretary to determine and allocate deficits more promptly than under present law so that supplying countries can more conveniently plan the shipment to the United States of sugar under their deficit allocations. Specifically, he would be required to determine and allocate deficits when he makes his initial consumption estimate (in October of the preceding year) and at least every 60 days after the beginning of the quota year.

Finally, other minor amendments also made by the House bill provide for:

(1) imports of sugar into Hawaii and Puerto Rico outside the quota for reexport (conforming to rules applicable to the continental United States;

(2) restricts the type of sugar which can be brought in free of quota for religious, sacramental, educational or experimental purposes to direct consumption sugar;

(3) reduces the portion of the Puerto Rican quota which may be filled by direct consumption sugar, and

(4) provides that deficits in direct consumption sugar in Puerto Rico or Hawaii may be filled by exports from the mainland.

#### EXPROPRIATIONS

Under present law (Section 408(c) of the Sugar Act) whenever a foreign nation which has a U.S. sugar quota expropriates property owned by a national of the United States or discriminates against property or business enterprises of United States nationals and does not within six months act to compensate or arrange for arbitration with the United States national, the President is directed to suspend the sugar quota of such country.

The House bill modifies this feature of existing law in several respects. First, the mandatory application of the provision is eliminated, and the President would be given discretion to suspend all or part of the quota. Alternatively (or in addition to suspension of a portion of a quota) the President would be authorized to impose a levy of as much as \$20 a ton on the importation of sugar from such country. Funds collected under this provision would be maintained in a special trust fund to reimburse citizens whose property had been taken or who had been subjected to other forms of discrimination by the country involved. Under this rule the taking of discriminatory action by the foreign country must have arisen subsequent to January 1, 1969.

The House bill also makes clear that among the discriminatory acts which may lead to loss of quota or application of the special \$20 per ton impost is the act of "limiting or reducing participation in production, export, or sale of sugar to the United States under quota allocation."

#### QUOTA ON BEET SUGAR MOLASSES

Section 206 of the Sugar Act authorizes the limitation of imports of sugar-containing products if the Secretary determines that such imports "will substantially interfere with the attainment of the objectives" of the Sugar Act.

The House bill proposes to amend this provision to also authorize limitations on imports of beet sugar molasses. This product is used by the drug industry and in the production of yeast for manufacture of bread.

#### TERMINATION OF FACT

Section 7 III and section 8 of the House bill provide that the quotas, the payments, the excise tax on processing of sugar, and other powers and duties vested in the Secretary of Agriculture shall terminate on December 31, 1974, or on March 31 of the year in which any law limiting payments under the sugar program is enacted.



The CHAIRMAN. We are pleased to have as our first witness this morning so he can go on about his other senatorial duties, the Honorable Edward J. Gurney, the senior Senator from the State of Florida. Mr. Gurney, you are recognized to proceed in your own fashion.

We are pleased to have you before us today. I believe you have a brief statement.

**STATEMENT OF HON. EDWARD J. GURNEY, A U.S. SENATOR  
FROM THE STATE OF FLORIDA**

Senator GURNEY. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate the opportunity of appearing before you today in support of H.R. 8866, Sugar Act Amendments of 1971, passed by the other body of Congress on June 10 by a vote of 229 to 128.

Mr. Chairman, as you and Senator Bennett know so well, the sugar program was first established in 1934 with the purpose of maintaining a healthy and competitive domestic sugar industry; to assure the U.S. consumer a plentiful supply of sugar at reasonable prices; and to permit friendly foreign governments to participate equitably in supplying the U.S. sugar market for the dual purpose of encouraging exports of U.S. commodities and assurances of dependable supplies of sugar. Throughout the years the Sugar Act has been notably successful in obtaining these objectives.

It is interesting to note, Mr. Chairman, that the Assistant Secretary of Agriculture for International Affairs in Commodity programs, the Honorable Clarence D. Palmby, who is with us this morning, when testifying before the House Agriculture Committee on May 6, 1971, stated "the price for refined sugar rose at a rate slightly less than that for all foods and substantially less than that for general prices. The price paid by consumers for sugar increased at an average rate of 3 percent per year since 1965. Average hourly earnings of workers in sugarcane and sugar beet fields increased at about 8.6 percent annually." Mr. Chairman, I believe that shows that the Sugar Act has been most beneficial to the consumer.

I feel that the bill as passed by the House has provided for an improved Sugar Act. One of these changes concerns the establishment of the guide price for sugar which is contained in section 201. As you know, the guide price in the present act is based upon the relationship of the price of raw sugar with the index of prices paid by farmers. The sugar industry, after consideration of recommendations of the sugar users, advocated in the interests of both consumers and producers the adoption of a guide price that takes into account both the index prices paid by farmers and the wholesale price index.

Another provision of the bill as passed by the House would allocate an increase of 300,000 tons in the mainland sugarcane quota. I am pleased by this action. I am sure the chairman is also. I would just like to point out in this regard that at the time of the Cuban crisis when all sugar imports were cut off at that source of supply, even though the mainland cane area was operating under a restricted quota, Florida and Louisiana producers responded to this need and succeeded in expanding their production to meet the demands of the domestic con-

sumer. Mr. Chairman, I would like to emphasize that this increased quota, if granted, will still not permit all growers in Louisiana and Florida to plant acreage equal to that grown in 1964. It is anticipated that acreage restrictions will have to be continued.

I should also like to mention that the increased quota in the mainland cane area would be helpful to our balance of payments. To quote from House Report 92-245, "the enactment of this bill would probably have the effect of reducing sugar imports by 300,000 tons or approximately \$47 million annually."

Mr. Chairman, there are three recommendations that I would like to offer as suggested changes to the bill as enacted by the House. One is that the act be extended for a period of 6 years, and not the 3 years now contained in the legislation. The 3-year period was recommended by the Department of Agriculture, as I understand it, for three reasons: First, fluctuations in the world sugar economy likely to occur during this period; second, the probability that some changes in the importation of Commonwealth sugar into the United Kingdom are likely to occur should the United Kingdom become a member of the European Common Market; and third, the fact that the International Sugar Agreement expires at the end of 1973. I believe the reasons propounded by the Department for a 3-year act are not sound on two counts: We are not a party to the International Sugar Agreement; also, a minimum of 6 years leadtime is required for the planting and growing period in Hawaii. As you are aware, Mr. Chairman, the period of time necessary from planting to harvest in Louisiana and Florida is 4 to 5 years. Farmers need to know well in advance, therefore, what to expect in the way of a Sugar Act in order to confirm their plans for the future.

Mr. Chairman, the bill as passed by the House requires the Secretary of Agriculture to raise or lower his determination of consumer requirements for sugar whenever the price departs by more than 4 percent from the formula price—based equally on the wholesale price as well as the index of prices by farmers—for 7 consecutive days. I urge this committee to favorably consider amending the bill to require the Secretary to adjust the consumption estimate whenever the price departs by more than 3 percent from the price formula for 5 consecutive market days. I strongly believe that such action would more nearly obtain one of the objectives of the act, that is, to assure the U.S. consumer a plentiful supply of sugar at reasonable prices. This change is of the utmost importance to the Louisiana and Florida growers since the entry of foreign sugar shipments into the domestic market tends to coincide in time with the mainland harvesting and marketing period. Assuming a price of \$8.50 per hundredweight for raw sugar, a price 4 percent below the price objective could mean a loss of almost \$7 per ton to the grower for his sugar produced. The 3 percent which was recommended by the industry and by the Department of Agriculture would result, of course, in a \$5 loss to the growers as what they receive per ton less than the price objective, but the growers feel they could handle this \$5 loss where they could not handle the \$7 loss. However, the growers of Florida and Louisiana agreed to the 3 percent in order to permit the users to utilize operation of a future market.

Lastly, Mr. Chairman, I would like to suggest that this committee give favorable consideration to the domestic sugar industry's proposal to reduce payments and excise taxes. I do not have to reiterate to you the dissatisfaction that Congress has expressed with regard to large payments to farmers. With respect to payments to sugar growers, such disapproval is quite disturbing to the sugar industry, due to the fact that it is not widely understood that moneys used for such payments under the act are derived from a processing tax on sugar paid into a special Treasury fund. In turn, the Secretary of Agriculture is authorized to make payments from this fund to producers who comply with regulations of the act. In this connection, it is my understanding that the Treasury receives some \$110 million annually from this tax. Conditional payments to producers amount to some \$90 million. As a result, during the life of the various sugar acts, a net gain in Treasury receipts over payments to growers has been some \$630 million.

Mr. Chairman, in view of the fact that the excise tax on sugar was established primarily to insure the growers of a fair return, and in order to better conform to congressional efforts taken to reduce payments to \$55,000, the domestic sugar industry has devised a formula to reduce both the excise tax and farm payments to a point where no farm would receive over \$60,400, and no payment whatsoever would be made to a farm producing over 60,200 tons. Mr. Chairman, without going further into the details of this proposal, I would like to compliment the domestic sugar industry for its diligence in striving to arrive at a payment formula that is consistent with the current thinking of the Congress. I sincerely hope that this committee will take full cognizance of this effort and make every attempt to give it favorable consideration.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator Gurney. I regret that Florida does not have a Senator on the Finance Committee to help me try and defend the interests of the sugarcane producers. Several of our people keep wanting to know why we cannot do better for the cane people compared to the beet people, and I point out to them there are so many more of them than there are of us.

Senator GURNEY. Mr. Chairman, you are so right.

The CHAIRMAN. I have told our Texas friends on occasion that they have some of the same industries that we have—oil, gas, cattle. Sometimes I have said I think I am the only Senator that Texas has on the Finance Committee. In this instance, I am afraid with regard to sugar, I am the only Senator Florida has on the committee. But I will try to look after you while I am looking after Louisiana.

Senator GURNEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Any questions, gentlemen?

(No response.)

The CHAIRMAN. Thank you, Senator.

Senator GURNEY. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness will be the Honorable Clarence D. Palmby, Assistant Secretary of Agriculture for International Affairs and Commodity Programs.

We are glad to have you, Mr. Palmby. I suggest you proceed in your own fashion.



**STATEMENT OF CLARENCE D. PALMBY, ASSISTANT SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS; ACCOMPANIED BY CLAUDE COFFMAN, DEPUTY GENERAL COUNSEL; AND TOM MURPHY, DIRECTOR, SUGAR DIVISION**

Mr. PALMBY. Thank you, Mr. Chairman, members of the committee. I do have a prepared statement and with your permission I would like to read it at this time.

I am pleased to have the opportunity to appear before the committee to testify on H.R. 8866, the bill passed by the House to amend and extend the Sugar Act. I have with me today, on my left, Mr. Claude Coffman, the Department's Deputy General Counsel, and Mr. Tom Murphy, Director of the Sugar Division. Mr. Julius Katz, Deputy Assistant Secretary of State, is also here today to represent the State Department and will testify.

On May 6, we appeared before the House Committee on Agriculture and placed before that committee the administration's position on sugar legislation. In many respects, the bill passed by the House is generally similar to the administration's recommendations. In other respects—principally in connection with the distribution of quotas among foreign countries—we have serious objections. But first, let me refer to the areas of general agreement, where, however, there are some points of difference with respect to the division of the market between domestic and foreign sources.

H.R. 8866 would extend the Sugar Act 3 years to December 31, 1974. We favor this relatively short extension in view of changes in the world sugar economy which are likely to occur during that period. Recently, the United Kingdom and the Commonwealth sugar producing countries accepted the terms which in their understanding would be offered them with respect to sugar upon entry by the United Kingdom into the European Community. Additionally, the International Sugar Agreement expires at the end of 1973 and negotiations looking toward extension of the agreement will probably occur that year.

The annual quota for the mainland cane sugar area would be increased by 300,000 tons or about 24 percent. To accommodate this increased quota for one domestic area, the quotas for two others would be changed in the opposite direction. The quota for the Virgin Islands of 15,000 tons would be eliminated since sugarcane is no longer produced there and the quota for Puerto Rico where production has fallen off sharply would be reduced by 285,000 tons in the first years of the extension but under the terms of H.R. 8866 by only 140,000 tons in the final year of the extension. Thus, for the first 2 years, only a shift among the quotas of the domestic areas would be involved, but in the final year, a reduction of 145,000 tons would necessarily occur in the quotas of foreign countries.

We do not believe that the basic entitlements of foreign countries need be changed to accommodate the proposed quota increase for Louisiana and Florida and accordingly recommend again, that the Puerto Rican quota be reduced by 285,000 tons in the third year of the extension as well as in the first two. We recognize that the Com-

monwealth of Puerto Rico is engaged in a \$100 million program to rehabilitate the sugar industry on that island. However, efforts of this kind, no matter how well conceived and how well executed, require time to bear fruit. Inasmuch as the Puerto Rican shortfall is currently almost three times the proposed reduction in quota, we believe that the quota of 885,000 tons that we recommend for Puerto Rico will be adequate during the term of the extension. Furthermore, should production increase sufficiently to warrant an increased quota for Puerto Rico, provision is made for such increase under current legislation.

Although our recommendation to increase the quota for the mainland cane sugar area and to reduce the quotas for Puerto Rico and the Virgin Islands by an equivalent amount constitutes merely a transfer of quotas within the total for domestic areas, we recognize that foreign countries have been supplying the sugar represented by the Puerto Rican and Virgin Islands' deficits. In all probability, Puerto Rico will continue to have large deficits which foreign countries will continue to fill. However, sugar imports will be reduced by reason of the transfer of domestic area quotas. To ameliorate the impact of this change upon the foreign quota countries, we recommend that the 230,000 tons of market growth represented by sugar requirements between 11.3 and 11.530 million tons be assigned in its entirety to the foreign countries. In addition 300,000 tons of the Cuban reserve would be assigned on a permanent basis to foreign countries.

If sugar requirements during the term of the extension exceed 11.530 million tons, we propose that the first 200,000 tons of market growth be assigned equally to the domestic beet sugar area and to a continental cane sugar area.

Requirements in excess of 11.730 million tons would be shared in accordance with the traditional formula, that is, 65 percent to the domestic areas and 35 percent to foreign countries. The share for the domestic areas would be apportioned to two of those areas: the sugar beet area and the mainland cane area—Louisiana and Florida—on the same percentage basis provided in the present act—73.3 percent to the sugar beet area and 26.7 percent to the mainland cane sugar area.

The interim departure from the usual 65 to 35 ratio for allotting market growth would have the ultimate effect of increasing foreign quotas by about 150,000 tons on a net basis when total requirements reach 11,530,000 tons and of returning 70,000 tons of that amount to the domestic areas when requirements reach 11,730,000 tons.

We support the provision of H.R. 8866 which authorizes the Secretary to allocate from the domestic beet sugar area's quota, the acreage required to yield as much as 100,000 tons of sugar for localities where new processing facilities are constructed or existing facilities expanded. In the selection of localities to be assigned allocations, those where sugar beet processing facilities were closed during 1970 or thereafter would receive priority. Individual localities would have allocated the acreage needed for not less than 25,000 tons of sugar and not more than 50,000 tons annually and would be assured of approximately the assigned acreage for 3 years as well as of appropriate rights to market the related quantities of sugar.

H.R. 8866 also provides that a new continental cane sugar area or areas be established by providing a quota or quotas of as much as 100,000 tons annually beginning in 1973 or as soon thereafter as needed. For the area or areas selected, the allocated acreage would be assured for 3 years. Unlike the provision for new sugarbeet localities, the total quotas for foreign countries would be reduced to accommodate the quota or quotas established for any new continental cane sugar area. To avoid this, we suggest that the quota for a new continental cane sugar area not be established until 100,000 tons of quota becomes available through market growth in the range of 11,530,000 to 11,730,000 tons.

H.R. 8866 provides a new method of relating the flow of raw sugar supplies to the seasonal needs of the sugar market. Presently, the Secretary is authorized to limit the imports of foreign quota raw sugar during the first and second quarters of each year or both of those quarters. Most of our foreign quota suppliers produce heavily during the first 5 months of the calendar year, while sales of sugar in the United States are largest during the following 4 summer months. In addition, the mainland cane sugar area produces and markets most of its raw sugar crop just before and after the turn of the calendar year. To avoid high interest charges and physical storage problems and to provide funds to meet operating costs during the production period, both foreign and domestic producers have a strong desire to market their raw sugar as soon as it is produced. Customers for refined sugar on the other hand desire their sugar delivered as needed and practically on a day-to-day basis.

Use of quarterly limitations on sugar imports has admirably stabilized the market but in doing so, it has also minimized fluctuations in raw sugar prices to the extent that there is now little trading of domestic futures on the commodity exchange. Industrial users and refiners prefer greater price fluctuations and the resulting opportunity to engage in more effective purchasing policies in a competitive market.

Accordingly, the Department supports the terms of H.R. 8866 which provide that the Secretary is not authorized to limit importations of quota sugar from foreign countries by quarters during the term of the extension except for the first quarter of 1972 which is regarded as the transition year. Thereafter, and beginning in 1974, quarterly limitations would be authorized but only if the actual price of raw sugar during any preceding 12-month period ending in October of a year after 1972 averaged less than 99 percent of the price guide (97 percent in 1973). In lieu of quarterly import limitations as a means of attaining an orderly flow of supplies, the determination of annual sugar requirements would be mandatorily increased or reduced whenever the average raw sugar price for 7 consecutive market days departs by 4 percent or more from the price guide as averaged for the 2 preceding calendar months. Whenever the price is within the range of permitted departure from the price guide (as averaged for the 2 preceding months), the Secretary would not be authorized to adjust requirements. While the Department has some reservations as to the ability of market price to always reflect the supply situation, especially a supply situation in its early stages of development, we are impressed by the unanimity of agreement achieved by both producers and consumers—the parties immediately affected—and for that reason support this provision.

The Department also supports the related sections of H.R. 8866 which provide that (1) the determination of sugar requirements for the calendar year be issued in October of the prior year rather than at any time during the last quarter as presently provided; (2) foreign countries be required to report their anticipated deficits not later than June 1 of the quota year; and (3) the Secretary reallocate the deficits soon thereafter and that generally, he reallocate both foreign and domestic deficits as soon as they are known and at least every 60 days during the quota year.

The price guide mentioned in section 201 of the Sugar Act would be modified slightly. Presently, that guide consists of the average price of raw sugar in the period 1957-59, as adjusted to reflect changes since that time in the index of prices paid by farmers. The modification is that changes in the wholesale price index as well as in the index of prices paid by farmers would be recognized equally in the future with the 12-month period ended in August of this year accepted as the base period for incorporating such change. Inclusion of the wholesale price index may give recognition to the fact that factory processing as well as farm production is involved in sugar production.

H.R. 8866 retains the provisions of present law regarding conditional payments to producers of sugar crops and the excise tax on quota sugar paid by the manufacturers or importers of refined sugar.

There is sentiment throughout the Nation in opposition to large Government payments to agricultural producers. We do not believe that such sentiment extends to Sugar Act conditional payments: First, the act has always provided that a large producer receive a much lower rate of payment on his sugar crop than a small producer. Second, the excise tax paid on all quota sugar consumed yields year after year a substantially greater return to the Treasury than the total of Government payments. Third, growers become eligible for payments only after meeting certain conditions in addition to holding their production within their proportionate shares (acreage restrictions) in years when production controls are needed. These conditions are that they not employ child labor, that they pay fair and reasonable wages to their workers as determined by the Secretary and that they pay fair and reasonable prices for sugarcane or sugar beets purchased from other producers. Obviously, foreign producers are not required to meet these conditions and do not receive Sugar Act payments.

Sugar Act payments in large measure represent a transfer to the producers of sugar beets or sugarcane in the form of Government payments of the excise tax paid to the Government by the manufacturers. That two-way flow of funds was instituted at the inception of the sugar program to enhance returns to growers and at the same time to assure their compliance with the conditions of payments. Some sugar crop farmers receive very large payments but in those cases, the excise tax paid on the same sugar represents a greater amount. Other farmers who produce a lesser—although in some cases a very substantial—quantity of sugarcane or sugar beets receive more from the Government than is paid on their sugar but no farmer receives Government payments of more than \$9,050 over and above the tax paid on the sugar manufactured from his cane or beet crop.

The bill provides that if any law limiting payments to producers is enacted, the powers vested in the Secretary under the Sugar Act would shortly thereafter terminate as would the excise tax on sugar manufactured or imported.

H.R. 8866 provides and we concur that (1) the production history of sugar beet growers in localities where factories have recently been abandoned be protected for 3 years unless the growers have alternate markets for their sugar beets; (2) sugar beet farms where production has been adversely affected by one of the specified natural causes—drought, flood, storm, freeze, disease, or insects—become eligible for abandonment and deficiency payments regardless of whether production on other farms in the locality has been similarly impaired; and (3) the personal production history of an operator of a sugar beet farm who dies or becomes incapacitated be preserved for a reasonable time to permit the heirs to engage in sugar beet production. This last named provision would be operative in States where proportionate shares are based on personal history.

Turning now to the features of H.R. 8866 that we hope will be extensively revised: First, there is the relatively minor matter that the quantity of refined sugar which Puerto Rico may ship to the mainland within its overall quota would be reduced from the amount provided under the current act, that is, 1.5 percent of the amount determined to be the total national sugar requirements. This percentage would be maintained on the first 11 million tons of requirements but would be reduced to 0.5 percent of all requirements in excess of 11 million tons. Limitations on the marketing of offshore white sugar are already stringent and should not be made more so. The quantity involved is small but the principle of enabling areas producing primary commodities to further process those commodities need not be further restricted.

Second, the Secretary would be authorized to impose import restrictions on beet sugar molasses if he determines such importations would substantially interfere with the attainment of the objectives of the act. We do not think that the importation of molasses will substantially interfere with the attainment of the objectives of the Sugar Act and so do not request this authority. It is our recommendation that there be no change in section 206 of the Sugar Act which authorizes the Secretary to limit the importation of sugar-containing products if he determines that such importations will substantially interfere with the attainment of the objectives of the act.

More importantly, H.R. 8866 would reduce the quotas of the five largest supplying countries as a means of funding quota increases for 11 other countries and creating quotas for three additional countries. Mr. Katz will speak more fully to this point, but the Department of Agriculture—much as it understands the desire of so many countries for a place or a larger place in supplying the U.S. sugar market—must give first attention to one of its primary obligations in administering the Sugar Act, for example, to assure consumers of adequate supplies of sugar at all times. Two of the five largest suppliers—Brazil and the Dominican Republic—are the best sources for obtaining substantial additional quantities of sugar on short notice. Under the Sugar Act Amendment of 1965, there has been no difficulty in obtaining sugar as needed. But we should not lose sight of the fact that it is possible for the flow of supplies to be interrupted by very serious strikes or

restricted by adverse crop conditions and that on such possible occasions, the desire of consumers to stockpile sugar can be overwhelming. This secondary or stockpiling phenomenon can be overcome but only by proving early in the critical period that the demands of the market are being served regardless of their magnitude.

I have mentioned two of the five countries with the largest quotas as the best sources for substantial quantities of additional sugar on quick notice. There is a third, Mexico, which also has supplied whatever sugar was needed during the current term of the act. Because of rapidly growing consumption at home, Mexico may not for the immediate future have the ability to substantially increase its shipments but it has a unique advantage of being a land area contiguous to the United States and so able to supply sugar without resorting to ocean transportation.

The other two of the five largest suppliers, the Philippines and Peru, have been unable at times to supply their full entitlements under the present act. However, present indications are that they can this year.

It is our position that the distribution among the various countries' quotas of the quantity of sugar to be imported should be maintained as under the present act. Within this framework, we would recommend that the Cuban reserve be reduced from the present level of about 1.5 million tons annually to 1.2 million tons with the difference of about 300,000 tons prorated to the individual quotas of the countries which have been supplying the Cuban quota while it has been in suspense. In this connection, we also recommend that that portion of the Cuban reserve stemming from requirements in excess of 10 million tons continue to be reallocated to quota countries that are members of the Organization of American States.

Thank you Mr. Chairman.

Mr. Chairman, it may be your pleasure to hear Mr. Katz at this time or to ask us from the Department of Agriculture questions. We are at your disposal.

The CHAIRMAN. I would just like to ask one question of you at this time, Mr. Palmby. Then I could ask Mr. Katz.

It is my understanding that the way the House bill works out amounts to a very large reduction in the sugar to be purchased from the Dominican Republic. Is that right or wrong?

Mr. PALMBY. If I may, I would like to have Mr. Murphy answer that question. He can answer it more quickly than I.

Mr. MURPHY. Mr. Chairman, the way the House bill works out is that the five largest suppliers would have substantial reductions. One of those is the Dominican Republic. In the case of the four Latin countries as distinct from the Philippines, the cut would be about 9.5 percent.

Now, additionally, the Dominican Republic in the last 5 years has had discretionary allocations of deficits by the President, but they would continue under the terms of the House-passed bill to be eligible for such consideration.

The CHAIRMAN. Well, I would like to ask about Peru, but I will ask Mr. Katz about that.

Senator Bennett?

Senator BENNETT. No questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Murphy, what countries that do not have a quota under the present act would have a quota under that House-proposed bill?

Mr. MURPHY. Senator, those countries would be Paraguay, Malawi, and Uganda.

Senator CURTIS. Is that all?

Mr. MURPHY. That is all, sir.

Senator CURTIS. And how many foreign countries now having a quota would have that quota materially increased by the House bill?

Mr. MURPHY. Eleven such countries.

Senator CURTIS. Could we have the names of those?

Mr. MURPHY. Yes. Those would be Colombia, Panama, Venezuela, the Bahamas, British Honduras, Bolivia, Honduras, Mauritius, Swaziland, the Malagasy Republic.

Senator CURTIS. Now, I want to make sure that I understand the change in the allocation of the growth factor from the present law to what is proposed by the House. When our requirements increase under present law, how is that additional allocated, under present law?

Mr. MURPHY. Senator, under present law, the foreign countries get 35 percent; the domestic areas get 65 percent of the increased requirements. That 65 percent goes to the sugar beet area and the mainland cane area. Of the total 100 percent, the sugar beet area has about 47 and a fraction percent and the mainland cane area about 17 percent.

Senator CURTIS. If the House bill became law, that would be the situation?

Mr. MURPHY. That would be the situation.

Senator CURTIS. I thought there was a change in that the first 200,000 tons would go to the domestic before the foreign share.

Mr. MURPHY. In the House bill?

Senator CURTIS. Yes; I am referring to the bottom of page 3 of Mr. Palmby's statement. I want to be sure that I understood it.

Mr. MURPHY. Yes, Senator, that statement refers to the administration's recommendation.

Senator CURTIS. Oh, that is the administration recommendation? That is not in the House bill?

Mr. MURPHY. That is not in the House bill; no.

Senator CURTIS. That straightens me out.

Now, on a different subject—maybe Mr. Palmby wants to answer this, I do not care who. He made reference to a hundred million dollar program of rehabilitation of the sugar industry in Puerto Rico. Whose expenditure is that?

Mr. MURPHY. That would be the expenditure of the Commonwealth of Puerto Rico, that government.

Senator CURTIS. Not the Federal Government?

Mr. MURPHY. Not the Federal Government.

Senator CURTIS. And it is not the private industry?

Mr. MURPHY. And it is not private industry.

Senator BENNETT. May I ask a question at that point?

Senator CURTIS. Surely.

Senator BENNETT. Is that all for the benefit of producing refined or raw sugar for export to the mainland, or will part of it be used to produce rum?

Mr. MURPHY. Senator, it would all be used to produce sugar. I would think that they would continue to make their rum out of the black-strap molasses—which is a byproduct of sugar production.

Senator CURTIS, may I add the name of Argentina to the list of countries that receive a larger quota under the House bill?

Senator CURTIS. And when you complete your remarks later, if you would indicate how much of an increase each one of them got, if you would, please, when you revise your remarks.

(The information referred to follows:)

COMPARISON OF FOREIGN QUOTAS PURSUANT TO THE CURRENT SUGAR ACT AND H.R. 8866 AT U.S. REQUIREMENTS LEVEL OF 11,200,000 SHORT TONS, RAW VALUE<sup>1</sup>

[Short tons, raw value]

Countries	Current act	H.R. 8866 <sup>2</sup>	Quota increase in H.R. 8866	Quota decrease in H.R. 8866
Mexico.....	506,698	474,111		32,587
Brazil.....	495,554	463,695		31,859
Dominican Republic.....	495,554	463,695		31,859
Peru.....	395,264	369,540		25,724
West Indies.....	171,499	169,563		1,936
Ecuador.....	72,105	71,242		863
French West Indies.....	53,949	0		53,949
Argentina.....	60,960	67,076	6,116	
Colombia.....	52,440	64,992	12,552	
Costa Rica.....	58,339	57,493		846
Nicaragua.....	58,339	57,493		846
Panama.....	36,708	56,244	19,536	
Guatemala.....	49,162	48,745		417
El Salvador.....	36,050	35,412		638
Venezuela.....	24,909	32,496	7,587	
Bahamas.....	10,000	29,579	19,579	
British Honduras.....	12,493	29,579	17,086	
Haiti.....	27,531	27,080		451
Bolivia.....	5,900	14,998	9,098	
Honduras.....	5,900	14,998	9,098	
Paraguay.....	0	13,333	13,333	
Australia.....	203,785	203,783		2
Republic of China.....	84,910	84,909		1
India.....	81,514	81,596	82	
South Africa.....	60,003	59,643		360
Fiji.....	44,719	44,318		401
Mauritius.....	18,681	29,822	11,141	
Swaziland.....	7,359	29,822	22,463	
Thailand.....	18,681	18,639		42
Malagasy Republic.....	9,623	14,911	5,288	
Malawi.....	0	14,911	14,911	
Uganda.....	0	14,911	14,911	
Subtotal.....	3,158,629	3,158,629	182,781	182,781
Philippines.....	1,126,020	1,126,020	0	0
Ireland.....	5,351	5,351	0	0
Total.....	4,290,000	4,290,000	182,781	182,781

<sup>1</sup> The quotas which would have been established for Cuba and Rhodesia have been prorated to other countries.

<sup>2</sup> In 1972 only, Panama would have a quota of 37,067 tons rather than 56,244 and Malawi 0 rather than 14,911 tons. In that year, the difference would be prorated to all countries other than the Philippines and Ireland. In the final year, the total for foreign countries at a requirements level of 11,200,000 tons would be reduced by 145,000 tons due to an increase of that amount in the quota for Puerto Rico. Total foreign country quotas would also be reduced by as much as 100,000 tons to provide for new continental cane sugar areas beginning as early as 1973.

Note: The Philippines share of any deficits would be reduced from 47.22 percent to 37.6 under H.R. 8866.

Senator CURTIS. Just one more question at this point: The provision made in the House bill for possible new areas of production and new facilities, is that generally similar to the method that was followed in 1961?



Mr. MURPHY. Senator, it is generally similar. There are some minor differences.

Senator CURTIS. But it would operate basically the same way?

Mr. MURPHY. Basically the same way.

Senator CURTIS. And how many new areas would that take care of?

Mr. MURPHY. Well, it depends. If they are brandnew factories, I think the number would be two. But the bill also provides that expanded factories can compete as well as new factories. In that case, an expanded factory would probably or possibly need only half as much as a new factory.

Senator CURTIS. That is all at this point.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Secretary, in regard to Mexico, as I understand it, they exceeded their quota in the last year? In other words, they were able to ship in more than their original allocation; is that right?

Mr. PALMBY. They have always shipped as per our request.

Senator FANNIN. Well, that is what I understood. But now I notice that they are being cut back in accordance with the comparison that I have here on the foreign quotas. But that still does not preclude them being in a position where they probably will be able to ship in more than the quota, depending upon the needs that come about; is that right?

Mr. PALMBY. Depending upon the needs that come about, and also the response of some of the new suppliers or the other suppliers generally.

Senator FANNIN. Some of the other foreign countries?

Mr. PALMBY. That is correct.

Senator FANNIN. Then the only other question I had was that on page 8 of your statement, you say, on the second paragraph:

The excess tax paid on all quota sugar consumed yields year after year a substantially greater return to the Treasury than the total of government payments.

Now, how would that be as far as the total of Government costs involved in the sugar program? In other words, there are other costs besides the payments; there are other stipulations that you provide in the way of payment.

Mr. PALMBY. Senator, the additional costs are very minor and the reason is that the staff that is required to administer this is really quite small. That is the only additional cost.

Senator FANNIN. Good. I want this from the standpoint of justifying some of these programs, because in my own State, we have a limited amount of sugar production, but we do have a great production of cotton and there has been such a turmoil over the subsidy payments on cotton. That is why we should know the position of the Government on these matters.

Mr. PALMBY. If we may supply that, Senator Fannin, even though it is minor; we would like to supply that information for you for the record, if we may.

Senator FANNIN. Thank you, sir.

(The information referred to follows:)

SUGAR: EXCISE TAX RECEIPTS, SUGAR ACT PAYMENTS TO GROWERS, AND EXPENSES OF ADMINISTERING THE SUGAR PROGRAM, FISCAL YEARS 1965-70

Fiscal year	Excise tax receipts	Sugar act payments <sup>1</sup>	Administrative expenses	Surplus to treasury
1965.....	\$97,762,310	\$91,710,000	\$2,288,476	\$3,763,834
1966.....	103,248,500	83,210,683	1,665,704	18,372,113
1967.....	104,494,370	81,749,148	1,900,218	20,845,004
1968.....	102,576,590	81,004,910	1,909,000	19,662,680
1969.....	108,394,600	91,951,150	1,786,000	14,657,450
1970.....	113,489,000	90,164,000	2,084,000	21,241,000

<sup>1</sup> Crop-year basis for year prior to year shown.

Senator FANNIN. Thank you, Mr. Chairman.

The CHAIRMAN. You made reference to the Argentine situation. My understanding was that when we acted on this thing in 1965, starting over on the House side, while everyone else hired a lobbyist to work for them, Argentina felt that it was not appropriate to send someone to appear before the committees of the Congress, with the result that on the House side they were granted a very small quota despite their help in our 1963-64 sugar crisis. On the Senate side, we restored the quota for them recommended by the administration. But by the time we compromised it in conference, Argentina really was treated very badly. It seems to me almost simple justice that we ought to try to do better by Argentina than we did because they were treated so badly before. I wonder what your reaction is.

I might say those who hired lobbyists generally did very well. Argentina did not hire a lobbyist and just got the worst of it in all respects. That does not seem right to me, at least.

Mr. PALMBY. Mr. Murphy now has this figure that he will share with you.

The CHAIRMAN. What do you think would have been fair for Argentina in 1965 and what did they wind up with?

Mr. MURPHY. Mr. Chairman, the administration recommended a quota of 63,684 tons at the then level of requirements. Argentina wound up with a quota at that level of 42,000 tons.

The CHAIRMAN. As I recall it, the Finance Committee put in the figure you recommended and that was cut to 42, so they wound up with about 21,000 below where you thought they ought to be and where we thought they ought to be.

Mr. MURPHY. That is right, Senator.

The CHAIRMAN. Through no fault of ours, that would indicate that it is a good idea for somebody to hire a lobbyist, but we did not feel it ought to be that way on this committee. We felt they ought to be treated fairly whether they have a lobbyist or not.

We thank you very much, gentlemen. If there are no further questions, we will now excuse you and call on Mr. Julius Katz.

We are pleased to have you here, Mr. Katz. I know that you, like Mr. Palmby, have worked very hard to try to put together a sugar act and try to mesh the considerations of this Nation's foreign policy with obligations of our producers as well as the various foreign policy implications, and we appreciate the hard work you have given to this matter.

**STATEMENT OF JULIUS L. KATZ, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTERNATIONAL RESOURCES AND FOOD POLICY; ACCOMPANIED BY CHARLES YORK, CHIEF, TROPICAL PRODUCTS DIVISION; AND EDWARD COHEN, TROPICAL PRODUCTS DIVISION**

Mr. KATZ. Thank you, Mr. Chairman.

Mr. Chairman, I appreciate having this opportunity to appear before the Committee on Finance. I am accompanied by Mr. Charles York on my right, who is the Chief of the Tropical Products Division in the Department of State; and by Mr. Edward Cohen, who is in that same division.

The extension of the Sugar Act enacted by the House of Representatives as H.R. 8866, is of importance to the economic well-being of the United States and to the economic development of dozens of friendly countries in all parts of the globe.

I would like to present the views of the executive branch concerning those aspects of the legislation that bear directly on our foreign relations, to supplement Secretary Palmby's testimony.

When I testified before the House Agriculture Committee on this subject on May 6 of this year, I stressed the importance of the sugar program to our foreign relations. This point has been demonstrated clearly in recent weeks. The proceedings in the House Committee and in the House itself have been given extensive coverage in the world's press, in banner-headlined front page reports, in lengthy columns and in editorials. In addition, our embassies around the world and the Department of State in Washington have been receiving diplomatic messages from the many governments affected by the sugar legislation. I can assure you that the work of your committee on this matter will be no less carefully scrutinized by the public, the press, and the governments in sugar growing countries on all the continents.

It is not difficult to perceive the reasons for the wide international interest in this domestic legislation. For such countries, most of them developing countries, sugar is not just another commodity, and the United States is not just another market. Our market is by far the largest for cane sugar, and the most profitable—indeed, for most of our sugar suppliers it is the only profitable market available to them. Access to our sugar market permits supplying countries to put extensive areas of land into productive use. It provides employment for a very large number of workers in countries where problems of unemployment and underemployment often are of critical proportions. It encourages private investment and private ownership. It enables the supplying countries to pay for the goods and services they need for their development requirements.

Let me emphasize, in this connection, that the dollars they earn in our sugar market are largely returned to this country for their purchases of our own exports. In 1970, the supplying countries as a group earned some \$720 million from their sugar sales here—and those earnings accounted for a sizable portion of the \$8.9 billion they spent here for purchases of our exports. In fact, it may be said that all of their sugar earnings were spent for their purchases here, since their total earnings from exports to the United States were about \$1.5 billion less than what they spent to purchase U.S. goods. To make that point clear, Mr. Chairman, we had a billion and a half dollars surplus with the sugar-supplying countries.

There are features of the bill now before the committee, H.R. 8866, which those of us in the executive branch who are concerned with foreign relations find helpful. There are others which we believe will raise serious problems—in fact, which are already giving us problems with our foreign suppliers.

We are gratified that the bill is consistent with the recommendation we placed before the House Agriculture Committee that the Sugar Act be extended for 2 or 3 years. The bill calls for a 3-year extension.

This makes good sense for a number of reasons. During the next 3 years most of the major arrangements governing the world's sugar trade are scheduled to be revised or replaced. The International Sugar Agreement is due to expire on the last day of 1973. The Commonwealth Sugar Agreement is due to be revised in 1974, and may be revised before then if the United Kingdom becomes a member of the European Economic Community. The EEC's own policy for sugar will need to reflect the new situation of an expanded Common Market. Our bilateral trade agreement with the Philippines, which has an important bearing on our own sugar program, is due to expire July 4, 1974.\*

With these developments in prospect we believe it may be worthwhile for the United States to consult together with the other interested countries and international organizations in an effort to determine whether various arrangements affecting sugar trade might be coordinated and improved for the mutual benefit of producers and importing countries. The results of these discussions could be embodied promptly in our recommendations if the Sugar Act is next extended in 1974, as we recommend and as the House bill provides.

In recommending that the Sugar Act be extended for 2 or 3 years, the executive branch also recommended that the act be extended with only minimal change in foreign quotas. Unfortunately, H.R. 8866 goes well beyond this recommendation, with predictable adverse consequences for our foreign relations. Our recommendation for minimal change in foreign quotas was based on the following considerations:

First, simple arithmetic shows that an increase in any supplier's quota can only be effected at the expense of one or more of the other suppliers' quotas.

Second, there is no widely acceptable formula for determining objectively how quotas should be apportioned—no yardstick for measuring the relative merits of the various suppliers.

Third, in the absence of an objective formula or yardstick, changes must be effected on an arbitrary basis. As a result some justifiable increases may be approved to the exclusion of other justifiable cases, or worse yet, weak cases may be approved at the expense of meritorious ones.

Fourth, it follows that the goodwill we may earn by increasing a country's quota is invariably offset by the resultant recriminations, invidious comparisons and charges of favoritism.

Fifth, the existing apportionment of quotas has generally proven satisfactory in fulfilling the goals of the Sugar Act—since the 1965 amendments we have invariably been able to obtain all the foreign sugar we need, as promptly as we need it, without price disruptions

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\*See appendix B, p. 1211, for a brief outline submitted by the Department of State concerning the operation of the Commonwealth Sugar Agreement, the EEC's Common Agricultural Policy for Sugar, and the Japanese Sugar Program.

and without any great inconvenience to our sugar importers, refiners or consumers.

Finally, our related recommendation for a relatively short-term extension of the act would provide an opportunity for further review of the foreign quotas in the not too distant future.

Based on these considerations, the quota changes we recommended, involving primarily the establishment of a 15,000-ton minimum, would have meant a shift of only some 75,000 tons instead of the 200,000 tons shifted by the House bill. The few changes we recommended could have been funded on a pro rata basis among all other suppliers, with little impact on any of them. The House bill, however, makes rather substantial cuts among a few suppliers. These are the very suppliers on whom we would have to count most heavily to meet our requirements in the event of another worldwide shortage of sugar, such as occurred in 1963 and 1964, or the other circumstances that Mr. Palmby described.

H.R. 8866 departs also from the administration recommendation in several other respects. This bill reduces the Cuban reserve by half, from about 1.5 million tons to 750,000 tons. While a change in the Cuban reserve has no practical effect on present quotas, it does have implications for the future position of supplying countries. While we had recommended a reduction of 300,000 tons, we believe that a very substantial cut, as contained in the House bill, would undermine the purpose of the reserve, that of assuring the availability to the Cuban people of an adequately beneficial sugar quota at such time as diplomatic relations with the United States are restored and the President deems such trade to be in the national interest of the United States.

Another change in the House bill is the elimination of the OAS preferential share of the Cuban reserve at levels of U.S. sugar consumption exceeding 11.2 million tons. This action runs contrary to our hemispheric policy. President Nixon has on several occasions emphasized his desire to widen the export opportunities of Latin American countries in our market. Sugar is, of course, a leading export for Latin America and we would therefore wish to see the OAS preference returned to the formulation in the 1965 act.

I would like to refer also to an important omission in H.R. 8866. The administration acceded to the proposal to transfer 300,000 tons of quota from Puerto Rico and the Virgin Islands to the mainland cane area. It did so out of a recognition that this action represented a transfer of quota from one domestic area to another domestic area. At the same time, however, this shift in quota, as a practical matter, would mean a loss in exports for the countries of the Western Hemisphere and the Philippines, which under the act had been supplying the deficits from Puerto Rico and the Virgin Islands. To ameliorate the effects of the loss of these exports, the administration recommended, in addition to a shift of 300,000 tons of the Cuban reserve, a reservation of growth in the market to foreign suppliers at consumption estimates of between 11.3 and 11.53 million tons. The effect of this proposal would be to give foreign suppliers roughly half of the exports they would lose by transfer of the Puerto Rican deficit to mainland cane. Congress incorporated a similar proposal in 1965, when domestic growers were granted an increase in quotas. I hope that your committee would support inclusion of a provision for partial restitution of foreign suppliers' losses in the new act.

In recommending a position of minimal change, we had hoped for the fewest of changes, involving primarily a minimum-size quota. Certainly the question of what is minimal is open to argument, but the magnitude of the changes contained in H.R. 8866 goes well beyond what we had proposed. Clearly, maintenance of the provisions of the 1965 act would be preferable to the situation created by H.R. 8866 which has caused hard feelings and genuine concern on the part of a large number of countries—countries whose quotas were cut, countries whose quotas were not increased as much as had been hoped for.

If these rather general changes in quotas were to affect favorably the supply of sugar on our market, they would be understandable. But as it is, they complicate our foreign relations with no significant benefit to the operation of the sugar program. I would hope, Mr. Chairman, that your committee will reexamine the quota provisions of H.R. 8866 with these foregoing comments in mind.

Thank you, Mr. Chairman. That concludes my prepared statement.

The CHAIRMAN. Mr. Katz, first let me ask you this question: What would be the effect on our partners with whom I believe you said we have a trade surplus of about \$1.5 billion—is that right?

Mr. KATZ. Yes, sir.

The CHAIRMAN. What would be the effect on them if we went back to that system that we experimented with some years ago of making them pay into our Treasury the difference between the so-called world market price and the price that we are paying them?

Mr. KATZ. Well, one effect, of course, would be that the exporters would lose some or all of that premium, depending on the amount of the import fee. I think the first question that would arise would be whether they would ship sugar here under those terms; that is, if all of the premium were taken, this market would lose some of its attractiveness, but not all of it. I would assume that we would continue to import much of that sugar anyway. Of course, there would be the loss in export earnings on the part of some of these countries, which I think probably would be reflected in a decline of their imports. Most of the countries are developing countries with very high propensities to import. They import pretty much what they earn. I assume that this would be reflected in their import performance.

The CHAIRMAN. Well, the last time we used that approach, we wound up with a worldwide shortage of sugar; the price of sugar on the world market skyrocketed up to about 13 cents a pound or some such thing as that. And the man in the State Department who had the same responsibility and testified for the State Department as you are doing at this moment told me on a personal basis that he felt that the fact that we were trying to buy that sugar at a price that would virtually break those people if they tried to produce it and sell it at that price caused a lot of people to go out of the sugar business or at least to restrict their production, with the result that it undoubtedly contributed to the worldwide shortage of sugar and played, undoubtedly, a substantial part in causing the price to skyrocket with the result that everybody had to pay a lot more rather than less for their sugar.

I see you nodding.

Mr. KATZ. I think that is basically right. I am not sure what the chain of events was or that the subsequent shortage was due wholly to the import fee. I suspect that the sugar cycle had something to do

with it. But it is true that at the time that provision was in the law, it was not used except very briefly because the normal price relationship inverted; that is, the world market price was higher and became substantially higher than our own price and during that period we were asking countries of the world to ship us sugar in order to keep prices down.

The CHAIRMAN. Can you tell me about what percentage of sugar sells at the so-called world market price?

Mr. KATZ. I believe it is about 25 percent.

No; it is less than that. I hear murmurs in the audience. There are a lot more sugar experts out there than there are at this table, I am afraid.

The CHAIRMAN. Well, I will obtain the information.\*

Mr. KATZ. I think it is fairly small. Most of the sugar is marketed preferentially.

The CHAIRMAN. To my way of thinking, the world market is more or less distress sugar or dumped sugar. People can't sell it at that price and make a profit, so you are imposing distress conditions on people when you try to purchase sugar at that price. If we are interested in helping those people to improve their conditions and to advance their nations and prosper—as we try to provide, hopefully, for a prosperous industry for our own farmers in this country—it is not possible if we are only going to pay them the so-called world market price for it, is it?

Mr. KATZ. That is right.

The CHAIRMAN. My best recollection is that in 1965, the committee did just about what the State Department representative who spoke for the Department as you are speaking now recommended to us about these quotas. Your recommendations here are very persuasive with us. But there is one thing that very much concerns me. That provisions that made it mandatory for this Nation to terminate its purchase of sugar from any nation that is confiscating or seizing without paying adequate compensation of American investments was there because I insisted on its being there. And I know exactly what that was supposed to mean. That was supposed to mean that when somebody confiscates any of the hundred billion of dollars of investments that this Nation has around the world, they automatically lose their sugar quota. It was never intended that that be discretionary so far as I was concerned and I think I had as much to do with insisting that it be mandatory as anybody else. When they take our investments, they have an obligation to pay us for them. It is nothing more than international banditry and when they do that, they lose their quota.

Now, I must say to you that it is my judgment that we should not provide 1 ton of sugar quota to Peru. That does not have anything to do with whether the International or Standard Oil of New Jersey wants it that way or Grace wants it that way or not. As far as I am concerned, if you wanted to provide a quota for the Mafia, I do not care whether it is Costello or Marcello or who it might be. I would say no, I just do not feel like doing business with those people.

\*See p. 66 for further discussion on the point raised.

My reaction is that we ought to take that same view about the quota that is in here for Peru. You may fear that the Peruvians or whoever that fellow is down there in charge of that government might do some more drastic things to us. As far as I am concerned, he can do anything he blessed well pleases but I am not going to vote to give him a ton or, for that matter, a pound. So we had better understand each other as far as that is concerned.

Mr. KATZ. Mr. Chairman, I would like to say that I certainly understand your concern about that. I think that is not a situation that we are very happy with ourselves. In the case of Peru, we have had several problems. I do not know that technically, you can speak of any of them as confiscations at this point, because while the property has been taken and in some cases, settlements have not been negotiated, there have been negotiations. There are negotiations going on right now with certain of those claims and I think that the provision is certainly mandatory in terms of a taking without some adequate proceeding going on.

It is true also that we try to look at these questions in their broadest light. What is the most effective way of protecting the interests of American investors in these countries and our own national interests as well? And the question of retaliation is always a difficult one. There are questions of judgment and people can disagree on the judgment that has been applied. But what is the most effective way of applying retaliatory measures?

Generally, retaliation comes at the end of the process, when all else has failed, when there is nothing else you can do. Normally, you do not start out by taking retaliatory measures because this just makes it more difficult to settle the problem.

So I think we certainly understand your concern. We can not tolerate a situation where people just take property because they want to do that and do not pay compensation for it. We could not stand that kind of a world and we have to work very hard on these problems. But I think solving such problems is not always very simple. It is not just a matter of taking a measure against them or taking a sugar quota away or something else.

The CHAIRMAN. It seems to me it would be almost as though you went to a zoo and you went in there and tried to feed an animal and he grabbed your hand and tried to bite it off. The least you could do is jerk your hand back out of that cage. So my thought would be that we ought to tell those people if they are going to do that, here is what happens automatically; there is nothing we can do about it, the law requires it. If they want to arbitrate with us, I would be the first to agree, all right, when they settle with us, restore the quota for them.

But I do not see why we should threat those people the same as some of these others who have been good friends of ours through thick and thin and are treating us by the golden rule.

As between trading partners, why should we decline to provide a quota for some of these people who are such good friends and such admirable trading partners and who very much need a larger trading quota with this country in order to provide for these people to be treated the way we are treated in Peru?

I have nothing more to say about that.



Senator Anderson?

Senator ANDERSON. Are there any States opposed to this present program? I know many States are favorable to it. Are any of them against it?

Mr. KATZ. Well, I am not aware of any, Mr. Chairman.

Senator ANDERSON. Have they had all the acreage they have desired?

Mr. KATZ. Well, that is a question I do not think I could really answer. I think Mr. Palmby might be in a better position to answer that one.

Mr. MURPHY. Senator, in the sugar cane area, in Louisiana and Florida, certainly growers have not had all the acreage they want and have not had since 1964. In the sugar beet area, it has not been necessary to restrict production since 1966, although temporarily, the restrictions were imposed on the 1970 crop but they were rescinded about planting time. And offshore in Hawaii and Puerto Rico, there has been no need to restrict production. All producers had the opportunity to produce whatever they wished.

The CHAIRMAN. Might I just interpose there to say that we really begged and pleaded with the beet sugar industry to help us amend that act so we would not have to cut back on the acreage in Louisiana? I just wish this Nation had been as tough in Peru as those beet sugar people were with Louisiana.

Senator ANDERSON. Are there any States that have officially announced their obligations? For instance, the State of Texas is happy, is it not? The State of Texas is perfectly happy, is it not?

Mr. MURPHY. With the law as it presently exists? I would say Texas is, insofar as sugar beets are concerned.

Senator ANDERSON. Is their next door neighbor, New Mexico, satisfied?

Mr. MURPHY. Your State? I believe it is, Senator.

Senator ANDERSON. It is?

Mr. MURPHY. It has the opportunity to produce whatever beets it wishes as far as the Sugar Act is concerned.

Senator ANDERSON. Have they tried?

Mr. MURPHY. They have tried.

Senator ANDERSON. Has it been troublesome to them? Are they in trouble in trying to do anything with it?

Mr. MURPHY. No, they are not in trouble. As you recall, there is a factory in Arizona. It can accept more acreage, it has processing capacity to do it. It does take it from one side of New Mexico. There is also a factory in Texas and it takes some acreage from New Mexico.

Senator ANDERSON. Why?

Mr. MURPHY. Why does it take acreage?

Senator ANDERSON. Yes.

Mr. MURPHY. Well, I think that when that factory was first planned, the nearby area of New Mexico was included in the plan. That is one reason.

It may also be that the factory has the need for that acreage.

Senator ANDERSON. Always offered but never granted.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. Maybe because I have been down to Peru within the last 3 months, my feelings are not quite

as strong as the feelings of the chairman. This bill, Mr. Katz, widens the President's discretionary authority with respect to quotas in countries that have expropriated U.S. properties by setting up an alternative, to set up a fund of \$20 a ton to reimburse the expropriated property in addition to the right the President has to cut the sugar quota or cut it off; is that right?

Mr. KATZ. That is right, Senator.

Senator BENNETT. Does the State Department support that alternative?

Mr. KATZ. Yes, sir. It widens his discretion in another area as well and that is, it gives him the authority to curtail a part of the quota. There may be situations where that would be appropriate. So he can eliminate quota in its entirety, he can cut the quota, or he can impose a tax of up to \$20 per ton to be put into a special fund for compensating claimants.

Senator BENNETT. It is my understanding that negotiations with the Grace Co. regarding their Peruvian sugar properties and the payment for them are continuing with reasonable satisfaction to both sides. Is that your understanding?

Mr. KATZ. Well, they certainly are proceeding. I suppose the question of satisfaction can only be determined at the end of the process, which I understand is due shortly; that is, they are due to conclude their work shortly.

Senator BENNETT. Well, I did not get the impression that these negotiations were entirely hopeless or pro forma, that there was no prospect of arriving at a satisfactory conclusion at the end.

Mr. KATZ. I think that is right. Our information and impression is that these are very serious negotiations and that they are going forward with great deliberation.

Senator BENNETT. And if they fail, the President then can use either of these two alternatives provided in the House bill?

Mr. KATZ. That is right; yes, sir.

Senator BENNETT. Well, I hope they do not fail, because I think any action that is arbitrary and apparently final is much harder to repair than it is to prevent. But the bill does give power to the President to go all the way to complete elimination of the quota if he figures that the responsibility to repay the American owners of the expropriated property has not been adequately met.

Mr. KATZ. That is absolutely right, sir.

Senator BENNETT. What would be the position of the State Department—what might be the position of the State Department if these negotiations completely failed? Would it be inclined to recommend that the President use that power?

Mr. KATZ. Well, like you, Senator, we hope they do not fail and we are going to try to do everything we can to see that they are successful. We have devoted quite a lot of effort and energy to this already. We are going to continue. If it comes to that kind of unfortunate result, I do not know that I could at this point forecast precisely what our position would be. But I think that the directive that is contained in this legislation is certainly one that we would weigh very heavily. I think there is a strong presumption in what action we would take.

Senator BENNETT. That is all, Mr. Chairman.

Senator CURTIS. No questions.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Katz, on page 8 of your statement, at the end of the first paragraph, you say: "I hope that your committee would support inclusion of a provision for partial reduction of foreign suppliers' losses in the new act."

Are you talking about quotas, or are you talking about restitution in other ways?

Mr. KATZ. No, sir; just quotas. What we are talking about is this formula to reserve growth within a particular range of the consumption estimate. It is this idea of reserving the growth between the area of 11.3 and 11.53 million tons.

Senator FANNIN. Thank you. And then at the bottom of that page, also on the next page:

Clearly, maintenance of the provisions of the 1965 act would be preferable to the situation created by H.R. 8866 which has caused hard feelings and genuine concern on the part of a large number of countries—countries whose quotas were cut, countries whose quotas were not increased, and countries whose quotas were not increased as much as had been hoped for.

Do we not always have this, that they expect more and then they are dissatisfied, although we have been very fair and equitable.

Mr. KATZ. I think that is absolutely right, Senator. That is the point we are trying to make, that there is no way you can divide up a quota that will satisfy everybody or perhaps anybody short of some objective standard. Now, we had a standard in the 1965 act. That is, we recommended that the quotas be allocated purely on the basis of historical experience and experience during the period when we needed sugar from abroad. This weighted very heavily the performance of supplying countries. We do not have anything comparable to that today except what we did in the 1965 act. This is a situation with a fixed pie. If you are going to touch one quota, you have to adjust some other one and that inevitably has given rise to the kind of situation we have now.

Senator FANNIN. But it should be that we have a fair and equitable arrangement?

Mr. KATZ. Yes.

Senator FANNIN. I think when the chairman referred to a billion and a half dollar trade surplus, how many nations are involved when you talk about that?

Mr. KATZ. Thirty-one supplying countries.

Senator FANNIN. Yes. Now, if we would take the Public Law 480 and other aid and assistance we have given to those countries, how would we come out; do you have any idea?

Mr. KATZ. Sir, I am sorry; that is 34 countries. Under the Sugar Act, the former British West Indies are treated as a unit. That would be 34 countries.

I am sorry, you asked about Public Law 480.

Senator FANNIN. Well, with all of our programs, I am just wondering what position we would be in as far as the trade surplus or balance of payments surplus?

Mr. KATZ. I do not think I could answer that off the top of my head. We can certainly supply that.

Senator FANNIN. Over the years, we have put a tremendous amount of money into those countries. I am just wondering, under the present basis, just how it would offset that billion and a half dollars.

Mr. KATZ. I think it would not be very significant, although most of the countries are, of course, developing countries and many of them would be eligible for aid, but our aid program is not all that large at this point.

Senator FANNIN. Well, it has been over the years, though.

Mr. KATZ. Oh, yes; the billion and a half dollars is an annual figure. That is the figure for 1970.

Well, in 1969, AID represented about \$85 million as I read this table.

Senator FANNIN. For all those 34 countries?

Mr. KATZ. That would not include Public Law 480, however. It would not reduce that figure by very much.

Senator FANNIN. That is what I was trying to decide, thank you very much.

The CHAIRMAN. Senator Harris?

Senator HARRIS. Yes, sir; thank you, Mr. Chairman.

Is there any rhyme or reason to the way these quotas are set up by countries, either in the House bill or in the administration position?

Mr. KATZ. Yes, sir; I think there is some.

Senator HARRIS. Would you say what it is, either in your position or the House position?

Mr. KATZ. Well, you have to start with the present act. That is, the 1965 act.

Senator HARRIS. Why is that so? It is all before us; is it not?

Mr. KATZ. I beg your pardon?

Senator HARRIS. It is all before us.

Mr. KATZ. Yes, but that is really the point of departure. In the 1965 act, the administration recommendation was that we take the immediate preceding period as a historical period and allocate quotas on that basis. That was fairly closely followed by the House, but with some exceptions which the chairman noted. The finance committee, I understand, largely accepted the administration position that is, the first time around, the Senate bill generally provided what the administration had requested. In conference, there were then some adjustments. So on the whole, the current act, the 1965 act, is pretty much based on historical experience in the period of 1963 and 1964, with some exceptions, but not very many.

Now, the current House bill—that is, H.R. 8866—again follows that basic pattern, but with some more exceptions and in total, there are, 14 changes, 11 increases and three new quotas.

Senator HARRIS. Can you see any pattern in that? Is there a pattern in the changes? Is there some rationale based upon the foreign or domestic policies of the country or its internal distribution of profits, or any other criteria?

Mr. KATZ. Well, I am going to get into trouble if I try to speculate too much.

Senator HARRIS. Well, speculate on your own position, then, please.

Mr. KATZ. I can say that in one respect, the House did follow our recommendation for a minimum-sized quota.

Senator HARRIS. 15,000 short tons.

Mr. KATZ. That is right, 15,000. There is one exception to that, however. Ireland stays in at 5,300. But by and large, they accepted that and they raised countries to 15,000 or more. Now, in some cases, there are two boat loads.

There are other changes for which I have no basis for knowing the rationale. There were changes made which I cannot explain.

Senator HARRIS. Are you for changing it back to the administration's position?

Mr. KATZ. Well, Senator, let me just say one other thing. There were two cases in addition to the 15,000 minimum, we did propose for foreign policy reasons that two countries be increased. Those were Panama and Mauritius. The committee did follow our suggestions in those instances, so I take responsibility for those. There are other cases which I cannot explain.

Now, our view at this point is that given the rather general changes which we prefer not to see as an alternative, we would prefer to go back to the 1965 act.

Senator HARRIS. And that would just be simply because that is the way it has always been?

Mr. KATZ. No; that is because at least that provides some rational, some objective basis.

Senator HARRIS. That is my question. What is the rational or objective basis?

Mr. KATZ. The rationale for that is that is what countries supplied during 1963 and 1964, when world prices were higher than domestic U.S. prices, when we wanted sugar, when we asked countries to supply it and those countries supplied sugar.

Senator HARRIS. Access to our market is a tremendous favor insofar as our bestowing upon them a quota as a portion of that market; is that not so?

Mr. KATZ. Well, it certainly benefits the people who have a right—

Senator HARRIS. It is a special favor for those who get quotas; is that not so?

Mr. KATZ. Well, no, sir; I would not put it that way.

Senator HARRIS. What is it, then? Why do they desire it so much? Why cannot we agree on something as basic as that?

Mr. KATZ. They desire it because this is a big attractive market and a premium market. That is, normally, they attract a higher price. But we want the sugar. We need it; 45 percent of our consumption does come from imports.

Senator HARRIS. We could not supply that ourselves?

Mr. KATZ. Well, I suppose, if we pay high enough prices for it, I suppose we could.

Senator HARRIS. Well, I am not going to fool around with you on that; I am going to say, whether you will or not, this is a special favor tremendously sought by the countries involved.

Mr. KATZ. Well, it is a benefit which is sought. But I would not put it in terms of a favor. I think we import the sugar because we want the sugar. We pay a high price because we think this is a way of guaranteeing a stable supply on our market. The countries who get the right to supply it enjoy a benefit and a much desired benefit. But I would not put it in terms of our bestowing favors on countries.

Senator HARRIS. Well, we will call it by your term, benefit. My question to you, then, is, if this is a special benefit to these countries, are we, according to your position, to allocate that benefit among countries purely on a historic basis, irrespective of the domestic or foreign policies of the country involved?

Mr. KATZ. Well, no; I think it is a matter of choice, Senator. I think we can allocate this any way we want to.

Senator HARRIS. That is my question. How would you do it other than on a historic basis?

Mr. KATZ. I would not do it on other than a historic basis because I think, if you try to depart from that in any substantial degree, you just get into one difficulty after another.

Senator HARRIS. That is your position, then?

Mr. KATZ. Yes, sir.

Senator HARRIS. The rationale is history?

Mr. KATZ. But I think it is certainly within the rights of the U.S. Government and the Congress and the House of Representatives and the Senate to decide otherwise.

Senator HARRIS. I understand that, but you are the one testifying here.

Mr. KATZ. Yes, sir.

Senator HARRIS. I assume you want to tell us what your point of view is to guide us in our decisions. That is why I am asking what the rationale for your position is, which as I understand it, is pure history?

Mr. KATZ. Yes, sir. And supplemented by the fact that when—

Senator HARRIS. If one of these countries attacked us, I suppose you would not want to give them one of the benefits of this act, would you? I mean that would be the kind of change in their position or the kind of policy position that would be outside the pale of our bestowing of a benefit, I take it? At least, you would go that far?

Mr. KATZ. Well, certainly, there are situations where we might alter this view. In fact, we did in presenting our recommendation to the House, we did recommend some changes. Now, as it turned out, we think that the changes went too far beyond what we had recommended and in the circumstances, we think maybe it might have been better not to change at all and just stay where we are.

Senator HARRIS. I think there are a lot of things you could question about this bill and I presume you will have an opportunity to do so. But I would like to ask you specifically about one matter on my mind very much.

The Republic of South Africa has as an official Government policy and practice the inhumane and indecent subjugation of one race by another and institutionalizes in law and practice racism as an official Government policy. Why, then, should we bestow upon them the benefit of subsidization in effect of their economy by giving them a quota of 60,000 and 3 short tons in this bill? I say we should not do so. Do you say we should do so?

Mr. KATZ. Well, no, sir; I do not want to—I think their policies are reprehensible and I do not want to bestow any benefits on them. But you see, here we get back again to this difference we have on what is involved in this act. I do not consider that we are bestowing benefits on countries. I think they enjoy benefits, but I do not think we are

extending favors to them. I think we import the sugar because we want the sugar and we do not have—despite our very severe differences with the Government of South Africa over its racial policies—we do not have a policy of trade embargo with them.

Senator HARRIS. I am not talking about a trade embargo nor diplomatic relations, I am talking about a very sought-after benefit, as you called it.

I want to say this, that I think you ought to be ashamed of that position. I hope we can change it. I believe that morality ought not to stop at the water's edge and I believe we either, as John Donne said, believe that each of us is a part of mankind and mankind is a part of each of us or we do not. I think we ought to practice what we profess and I implore you and this administration to join with us in knocking out this quota and therefore show we are not going to grant special favors to people who do not meet this minimum standard of right and wrong in dealing with other peoples.

Senator ANDERSON. Would you yield for a question?

Senator HARRIS. Yes; I would be glad to.

Senator ANDERSON. I think it is a very interesting point you brought out. There is a price variation that was sought that certain prices are considerably lower in the world market than they are in the domestic market. Therefore, you do have a benefit, a very strong benefit.

Senator HARRIS. Absolutely. I agree with you. And I think it is, you know, a rather shameless evasion to say otherwise. If it were not a benefit, all these people would not be in here asking for these quotas so very strongly.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. I will pass right now, thank you, Mr. Chairman.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Would you indicate again—I was not in the room when this question was asked before, but would you indicate again why you advocate an increase in the quota for Peru?

Mr. KATZ. Senator, we do not advocate an increase in the quota for Peru. I think the question is really whether they should have any quota.

Senator BYRD. Is it your view that they should have no quota?

Mr. KATZ. No, sir; our view is that their quota should remain unchanged at this point. Now, there is a provision in the act which gives the President the authority to either reduce or eliminate that quota or to impose a tax if American property is confiscated.

Senator BYRD. Well, it already has been confiscated, has it not?

Mr. KATZ. I think there is a—well, I am not sure which property you are talking about, but there are some cases there which are under negotiation and I do not know whether it is accurate to say that they have been confiscated in that sense. Certainly the property has been nationalized, the owners have not enjoyed the use of it, but the matter is still in dispute and still under negotiation.

Senator BYRD. Well, as I read page 3 of the House committee report, it shows that under the current act, Peru is getting 6.03 percent of the total and under the House bill they get 8.87 percent of the total. It seems to me that is an increase.

It is an increase in the percentage of the total sugar allotment.

Mr. KATZ. Well, actually, Senator, in the House bill they get cut.

But I would like to ask Mr. Murphy to speak to the percentages. They are somewhat complex.

Mr. MURPHY. Yes, Senator.

Peru, along with the four other larger suppliers from Latin America, has an entitlement reduction of about 9.5 percent in the House bill. You cannot detect that in this table of percentages.

Senator BYRD. You certainly can't. It shows an increase.

Mr. MURPHY. Yes; but the first country there is Cuba, where the percentage has been reduced from 50 percent to less than 25 percent. Now, for years, Peru and the other quota countries have been supplying the Cuban share. So now Peru's own share will be larger. But its additional share on a temporary basis of the Cuban quota—

Senator BYRD. Why should its own share be larger? Why should its regular share be larger?

Mr. MURPHY. Well, it is a function of splitting up about 25 percent of this total 100 percent.

Senator BYRD. Why give it to a country that has acted as Peru has acted toward this country?

Mr. MURPHY. Well, I think I will return to Mr. Katz. [Laughter.]

Mr. KATZ. It is not fair to ask Mr. Murphy to take the brunt of the diplomatic argument.

Senator CURTIS. I think you ought to put Mr. Murphy in the diplomatic corps.

Mr. KATZ. Yes, sir; I wish we had him.

Senator ANDERSON. What is the answer?

Mr. KATZ. Well, I think the answer is—I am sorry, Senator, that you were not here when we discussed this earlier.

Senator BYRD. It can stand full discussion.

Mr. KATZ. Well, let me try again.

I think the point is that in the case of Peru, we have had some problems on the taking of property. There has been no general taking of American property. There have been some settlements of claims, there are claims which are under negotiation now and one that Senator Bennett referred to—Senator Bennett has recently been there—where we are hopeful that there will be a fair and equitable settlement. If that does not prove to be the case, there are remedies in the act with respect to the President's authority to adjust the quota, either to eliminate the quota, to cut it in part, or to impose a tax of up to \$20 a ton, which can be set aside in a fund for compensation to the claimants. But we do not believe that at this point in time, it would either be warranted or desirable to eliminate Peru's quota. We do not think that that would benefit either the American investors whose property has been taken already or American investors who are having no difficulty, or, for that matter, American investors in Latin America as a whole.

Senator BYRD. That does not explain why you should increase their regular quota?

Mr. KATZ. Well, Senator, there has been no increase in Peru's quota.

Senator BYRD. Mr. Murphy just answered that there had been an increase in the regular quota going to Peru.



Mr. KATZ. Well, the quotas are made up of basic quotas plus allocations of deficits or allocations of suspended quotas. One of the major suspended quotas, of course, is Cuba.

Senator BYRD. What we have to do is to get this table on page 3 reprinted if what you say is correct. It says here on page 3 that Peru in the current act has 6.03 percent of the total quota. Under the House bill, it will have 8.87 percent. Now, maybe I am reading it wrong, but that is the way it looks to me. That certainly is an increase.

(The table from the House report referred to follows:)

TABLE 1.—COMPARISON OF PERCENTAGE UNDER PRESENT LAW AND UNDER H.R. 8866. (ALL FOREIGN NATIONS EXCEPT PHILIPPINES AND IRELAND.)

Countries	Percent in current act	Percent in H.R. 8866	Countries	Percent in current act	Percent in H.R. 8866
Cuba <sup>1</sup> .....	50.00	23.74	Honduras.....	0.09	0.36
Mexico.....	7.73	11.38	Paraguay.....	0	.32
Brazil.....	7.56	11.13			
Dominican Republic.....	7.56	11.13	Western Hemisphere.....	40.52	61.48
Peru.....	6.03	8.87			
West Indies.....	3.02	4.07	Australia.....	3.60	4.92
Ecuador.....	1.10	1.71	Republic of China.....	1.50	2.05
French West Indies.....	.95	0	India.....	1.44	1.97
Argentina.....	.93	1.61	South Africa.....	10.6	1.44
Colombia.....	.80	1.56	Fiji.....	.79	1.07
Costa Rica.....	.89	1.38	Mauritius.....	.33	.72
Nicaragua.....	.89	1.38	Swaziland.....	.13	.72
Panama <sup>2</sup> .....	.56	1.35	Thailand.....	.33	.45
Guatemala.....	.75	1.17	Malagasy Republic.....	.17	.36
El Salvador.....	.55	.85	Malawi <sup>3</sup> .....	0	.36
Venezuela.....	.38	.78	Rhodesia <sup>1</sup> .....	.13	.36
Bahamas <sup>3</sup> .....	.....	.71	Uganda.....	0	.36
British Honduras.....	.22	.71			
Haiti.....	.42	.65	Eastern Hemisphere.....	0.48	14.78
Bolivia.....	.09	.36	Total.....	100.00	100.00

<sup>1</sup> Suspended and reallocated to the other countries.

<sup>2</sup> At level applicable in 1973 and thereafter. In 1972 the percentages are 0.88 for Panama and 0 for Malawi.

<sup>3</sup> The Bahamas quota is at a fixed amount under current act.

Source: USDA/ASCS June 3, 1971.

Mr. KATZ. Well, Senator, I think these percentages are somewhat confusing and a little misleading, because they do not really show the whole picture. I think if you will turn to page 7 of the House committee report, I think you can see it more clearly there.

Senator BYRD. That is not the point I am making. The point I am making is that of the total quotas, in the current act, Peru gets 6.03 percent. Under the House bill, it gets 8.87 percent; is that not correct, of the total quota?

Mr. KATZ. That is correct, Senator.

Senator BYRD. All right; that is what we are trying to establish.

Mr. KATZ. Well, now, in terms of the amount of sugar it can ship.

Senator BYRD. I am not talking about in terms of the amount of sugar, because you have reduced the total quota; have you not?

Mr. KATZ. In the terms that you have presented it, Senator, you are absolutely right; the percentage has increased.

Senator BYRD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Let me supply for the record something I asked you, Mr. Katz, and you did not have at your fingertips at the time. Only 12 percent of sugar sells at world market. That means that 88 percent of all sugar is either produced by the country where it is consumed, usually by the industry where they are supported by its government, as ours is, or it is marketed under arrangements with other governments such as the British Commonwealth or such as you have here with our friends under the Sugar Act, where we have a home for that sugar and generally speaking, if you are wise, you are going to have the agreement that they are going to send it to us, they will ship it and we will buy it. Is that in this bill here, by the way, that they have to agree to send us such sugar?

Mr. KATZ. Yes, sir.

The CHAIRMAN. So if the market price skyrockets, they are committed to send it to us and we are committed to buy it?

Mr. KATZ. That is right.

The CHAIRMAN. Now, two or three things. I do think you ought to point out that we are talking about the differences between something that is discretionary with the President and something that is mandatory. Our experience on the AID as well as the trade was that as long as we had recourse discretionary with the President under these confiscation procedures, those people would proceed to take our property, give us no adequate compensation, and when we would expect the President to act, all they would do is wait until we need their vote on some matter in the General Assembly or the United Nations or until that Peruvian is sitting there as Chairman in the Security Council, which does us about zero good anyway, or until they have us at some conference on the law of the sea where we are trying to get them to agree on territorial limitations for high seas or something of that sort, at which time they would proceed to inform us through diplomatic channels that the President would either have to decide that it is in our national interest to continue to give them the aid or the trade concessions they were enjoying, or they were not going to vote with us or at the U.N. or at some international conference or some such thing as that. So the President would then proceed to decide that it was in our national interest to continue the aid. That is how that thing worked for 20 years up until we finally passed what is known as the Hickenlooper amendment. I am the one who made the first breakthrough, I think, to say that it should not be discretionary, it ought to be mandatory, that the President can't just buy a vote in the U.N. or some international conference and give away American industries.

So we made it mandatory. And it worked just fine up until this Peruvian thing came along. At that point, the administration just did not have the courage to enforce the law, as I see it, so people have gotten away with it.

Now, it just seems to me that if people want to do business internationally where they are not abiding by any rule of fair play or by any international way of doing business, where you pay compensation when you take somebody's property, they should not be privileged to be treated as a favored customer. It is just that simple. They just go to the end of the line, do not come up front and expect any special advantage when you are conducting yourself like an international bandit.

We put that in this Sugar Act and we also put that in the foreign aid bill. It all worked out fine up until somebody began to be afraid to invoke it. It just seemed to me if the administration has not the courage to invoke it, as far as this Senator is concerned, I have the courage to vote that way whether they do or not. I just do not think paying that kind of tribute to people who engage in international lawlessness against American business is going to yield us anything.

Mr. KATZ. Senator, I understand that point of view very well, but let me say I do not think it was a lack of courage or a vote in the United Nations or anything like that. I think it is a calculation of how we pursue these interests in the most effective manner. I know you may well feel we have not exercised the best judgment on that. We think we have. That situation could have been an awful lot worse than it was and I think in Peru in particular, there is no general taking of American property. We have a lot of investments there. Some have gone in there recently. We have one problem that is especially difficult and complicated and that one, I just do not know what the answer is to. We have the Grace problem that Senator Bennett referred to where we do have some hopes of coming out of that one pretty well.

The CHAIRMAN. Well, Mr. Katz, if you proceed to steal my watch from me, as far as I am concerned, you broke the law and you ought to go to jail and the fact that you did not also steal my eyeglasses is no particular favor as far as I am concerned. You still broke the law. And you ought to have to pay a penalty for it.

I think I have made my view clear.

Mr. KATZ. But if I loaned you the watch in the first place, there might be a question about whether I stole it. And that is the sort of problem that you get into in these claims. They are just not black and white.

The CHAIRMAN. I think you and I discussed that matter enough to know between the two of us that we definitely agree that that was a taking with regard to that oil company down there. I do not care about the oil company, it is of no interest to me. They can afford to lose the money as far as that is concerned. That is just a matter of principle. If a fellow is stealing from me or kicking me in the face, I do not believe in doing him a favor at the same time. It just does not make any sense to me. But I think that you have made your position adequately clear. I think I have made mine clear.

Senator HANSEN. Mr. Chairman.

The CHAIRMAN. Senator Hansen?

Senator ANDERSON. Mr. Chairman.

Senator HANSEN. I will yield to Mr. Anderson.

Senator ANDERSON. Somewhere I hope you put in there the present, current world price and the present domestic price to show there is a benefit. I think we are of the view that there is a great benefit over a long period of years. I wish you would list that, because the world price is a great deal lower than the domestic price. Do you have those figures now?

Mr. KATZ. Yes, sir; I believe we do.

Senator ANDERSON. Well, let's have them.

Mr. KATZ. The current domestic price is 8.57 cents per pound and the world price is a little over 4 cents. It is 4.12.

Senator ANDERSON. Why should you pay nearly 10 cents for something when you can buy it for 4 cents?

Mr. KATZ. That is right and the net benefit to the importer is about 3 cents—3½ cents.

Senator ANDERSON. That is the whole point. There is a great benefit to them. As long as there is a great benefit, we ought at least to be protecting the American public on this thing.

The CHAIRMAN. That is what I say. Why do you want to do a favor to somebody who is kicking you in the face? If he will stop kicking me in the face, maybe I will do him a favor. But if he is doing something to me—

Senator ANDERSON. You could not explain to Senator Byrd why you were doing this. Can you supply us any additional information to what you answered Senator Byrd?

Mr. KATZ. Well, I think in fact, the House bill does not increase their ability to supply sugar into the United States, it decreases their ability to supply sugar to the United States. Their quota to the United States or their entitlement to supply sugar to the United States at a consummation estimate of 11.2 million tons is reduced by about 50,000 tons, roughly. Now, their basic quota, their percentage right to the basic quota is increased by virtue of the reduction in the Cuban reserve. That is the table on page 3 that Senator Byrd was referring to. But in fact, their total entitlement under the House bill is reduced and as I say, at a consummation estimate of 11.2 million tons, it is reduced by about 50,000 tons. I am sorry, it is 33,000 tons.

Senator BYRD. Mr. Chairman, would the Senator from New Mexico yield at that point?

Senator ANDERSON. I yield.

Senator BYRD. To put this in perspective, is it not correct that the total quotas have been reduced? You have reduced the quotas to everybody; have you not? I mean the total has been reduced.

Mr. KATZ. No, sir; the quotas have not been reduced. There is a reduction in the amount of sugar that will be supplied by foreigners in 1972 by virtue of the transfer of the Puerto Rican deficit to the mainland area. Now, that is one source of reduction.

Senator BYRD. Correct.

Mr. KATZ. Then there are some shifts among quotas which are—there are a number of increases, 11 increases, three new quotas totaling about 190,000 tons, and that is borne by the five large suppliers, of which Peru is one. So that accounts for Peru's reduction in entitlement.

Senator BYRD. You are talking about pound or tons; are you not?

Mr. KATZ. Yes, sir.

Senator BYRD. Senator Anderson and I am talking about the percent that Peru gets of the total foreign quotas. On page 3, Peru gets 8.87, if I can read those figures correctly.

Mr. KATZ. That is in terms of their basic quota. But their total entitlement is made up of their basic quota plus deficit allocations.

Senator BYRD. I understand that, but it seems to me it is all the more wrong to increase their basic quota. You have increased their basic quota from 6.03 to 8.87. There is no doubt in the world about that unless these figures are wrong, speaking now of the basic quota.

That is what you are speaking of, that is what Mr. Murphy spoke of. You have increased her basic quota. You are giving her a benefit over and above what she got before insofar as her basic quota is concerned.

Mr. KATZ. That is right.

Senator BYRD. I think what Chairman Long said and what the Senator from New Mexico said is certainly very sound, from my point of view.

Senator BENNETT. Mr. Chairman, may I get into this?

The CHAIRMAN. Yes.

Senator BENNETT. I think it was not the State Department that recommended this increase, it was the House committee that provided it.

Senator BYRD. That is what I am trying to find, Senator Bennett, whether the State Department agrees with this. I assume the State Department does agree with what the House did.

Mr. KATZ. No, sir; our position, and it was not the State Department but the administration position, was that the Cuban reserve should be reduced by 300,000 tons, and that amount of quota transferred to the permanent quotas of other countries. What the House did, they did quite a lot better. They went and reduced it by 750,000 tons and that we do not agree with.

Senator BYRD. Well, do you agree with the House figure of 8.87 percent for Peru or do you think that should be reduced?

Mr. KATZ. We think all of those percentages should be reduced.

Senator BYRD. Do you think that should —

Mr. KATZ. Let me make myself absolutely clear, Senator. We do not agree that the Peru quota alone should be reduced.

Senator BYRD. That is the point I make.

Mr. KATZ. In other words, we do not agree that there should be special action taken against Peru under the Sugar Act.

Senator CURTIS. Mr. Chairman?

The CHAIRMAN. Senator Hansen has been trying to get in on this thing for some time.

Senator HANSEN. I yield.

Senator CURTIS. Thank you.

The point I would like to make is this: I regard the seizure of private property as wrong, whether they call it seizure, expropriation, nationalization, whatever term. I do not regard the fact that compensation is paid wipes out the offense. It is true it may be a lesser offense and they ought to make compensation, but I am not willing to take the position that if they seize our property and pay us for it, they have committed no offense. I do not believe that promotes world trade and understanding; I do not think it is fair to American industry.

Furthermore, I do not believe that this country should be bestowing its favors or benefits upon governments that condone the destruction of private property and nationalization of industry, because it is not good for their people, it is not good for the world.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Thank you, Mr. Chairman.

Mr. Katz, let me ask you first of all, are we giving quotas to any nations that up to this point have had little or no sugar production

history and likely will go out on the world market to buy sugar to fulfill their quota under the proposal contained in the House bill?

Mr. KATZ. Senator, I think some of the new quotas are to countries who do not have an export history or recent export history and in fact, provision is made to withhold the quota during the first year. I think Mr. Murphy can speak more expertly to this point, but I think in the case of Malawi, for example, and Panama, there is in one case a new quota and in the case of Panama, the increase is withheld during 1972.

Senator HANSEN. What about Uganda?

Mr. KATZ. Uganda has bought sugar in this past year, although it is a traditional exporter.

Senator HANSEN. You are saying, then, that two nations—my question was not about Panama, because obviously, it does have a history of actually producing sugar.

Mr. KATZ. I think in terms of the new quotas, it is only Malawi that is not expected to be able to supply in 1972.

Senator HANSEN. Can you assure us that none of these nations, if the House bill were to be enacted into law, would actually be going on the international sugar market to buy sugar at roughly half the price that they would be selling it to us to fulfill their portion?

Mr. KATZ. I do not think we can provide that assurance, but of course, the countries are required to.

Do you want to handle this one?

Mr. MURPHY. I do not think—Senator, I really do not think it is a matter of assurance, because there is a very strong disincentive in the present act and in the House amendment that to act that would deter any country from doing that. Because if a country becomes a net importer for a period of 24 months ending in June, it will not have a quota established for it for the next year. So I think that would—the history has been since 1965, I think without exception, that no country that was subject to that requirement actually became a net importer.

Senator HANSEN. Mr. Katz, I do not mean to beat a dead horse to death, but I would like to ask you, in listening closely to some of your responses, I gathered that you said, among other things, and I am paraphrasing what you said, that it was not a lack of courage on the part of the State Department but rather, I think you implied a realistic appraisal of all of the alternatives and all of the considerations that persuaded the State Department not to take what I think some would call precipitate action toward Peru with respect to shutting off the quota. Is this substantially right?

Mr. KATZ. Yes, sir, I think that is about what I said. I think it is a question of judgment.

Senator HANSEN. Well, now, one of the arguments I have heard we speak about trade and speak about unilateral action on the part of the United States is that must not rock the boat, that there is always the possibility if we react in a manner that some would think is less than a display of sufficient restraint, we might trigger a trade war and that the implication is that if a trade war were to come about, we would be badly hurt. Do you share that philosophy?

Mr. KATZ. Yes, sir; I do.

Senator HANSEN. Then tell me, if you will, in what manner would the United States be badly hurt if a trade war were to develop and, say, all the trade imports and exports from this country were shut off. Would we be the loser?

Mr. KATZ. Yes, sir; I think we would. I think as the largest trading country in the world, we have the most to lose. It is pretty tough being on the top. You are called upon to exercise more restraint and act in a more responsible manner than any other countries do and act in accord with standards that other countries do not follow. It is difficult, it is restrictive and it looks like lack of fairplay. We are seeing a lot of this presently. But I do not think this is an argument for us to go off halfcocked and ignore our own basic long-term interests.

Now, others may disagree with this, but this is the way I feel.

Senator HANSEN. Now, some of the testimony that this committee has heard earlier in other areas indicates that last year, our total foreign trade adding together exports and imports amounted to around, between \$80 and \$85 billion. Is that figure substantially correct.

Mr. KATZ. That is substantially correct; yes, sir.

Senator HANSEN. And I think that the official figures of the Government indicate that last year, our favorable trade balance was about \$2.7 billion. Does that check with your figure?

Mr. KATZ. That is about right; yes, sir.

Senator HANSEN. Well, now, I note further that not everyone agrees with that \$2.7 billion. As a matter of fact, it has been pointed out that we have the unique distinction of figuring trade a little bit differently than many other countries do. We value our exports at our border but our imports are valued at the foreign border without the cost of shipment across the water and the insurance that would go as an added amount to that cost. If we were to figure exports and imports on the same basis, if we were to subtract our Public Law 480 sales, and if we were to subtract those AID-financed sales that we make abroad, actually, we would not have a \$2.7 billion balance, we would indeed have a 3.2 negative balance. And, as a matter of fact, figuring our exports and imports as most every other country does, I am told that for the years since 1968 and including that year, our unfavorable balance of trade has been in excess of \$4 billion; that on the basis of balance of payments, every year since 1950, we have had a negative balance of trade without a single exception.

In 1950, we had gold reserves of around \$25 billion. Today, they have dwindled to \$10.5 billion. And in the hands of foreign institutions and individuals, there are enough certificates for gold, redeemable in gold, that they could place demands upon our Treasury right today for \$2 in gold for every one we have.

Now, with that situation being the fact—and if you would like to challenge the statement, I would welcome your doing that, but if what I have said are facts, then I wonder what it is that prompts you to say that we might jeopardize our position by taking some steps that could be offensive to some foreign countries?

Mr. KATZ. Well, Senator, I am, of course, familiar with the argument about FOB versus CIF valuation and I think from the point of view of American farmers and workers and manufacturers, I am not sure that it makes a great deal of difference to them whether it is a commercial export or whether it is financed by the Government. So I think in terms of AID-financed merchandise, I think it still counts as an export. And in some cases, that represents a giveaway of something for which this country gets no return in terms of payment. But

there are not very many of those cases in recent years. There is not very much that goes by way of grant aid.

In fact, even Public Law 480 terms have considerably hardened in recent years and while a lot of that is concessional, it is on pretty hard terms. Now, that is on the AID side.

On the CIF and FOB basis, there are different reasons for valuing the trade on one basis or another. Other countries do it because their method of collecting statistics is different than ours. Analytically, you have to sort it out one way or the other. If you are talking about trade and you are talking about trade accounts, you ought to look at trade. If you are talking about insurance, you ought to look at insurance, or freight, you look at freight. So that I think that our method of calculating the trade balance is a correct one.

Now, you can make the calculation and the estimate for CIF and measure it on that basis if you want to and say that we have a trade deficit. Well, we have a deficit on trade plus insurance and freight, but you have not measured that wholly because you have not measured the insurance and freight that is involved on the export side. So I really question the accuracy of that kind of analysis.

But even accepting that, accepting that argument and say we really do not have a trade surplus but have a trade deficit, I still would not jump to the conclusion that therefore it is in our interest to carve out large industries for import protection. I think I am not opposed to import protection where it is required, but I would not just do it as a matter of course and I think those cases have to be looked at on their own merits.

Senator HANSEN. Well, let me say this: You can restrict your concern to large industries if you choose but I would prefer to broaden mine. I am concerned about the fact that in the last 2 years, there have been about 549 textile mills gone out of business in this country. Just last year, we lost 100,000 jobs for American workers. Here is an industry that employs a far higher percentage of blacks than exist in our Nation on an overall percentage basis. I cannot be oblivious to the concern of any loss of American jobs. Henry Ford says that for each 1 percent of the automobile market that is captured by foreign imports, we have lost 20,000 jobs. Last year, about 17 percent of all the cars that were imported into this country were made abroad. This year, the estimates are that we will have 20 percent of all the cars sold made in foreign countries. That, according to Henry Ford, would represent a loss of 400,000 jobs.

Now, frankly, I do not know how far we have to go in trying to build up the sort of goodwill posture that seems to be suggested by the State Department, but I think there are a lot of people in this country who are concerned over the fact that we have more than 6 percent of our work force unemployed. We have more people unemployed in America than constitute the entire labor force in a good many European countries. We do not have fair trade; we have anything but fair trade.

It seems simply elementary to me that if we do not have the courage to step into the deeper waters of foreign trade, at least we ought to have the good judgment to say to a nation such as Peru that if you are going to be so one-sided and so unfair as to expropriate American properties down there—and call it what you will, it still amounts in my



judgment to the strong hand of a dictator coming in and just taking hold of properties and saying, they are ours and we will tell you later what we think they are worth and we will pay you according to schedules that we may work out.

Now, of course, nobody forces us to go down there and put our money into that kind of an operation. But I think that without going into all of the ramifications of why these investments are made, I would hope that the nations throughout the world would recognize the validity of some international law and some national law that would frown upon that sort of activity. If they do not frown upon it, I think the least we can do is have the courage to say we are not going to take that kind of kick in the teeth and turn around and with the other hand proffer them a healthy big sugar quota. I certainly would not.

Mr. KATZ. Senator, there is one thing on which I clearly agree with you. That is one reason for not avoiding—well, let me put it another way. I would certainly not state, either with respect to the allocation of sugar quotas or trade policy, that not wishing to offend other people is a reason for avoiding action. I do not think it has anything to do with being nice to people. I think it is a calculation of where our own interests lie and I think there may be some disagreement on just what that calculation is. But if we recommend a course of action, it is not because we do not want to offend anybody, it is because we calculate our interest somewhat differently.

Senator HANSEN. Now, I would say this, that I know it is not as simplistic as it may sound, as I have tried to make it sound, and I know that in many of these countries, I think it is true in the nation of Peru, we have some interests down there that are not represented by the Peruvian Government. But I do think that if we have—maybe courage is not the word you would like me to use—I think it is a good word, but if we have the good judgment in many areas, not specifically in sugar but in many areas, to stand up for what we think is right and to take a position, I think we can change a lot of things although we might at the moment do some injury to a good company that should not be hurt, such as maybe the case in Peru. But overall, I should think if we had the courage to say there are some rules that we think ought to be observed, I believe it would have a very salutary effect in the long run. And simply to think or to display an image that gives nations reason to believe that no matter what they do to the United States of America, we are always willing to negotiate, we are always willing to sit down and talk things over, seems to me to encourage and to invite the very kinds of treatment that we abhor.

I just say that I think some place along the line, we have to have the fortitude and the courage to stand up for the American worker, first of all, and to see that American business and American investments abroad are treated fairly, too. I think if we do less than that, we invite the sort of action by foreign governments that will in the long run dry up American investment of dollars and all the good that flows from that investment, that comes from the job opportunities that these companies have made possible by their investments.

Thank you, Mr. Chairman.

Senator ANDERSON (presiding). I am going to say that I have had more interest in this, perhaps, because I bought two world market

crops and invested \$50 million and we had great difficulty with some of these people. It is a whole different story now and I am glad Senator Byrd and Senator Hansen spoke about it.

Thank you very much for a long session. I think you have been a fine witness.

Mr. KATZ. Thank you, Mr. Chairman.

Senator ANDERSON. Mr. Chase?

**STATEMENT OF JONATHON B. CHASE, DIRECTOR,  
COLORADO RURAL LEGAL SERVICES, INC.**

Mr. CHASE. Mr. Chairman, members of the committee, I appreciate the opportunity to address you today. My name is Jonathon Chase, I am the director of the Colorado Rural Legal Services, which is a legal services program funded by the Office of Economic Opportunity to provide free legal assistance to this Nation's poor. In our particular case, we serve the rural parts of Colorado.

We have in the areas we serve in Colorado rural legal services a great number of workers who are engaged right now in the production of sugar beets. I am here to speak to you today on their behalf. I have a written statement which I believe has been distributed. I do not plan to read from it, but rather would like to give you some rather more extemporaneous views.

Senator ANDERSON. The full statement will be printed in the record. You go right ahead.

Mr. CHASE. My experience in beets and particularly farmworker involvement in beets goes back to the summer of 1967, when I, myself, worked as a migrant farm worker in Colorado and lived in labor camps throughout the State. Since that time, I have—this will be the seventh time I have testified before either a Federal agency or a congressional committee with regard to the Federal Sugar Act. Colorado Rural Legal Services has also, since it came into being in September 1969, filed four suits against the Secretary of Agriculture involving the Federal Sugar Act. So I have some familiarity with the Sugar Act in at least the limited context of the Sugar Act—that is, as it relates to migrant farm labor.

As I am sure the Senators are aware, our interest in this act is the result of the clause which says that a grower may not receive his sugar payments unless he can show that the workers that he has used in the production of sugar have been paid the minimum wage as established by the Secretary of Agriculture. I have been listening this morning with great interest to hear the comments of the committee members with regard to Peru, and it seems to me that somehow what has gone on is relevant also to the interests of our clients, migrant farmer groups. Most of the thrust of this morning's discussion has been directed at the foreign imports and the percentage allotments which would be permitted for different nations to bring sugar into this country. As I am sure the Senators are aware, the farmers in our own country are not doing that well. Our clients feel that they are the worst for those who work the hardest. Right now in Colorado, there are farmworkers living in cars, in converted chicken coops; there are farmworkers who have been brought up to Colorado from Texas who are not working at all. There are children who are malnourished

who are not able to get assistance. All of this is happening with our own domestic farmworkers while we are spending so much time considering what percentage of foreign sugar beets should be permitted to come into this country.

The point is that our own producers of sugar beets in this country are not receiving enough to permit them to pass on to those workers engaged in the production of domestic sugar beets enough to live fairly and decently in this country. The choice that is really being made, and I think Mr. Katz pointed this out earlier—the question was asked of Mr. Katz as to whether or not domestic producers could produce in this country enough sugar to satisfy the demands of this Nation. His answer, as I recall it, was yes, they might if they were paid enough for it or if we were willing to pay the price. I am not very sophisticated in economics, but I suspect that what happens is that as we permit foreign sugar to come into this country, the price of sugar, at least the price realized by domestic producers, goes down and if we have a price stabilization by the increase of foreign sugar being brought into the country.

At the same time that our producers are not able to pay enough to provide subsistence wages to domestic farmworkers, we are bringing in foreign sugar which further depresses the price and, therefore, the amount of money that the farmers are able to pay our workers. The choice is between subsidizing foreign producers by permitting them to come in at the higher rate that we pay in this country than requiring them to sell it on the world market and continuing to have our farmworkers working and living as they do, or to decrease the amount of foreign sugar being brought into this country so that there is enough money going to domestic producers to permit them to pay these people engaged in the production of sugar a fair and decent wage. It is, as I understand it, the purpose of the Sugar Act to insure that all of those people engaged in the production of sugar shall receive a sufficient amount of money to permit them to live a fair or a decent existence in this Nation. That is not happening with domestic farmworkers. It may be happening to the growers, but it is not happening to the farmworkers.

It is our recommendation that under the Sugar Act, 75 percent of the sugar be produced in this country, with only 25 percent of the sugar coming in from foreign sources. Again, the purpose of this is to permit the growers to realize enough from sales of sugar to be able to pass on to the farmworkers enough to permit them and their families to live decently.

I just want to go over a few other highlights of what we are suggesting specifically. I might add or preface the remarks that I am about to make by saying that it is our position that all of the suggestions that we are making might be done now by the Secretary of Agriculture or might be accomplished by the Secretary of Agriculture under regulations under existing law. The point is, however, that over the past years, the Department of Agriculture has absolutely refused to hear and listen to the requests of farmworkers. It is only after winning two law suits against the Secretary of Agriculture, against the Department, that farmworkers were able to realize any changes whatever in the regulations promulgated under the Sugar Act.

It is, therefore, our position that we cannot rely upon the Secretary of Agriculture to promulgate regulations which might be somewhat favorable, or at least fair, even to farmworkers, but that these specific requests or needs of farmworkers be actually put into the legislation itself to insure that the farmworkers will share equally with all the rest of this Nation under the Sugar Act.

I mentioned briefly that there are people living in Colorado now, living in converted chicken coops. We can document that very easily. There is no question, and I think anybody can see that farmworkers employed in the production of sugar beets are living in dismal, wretched housing which meets neither the State standards for housing nor the Federal standards for housing adopted under the Wagner-Peyser Act. Nevertheless, a grower who supplies this wretched kind of housing to his workers is permitted to still receive his sugar payments. Now, this seems to me somewhat akin to the situation that you were all talking about with Peru. At the very same time that a nation may be violating international law, that nation is being given favorable treatment by this Government. By the same token, a grower who subjects his workers to substandard and subhuman living conditions is nevertheless still eligible to receive his sugar payments.

It is our suggestion that in addition to another requirement that the workers be paid a fair and reasonable wage in order to receive payments, that they also provide housing which meets either State or Federal housing standards, whichever are more stringent, in order to be eligible to receive sugar payments.

We would also suggest that the wage established by the Secretary of Agriculture be an hourly as opposed to a piece work rate. Under present regulations, a grower is eligible to receive his sugar payments if he pays at either an hourly rate of \$1.85 per hour or at a piece work rate, depending upon the particular job being performed. We have documented, can document again, can take you to Colorado today, to show you that workers at the minimum piece work rate met by the Secretary of Agriculture can earn anywhere from 50 cents an hour on upwards to, I have seen as much as \$2 an hour. It is our position that it is not a fair and reasonable wage when a worker receives 50 cents an hour for his labor. It does him little good to know that somewhere in this Nation, his brother farmworker may be making somewhat more such that the average may come out to be higher. Each worker should be assured that he will receive a minimum hourly rate.

We would also request that contracts for work in sugar beets be in writing. The reason that there are farmworkers living in wretched housing, there are farmworkers not employed in Colorado right now, that farmworkers will not be given the acreage that they had expected, or other terms of employment that they had expected, is because these contracts are never in writing, they are strictly oral, and we have been unable to enforce those in the courts. We would request that in the new Sugar Act, there be a provision requiring written contracts and that in order to be eligible for payments, not only must the grower have paid at the minimum rate, which would be hourly, and house people in decent housing, but also have performed his written contract with his worker.

We move on to another point. One of the greatest problems facing farmworkers in this country today is the fantastic increase in use of illegal alien labor. In Colorado alone, in 1965, 335 illegal aliens were deported. In fiscal year 1970, that number had risen to over 3,350, a 10-fold increase in the use of illegal aliens. It seems somewhat strange that at the very same time Congress is requiring that in order for a grower to be eligible to receive his sugar payments, he must pay at a minimum rate, there is no similar requirement that that rate be paid to people eligible to receive it. Right now, just as perhaps Peru is getting the benefit of favorable congressional treatment, so also are people entering this country illegally. They are getting the benefit of a minimum wage which I would guess was supposed to benefit those workers living in this country who are entitled to work here. Right now, there is no protection whatever against the use of illegal alien labor and we would recommend that in the Sugar Act as enacted by Congress, a grower use reasonable efforts to ascertain whether or not his workers may legally be employed in this country as a condition to receiving sugar payments.

Another problem that we have had recurring over and over and over again is that farmworkers are desperately afraid to file complaints under the Sugar Act—wage complaints—for fear that they will lose the housing that they are living in, that they will never be hired by that grower again, or that they will be blacklisted and never be recruited by that sugar company or any other sugar company in the future. Not only do they fear this, but they have a right to fear it. It happens. There is blacklisting, people are retaliated against, they are kicked out of their housing, they do lose work. It is our recommendation that in the act, there be a penalty, a sanction against retaliating against the farmworker who files a complaint under the Sugar Act.

Another problem we have had has to do with the hearing procedures under the Sugar Act itself. Some of you may not be familiar, as I was not familiar, with who hears a wage complaint under the Sugar Act. If a farmworker has a wage complaint under the Sugar Act, he files that complaint and has it heard by a county agricultural stabilization and conservation service committee, a ASCS committee. It was some surprise to me to learn that all of the members of those committees must necessarily, by statute, be growers—not necessarily beet growers, and indeed, a relatively small percentage are beet growers. But nevertheless, it seems to us anomalous to have farmworkers filing complaints against growers and having that complaint heard solely by growers.

We would request that a new procedure be established whereby representatives of growers and of farmworkers, and perhaps disinterested parties, hear these disputes.

We would also request that in the act itself, a requirement be contained whereby the hearings, the annual hearings which set the wage rate for sugar beet workers, be heard at times and in places where worker representatives are able to testify. The annual sugar hearings are held every year in the second week of December or thereabouts—the first couple of weeks in December. And they are

held in approximately four parts of this country. In none of those places are there any farmworkers at the time the hearings are held. There is one hearing in Texas, but that hearing is hundreds of miles from the areas in which farmworkers reside during the winter.

It seems that if there really is to be an effort to hear how farmworkers are making out under the Sugar Act and under the regulations established during the previous year, hearings be held at times and in places where workers are available. The obvious time, of course, which seem to escape the Department of Agriculture, for some reason, is during the time when the workers are actually employed in the production of beets. For example, in Colorado, I would suggest that early in July, when people have worked at both the thinning and weeding operations and then gone through the second time and are still on hand, people could give the Department of Agriculture a very good indication of how their regulations have been working out.

That is the end of my formal testimony. I merely wish to say, as I have said in the past, that it is my purpose in being here to try to get something built into this Sugar Act which really meaningfully gives to our clients the fair and reasonable wage that was promised to them when this act was originally passed. They are not getting it now. It is a meaningless phrase to them at this point and I would urge you on their behalf to see to it that this promise is fulfilled.

Thank you.

Senator ANDERSON. Thank you.

Senator Bennett?

Senator BENNETT. No questions.

Senator ANDERSON. Senator Miller?

Senator MILLER. No questions.

Senator ANDERSON. Thank you, Mr. Chase.

(Mr. Chase's prepared statement follows:)

#### STATEMENT OF JONATHON B. CHASE, COLORADO RURAL LEGAL SERVICES, INC.

##### I. INTRODUCTION TO LEGISLATIVE AMENDMENTS

Mr. Chairman and members of the House Agricultural Committee: The first determination to be made by your committee and Congress in general is whether it is the desire and intent of Congress to continue the maintenance of a domestic sugar industry under federal control and with federal support. The sugar program, including the United States Sugar Act and the accompanying excise tax with respect to sugar, provides both the domestic and foreign suppliers with a highly structured and subsidized commodity program. The domestic sugar program pays substantial subsidies to producers in order that it may be possible for sugar to be grown and marketed within the United States, for without such support, America could never compete with the world sugar market. In addition, selected foreign producers are granted this highly subsidized American market price and receive tremendous windfalls as a result of their participation.

Failure by Congress to continue the operation of the Sugar Act and the excise tax with respect to sugar will result in a collapse of the domestic sugar industry and as representatives of farmworkers employed in the sugar industry, we can predict that several thousand farmworkers will be severely injured by a withdrawal of Congressional support.

Assuming the sugar program will be continued, it is next appropriate to consider what kind of changes and modifications should be made in order to more directly and more effectively protect the welfare of the consumers and those engaged in the domestic sugar industry for this protection was the original mandate for the United States Sugar Act when passed over thirty years ago.

The Sugar Act presently provides that approximately sixty percent of the American domestic market shall be allocated to domestic sugar cane and sugar beet producers and approximately forty percent shall be allocated to foreign producers. The foreign producers normally sell sugar at the world market price which is substantially less than the domestic price and accordingly the amount of foreign produced sugar which is allowed into the United States each year depends, in part, upon the rise or fall of the domestic market price. That is, foreign produced sugar is used as a means to control and stabilize the United States market price. The members of the domestic farm industry, particularly farmworkers, are the victims of this balancing process for as more foreign producers are permitted to participate in the windfall of selling at the American market price, the price of domestic sugar drops and the portion of the American market allocated to the domestic producers also drops. The result is that the farmworker in particular is left without a living wage and a decent standard of living and the Sugar Act becomes a device used to provide a substantial financial windfall for foreign producers at the expense of the American farmworker.

Accordingly, our first legislative proposal is to restrict the participation of foreign producers. In addition, we are proposing that the excise tax with respect to sugar be utilized in full to provide conditional payments to domestic producers as was originally intended in the Sugar Act passed in 1937. Increased conditional payments will strengthen the domestic industry and will enable producers receiving such payments to pay wages which reflect compensatory benefits such as health and insurance and, in addition, will permit producers to maintain housing and sanitation facilities which conform to state and federal regulations. In addition to increasing the conditional payments and providing for housing and sanitation benefits, we are also proposing that the employment of illegal aliens be terminated from henceforth and finally, that the determination of fair and reasonable wages provide for an hourly minimum wage so that farmworkers employed in the sugar industry are accorded the same compensation rights no matter who is their employer.

## II. LEGISLATIVE AMENDMENTS TO 7 U.S.C. 1101 ET SEQ. (THE SUGAR ACT OF 1948 AS AMENDED)

*7 U.S.C. 1112 (a)(1) should be amended to provide that the quotas established by the Secretary pursuant to the Sugar Act shall provide that the domestic sugar producing areas be allocated not less than seventy five percent of the annual estimate of sugar consumed in the continental United States.*

Given the economic deprivation existing in America's rural areas it is no longer acceptable for selected foreign sugar producers to reap huge financial windfalls from supplying almost one half of the raw sugar consumed in the United States at a controlled market price which is substantially greater than the world market price. Whatever political considerations originally required large allocations of the American consumer market to foreign producers, the present domestic economic crisis, particularly in rural areas, requires that the American Sugar Industry including processors, growers and farmworkers be allocated a larger share of the market. Continued operation of the Sugar Act under the present quota arrangement will contribute to the steady and systematic deterioration of the domestic sugar industry, all of whose members were initially designed to be the primary beneficiaries of the United States Sugar Act.

*7 U.S.C. 1134 (a) should be amended to provide that the amount of base rate of payment (conditional payments) shall be determined annually so that the total amount of payments made in a given calendar year shall equal the estimated revenue to be received from the Excise Tax with respect to sugar (S. 4501-4503 of Title 26, I.R.C. of 1954 as amended).*

The amendment to increase the portion of sugar production allocated to domestic sugar industry and this amendment to increase the conditional payments to an amount equal to the revenue from the Sugar Excise Tax together should provide a considerable strengthening of the domestic sugar industry. At the original enactment of the Sugar Act in 1937, a Sugar Excise Tax was also enacted which was designed to provide sufficient revenue to equal the amount of conditional payments made to producers. The operation of the Sugar Excise Tax, however, since 1937, in fact, has resulted in the receipt of revenue funds which are far in excess of the payments required to be made to the producers. Specifically the pres-

ent Sugar Excise Tax has produced an excess over program and administrative expenses of approximately six hundred million dollars. In recent years, in excess of twenty million dollars annually from the Sugar Excise Tax has failed to reach the members of the domestic sugar industry, for such excess funds have been diverted away from the domestic sugar industry to a general fund of the United States. It is clear from the legislative history that the Sugar Act and the related Sugar Excise Tax were never intended to be general revenue provisions. Accordingly, the amendments made herein provide that the domestic sugar industry shall be entitled to the full benefits accruing from the operation of the Sugar Excise Tax with respect to sugar.

*7 U.S.C. 1131 (a) should be amended to add a new paragraph entitled "Farm Labor Housing and Sanitation Facilities" and shall provide that, as a condition of payment, no farmworker or no dependent of any farmworker shall be housed in housing which fails to satisfy the housing and sanitation requirements of the State in which the farmworker is working or the housing and sanitation regulations issued by the Secretary of Labor pursuant to the Federal Employment Service Act of 1933, whichever are more stringent.*

The insertion into the conditional payment provisions of the United States Sugar Act of housing and sanitation standards which are essentially equivalent to the housing and sanitation requirements operative under the Federal Employment Service Act of 1943 will provide strong incentive for improving the housing and sanitation facilities for farmworkers involved in the production of sugar beets and sugar cane. The additional cost requirement imposed upon the producer as a result of this condition should be more than offset by the increase in quota payments arising from the prior amendments proposed herein; specifically it is envisioned that the combined effect of increasing the production quotas of the domestic sugar industry and increasing the conditional quota payments to a sum approximately equal to the revenues from the Sugar Excise Tax shall provide to the individual producer the economic resources which shall be more than enough to compensate him for his labor and cash expenditures required to satisfy the provisions of housing and sanitation as stated herein.

Failure to provide housing which satisfies the above stated standards shall not prohibit the payment of conditional payments to producers for the first calendar year of sugar production following the adoption of this amendment if the Secretary is satisfied that the individual grower has made substantial progress toward satisfaction of the above-stated requirements.

*7 U.S.C. 1131 (a) should be amended to add a new paragraph entitled "Restrictions on Employment of Alien Labor" and should provide that no non-resident alien farmworker shall have been employed by the producer to work in the sugar beet or sugar cane operation. It shall be the responsibility of each producer applying for a conditional payment hereunder to show that he has taken affirmative action to determine that all farmworkers under his employ are citizens of the United States.*

The plight of domestic migrant farmworkers in the United States has been well documented. Their income ranked lowest in the annual income of all United States occupational groups. In all sectors of the non-farm economy and in every State, the average hourly earnings of production workers are above farm wage rates, and the gap between agricultural and non-agricultural earnings continually grows wider. The earning power of the domestic farm laborer is further impaired by the growing influx of illegal foreign alien farmworkers largely from Mexico. The presence of illegal aliens results in a further depression of the farm labor economy insofar as aliens, for the most part, are hired at wages which are considerably below the requirements of the United States Sugar Act. Evidence suggests that a small portion of sugar producers have consistently engaged in the illegal practice of hiring and employing illegal alien labor at wage levels which are substantially lower than required under the Act.

Domestic producers who refuse to hire illegal aliens and who pay proper wages to domestic farmworkers suffer from the illegal activities of other producers. In essence, employment of illegal aliens at low wage levels is a serious, unfair business practice and results in a distortion of normal business competition between producers. In addition the hiring of aliens at depressed wage levels results in employment opportunities for the domestic farm laborers being severely restricted. It is unconscionable to allow domestic sugar producers to receive the benefits of the Sugar Act while, at the same time, intentionally or negligently employing illegal aliens with the direct result of injuring domestic farmworkers who, under the Sugar Act, are specifically to be protected in the same manner as are the domestic producers.



*7 U.S.C. 1131(c) should be amended to provide that the wages determined by the Secretary to be fair and reasonable shall in any event provide for a minimum hourly wage.*

The present approach is to provide for hourly rates and piecemeal rates and the result is that farmworkers engaged in essentially similar activity at similar times, under similar conditions, for different producers will be paid fundamentally different real wages. The fact that on a national average a certain annual average wage is determined is irrelevant when one farmworker is being paid at a given time an actual compensation level which is substantially lower than another farmworker. In addition, such wages which are determined to be fair and reasonable should reflect the need for housing and health benefits as a wage element for such an approach is utilized generally in the non-agriculture industry in the United States.

*7 U.S.C. 1131(c) should be amended to provide that the public hearings held to determine fair and reasonable wages should be held during the summer months and in such places to afford maximum participation by all interested persons.*

It is essential that the Secretary, when holding public hearings to determine fair and reasonable wages, hold such hearings during the summer months because it is only then that the farmworkers operating in the stream are available to testify and provide the input which is required under the Sugar Act in order to give assistance to the Secretary in determining exactly what wage rates should be stipulated for the following year. In the past, such hearings have been held during the month of December and have generally resulted in input only from producers and processors with very little participation from farmworkers.

*7 U.S.C. 1135 should be amended to provide that in providing for enforcement procedures and mechanism for settlement of disputes between farmworkers and producers, that the Secretary shall utilize such professional associations as, but not limited to, the American Bar Association and the American Arbitration Association to arbitrate the dispute and guarantee a fair and impartial resolution.*

Enforcement procedures and mechanisms for the settlement of disputes between farmworkers and producers should be revised to insure a fair consideration of all claims. The Sugar Act is presently interpreted by the Department of Agriculture to require that all wage claims be filed with the Agricultural Stabilization and Conservation Service County Office and decisions are rendered by the local county committee, subject to appeal. The committees are grower dominated and should be considered inappropriate to judge disputes between farmworkers and growers. Arbitration is suggested as a better means of settling such disputes.

Senator ANDERSON. We will meet again at 10 tomorrow morning.

(Whereupon, at 12:35 p.m., the committee was adjourned until Thursday, June 17, 1971, at 10 a.m.)

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# SUGAR ACT AMENDMENTS OF 1971

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THURSDAY, JUNE 17, 1971

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, Byrd, Jr., of Virginia, Bennett, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. I wish to announce that the spokesmen today will be asked to summarize their prepared statement under a 10-minute rule. Thereafter, if members of the committee desire to ask questions, they can ask them.

The hearing is scheduled to commence at 10 o'clock. It is almost 10 o'clock, so I will now call the first witness, Mr. James H. Marshall, spokesman for the American sugar industry.

We are pleased to have you, Mr. Marshall. There will be other Senators along as the hearing proceeds. If you wish, you may present your statement.

## STATEMENT OF JAMES H. MARSHALL, PRESIDENT, CALIFORNIA & HAWAIIAN SUGAR CO., IN BEHALF OF DOMESTIC SUGAR INDUSTRY

Mr. MARSHALL. Thank you, sir.

Mr. Chairman, regarding my identification and the groups for whom I am speaking, it is included in that statement already filed.

The CHAIRMAN. We will print your entire statement and then let you summarize it.

Mr. MARSHALL. The Sugar Act has three basic goals: (1) To assure consumers of a plentiful and stable supply of sugar at reasonable prices; (2) to do so by providing that the domestic sugar industry produces a substantial part of our sugar requirements; and (3) to permit friendly foreign countries to participate in supplying our market for the double purpose of promoting export of American products and assuring a stable and adequate supply of sugar from such foreign suppliers.

The Sugar Act has been notably successful in attaining these major objectives, and with the improvements suggested in the current legislation, this success can be continued into the future.

Despite inflationary pressures, the price of sugar has advanced more slowly than prices of virtually all other foods and certainly far less than most other goods and services. In 1970, the index of the re-

tail price of all foods was 132 percent of the 1957-1959 average. In the same period, the index of the retail price of sugar rose from 100 to 115. In other words, retail sugar prices rose less than half as much as the prices of other foods. From these measurements it appears clear that the Sugar Act has achieved the objectives of maintaining reasonable prices for consumers.

I will indicate how the industry recommendations relate to the comparable provisions in H.R. 8866 and to the comparable provisions in the existing law.

With reference to the basic quota division between domestic and foreign suppliers, our recommendation would, as would the House bill, continue the provisions of the existing law which entitles domestic sugar-producing areas to supply 62 percent of U.S. market requirements at a national consumption estimate of 11.2 million tons, which leaves 38 percent at that consumption level for the foreign countries.

Our recommendation regarding the growth-sharing provisions would, as would the House bill, continue the present domestic share of growth at 65 percent, as in the current law. That would be divided between the beet area and the mainland cane area, in the vicinity of 47.7 in the beet area and 17.3 percent of the total for the mainland cane area.

With reference to the statutory quotas for the domestic areas, our recommendations would change the existing law, as would the House bill, to provide an increase of 300,000 tons in the quota for the mainland cane area. This increased quota for the period 1972-1967 would be funded by taking 285,000 tons from Puerto Rico and 15,000 tons from the Virgin Islands, which no longer produces sugar. For 1977, it would be funded by taking 140,000 tons from Puerto Rico and 15,000 tons from the Virgin Islands and the balance from the foreign growth.

With reference to domestic expansion into new areas, our recommendation would change the existing law, as would the House bill, to provide that during the life of the extension, 100,000 tons would be provided for new cane area to be funded from the foreign share of growth and a total of 100,000 tons for that period for new or substantially expanded beet processing plants during the life of this extension, that to be funded from the beet share of growth.

With reference to the price guidelines in the act, our recommendation would change existing law, as would the House bill. Instead of using one index, namely, the prices paid by farmers index, the so-called parity index, our recommendation would propose using an average of that index, which has been used—the parity index—and the wholesale price index.

With reference to the Secretary's annual estimate of requirements, which is the basis for the division of the quotas among the areas, domestic and foreign, our recommendations would change the existing law, as would the House bill. Our recommendation would provide that the Secretary of Agriculture announce his initial consumption estimate in the month of October instead of during the fourth quarter as in the present law.

With reference to some of the major provisions relating to quota administration, our recommendation would change existing law, but it is the same as the House bill, except that our recommendation is

that adjustments be made in the consumption estimate if the price of sugar is 3 per cent above or below the guide price for 5 consecutive days, where as the House bill would provide for such adjustment if it were 4 percent for 7 days.

With reference to reallocation of deficits, our recommendation would change existing law, but would be the same as the House bill, except where as in our recommendation, the deficit would be reviewed 60 days after the initial determination of consumption in September, the House bill would provide that we first review—in October, I should have said—the House bill would provide that the first review would be on March 1, for 60 days after the examination, which means there would be no review from October to March.

With reference to the period of extension of the act, our recommendation is for 6 years from the expiration at December 31, this year. That is the same length that the last extension was made in 1965. The House bill provides for a 3-year extension, not 6 years.

With reference to the payment and tax provisions, as you know, under the present act, the highest rate of payment—that is, on the first increment of production—is 80 cents per hundredweight. This is scaled down through nine intervals of scaling to 30 cents per hundredweight. Our recommendation would reduce the scale of Sugar Act payments by 40 cents per hundredweight throughout the scale, except that for the first interval of 350 tons of sugar production, the reduction will be 35 cents per hundredweight. Under this proposal, no payment per farm would exceed \$60,400 and no payment at all would be made for a farm producing over 60,200 tons. This payment reduction would be coupled with a reduction of 40 cents per hundredweight in the excise tax on sugar. The tax reduction would be passed back to the grower to compensate for the reduced Government payment. This proposal would protect the income of sugar beet and sugarcane growers, would protect domestic sugar supplies, would maintain the relative economic positions of the various segments of the American domestic industry and between domestic and foreign producers, and would not affect the price of sugar to consumers. This proposal was rejected by the House bill, which continues the present tax and payment provisions with a provision for early termination of the act if payment limitations are imposed.

Mr. Chairman, we have several technical or clarifying recommendations for about six or seven provisions of the act which are being submitted as a separate statement.\* Anybody in our group will be very happy to go over those with the staff to give any explanations that are required.

Thank you, sir.

(The complete statement of James H. Marshall follows. Hearing continues on p. 97.)

STATEMENT OF JAMES H. MARSHALL ON BEHALF OF ALL SEGMENTS OF THE AMERICAN SUGAR INDUSTRY WITH RESPECT TO THE REVISION AND EXTENSION OF THE SUGAR ACT

Chairman Long and Members of the Committee: My name is James H. Marshall. My home is in California where I serve as President of the California and Hawaiian Sugar Company, headquartered in San Francisco. I have been in the cane sugar industry for some 23 years, prior to which I served in the United States Department of Agriculture for 12 years, the last three as Director of the Sugar Division.

\*See p. 847.

I appear here today as the representative of and spokesman for all segments of the United States sugar industry which comprises (1) the beet sugar industry composed of processors who operate 59 factories in 19 states, and the sugarbeet growers who produce sugarbeets in 26 states; (2) the sugarcane growers and the processors of the Mainland Cane industry of Louisiana and Florida who operate 53 sugar mills; (3) the processors and growers of the Hawaiian sugar industry who operate 23 sugar mills; (4) the Puerto Rican sugar industry, whose operations include 20 sugar mills and refineries; and (5) the cane sugar refining industry, which operates 23 refineries in 12 states, most of which are on the seaboard.

With your permission, Mr. Chairman, I should like the full list of the organizations for which I speak to be inserted at the conclusion of my remarks. The list is attached to my statement.

Mr. Chairman, the groups I represent have a few recommendations for revision in H.R. 8866 that we feel will strengthen the bill. These I will take up briefly in a moment.

Before doing so, however, I think it worthy of mention that we are able to come before you with views generally concurring with those of the large consumer group represented by the industrial users of sugar.

All those who have contributed to this end, I believe, are to be commended. But especially has the House Committee on Agriculture performed a great service by bringing this legislation to this point at such an early date. That Committee conducted many days of hearings, drew upon all authoritative and reliable sources, opened its doors to all who cared to testify, and spent many hours in executive and drafting sessions and then carried the bill to passage in the House last Thursday.

While I recognize that the members of this Committee are well informed as to the Sugar Act and its purposes, I think as a background to my further remarks it might be productive to take a moment for review of some of its fundamentals and how it has evolved as a national sugar policy.

As you will recall, we have thus far had 145 years of governmental concern with various devices involving sugar. There was a hundred-year period from 1789 to 1890 when our government employed the sugar tariff to generate revenue. Then there was a brief four-year period in which a bounty was paid as a production incentive for domestic producers, following which we returned to the tariff, for 40 years, as a protective mechanism.

In 1933 first efforts began to develop sugar legislation of another kind. The tariff system had failed. The sugar industry, here and abroad, was in deep depression and the expedient of higher duties on top of lower and lower prices presented no real hope.

Under authority of the Agricultural Adjustment Act representatives of the nation's sugar industry were called together to assist in developing a new program. The ideas conceived at that time eventually led to the Jones-Costigan Act and finally the Sugar Act of 1948. The 1948 Act has been carefully re-examined and extended by the Congress periodically over the past 23 years, and continues to be the basis of our national sugar program and policy.

The Act continues to have three basic goals: (1) to assure consumers of a plentiful and stable supply of sugar at reasonable prices; (2) to do so by providing that the domestic sugar industry produces a substantial part of our sugar requirements; and (3) to permit friendly foreign countries to participate in supplying our market for the double purpose of promoting export of American products and assuring a stable and adequate supply of sugar from such foreign suppliers.

The Sugar Act has been notably successful in attaining these major objectives, and with the improvements suggested in the current legislation, this success can be better continued into the future.

Prices of sugar in the United States have been reasonable and remarkably stable since enactment of the Sugar Act. Remembering also that today, in sharp contrast to a few years ago when the housewife was the largest buyer of sugar, the industrial sugar users absorb approximately 75 percent of all the sugar distributed in the United States, it becomes clear that supply has taken on new and greater dimension. Our finished product is, in a sense, a basic raw material to the baker, confectioner, canner, bottler, manufacturer of dairy products, and others.

These people operate thousands of food plants throughout the Nation and employ tens of thousands of workers whose jobs, in a very real sense, depend upon our maintaining an uninterrupted supply of sugar for their plant operations.

Sugar goes into their products as a sweetening agent, to enhance flavor and appearance. In some products it has a preservative value, or it provides necessary body and texture. In each of these respects, it is essential.

While relying upon a continuing supply of sugar, the industrial sugar user now is relieved of risks he would face in the absence of such a system as the sugar program. He does not now find it necessary to construct and maintain large storage facilities and maintain large inventories, cost of which would, of course, ultimately pass on to the buyer of his products.

Investigation shows that the price paid by all United States sugar consumers is reasonable by any fair standard of measurement. For example, the most recent figures available from agencies of the federal government, the United Nations and private sources agree that Americans pay less for their sugar than consumers in most other developed nations in the world. This is reflected in the length of time an average worker must be on his job to earn the equivalent of the price of a pound of sugar. In the United States this is less than two and a half minutes. Interestingly, this means that the American earns enough to buy a full year's supply of sugar in a total of about four hours on the job, basing one's reckoning on an average per capita consumption of about 100 pounds annually in this country. Exhibit I demonstrates this point.

Despite inflationary pressures, the price of sugar has advanced more slowly than prices of virtually all other foods and certainly far less than most other goods and services. In 1970, the index of the retail price of all goods was 132 percent of the 1957-59 average. In the same period, the index of the retail price of sugar rose from 100 to 115. In other words, retail sugar prices rose less than half as much as the prices of other foods. From these measurements it appears clear that the Sugar Act has achieved the objectives of maintaining reasonable prices for consumers.

Another key objective of the Sugar Act is to promote the foreign trade of the United States. Foreign nations that participate in the Sugar Act quota system are in large part so-called "developing" nations which depend on sugar and a very few other products for their foreign exchange. The value of sugar exported to the United States by the foreign quota countries has risen steadily in recent years, while the United States each year has maintained a favorable trade balance in a substantial amount with these countries.

The Sugar Act has also, since its inception in 1934, contributed significant social benefits for agricultural workers. As pointed out in the House Agriculture Committee's Report entitled THE UNITED STATES SUGAR PROGRAM: "Until the 1966 amendments to the Fair Labor Standards Act, field workers employed in the production of sugar crops were the only agricultural workers covered by minimum wage legislation."

The same Committee Report then adds that as a result of the Sugar Act, ". . . the levels of living and working conditions of field workers have steadily improved, until present minimum wage rates under the Sugar Act are more than 1,200 percent of the low 1934 level which was typical for agricultural workers at that time. Increases in living costs have taken place in the intervening years but when these are taken into account, workers' real wages, in terms of purchasing power, are about 450 percent of the 1934 rates."

Wage protection still continues to be provided to workers as a condition to producers receiving payments under the Sugar Act. Workers' actual earnings in the domestic sugar industry have tended to exceed the Sugar Act minimums. The United States domestic sugar industry has within its ranks the highest paid sugar workers in the world.

The Act also ensures that producers receive a fair price for their sugarbeet or sugarcane crops from the processors. In contrast to many other foods, the farmer is now receiving a larger percentage of the sugar dollar than he did in 1940.

Mr. Chairman, in any discussion of the Sugar Act it is important, I believe, to stress the efficiency of our domestic industry. Studies over a considerable period of years by national and international agencies indicate that in terms of man-hours required to produce a given quantity of sugar, our domestic sugar industry is one of the most efficient in the world.

As recently as last February, the United States Department of Agriculture charted the labor efficiency improvements achieved since 1946. This chart appears in Sugar Reports Number 225, February, 1971, and a copy of it is appended to my statement as Exhibit II.

Mr. Chairman, the various segments of the domestic producing and refining industry did, at the direction of the leadership of the House Agriculture Committee, carry on a series of discussions early this year in an attempt to seek a consensus on recommendations for sugar legislation to bring before that Committee.

During the course of our industry deliberations, we also held discussions covering a broad range of subjects with representatives of the industrial users of sugar. At all times we kept the Executive Branch fully informed.

After reaching an industry consensus on recommendations, we appeared before the Agriculture Committee on three separate occasions. Our first and second appearances were followed by a spokesman for the industrial users. As might well be expected, the views of the sugar sellers regarding sugar legislation did not coincide in all respects with the views of the buyers of our products.

But there were a surprising number of areas in which the sugar industry and the users were in agreement regarding changes necessary to bring the program up to date. The report on H.R. 8866 submitted by Chairman Poage points out that a number of the suggestions submitted by representatives of the domestic sugar industry—producers, processors and industrial users—were incorporated into H.R. 8866 after lengthy Committee discussion and deliberation.

I should like to briefly cover these industry suggestions that are included in H.R. 8866. In some instances we recommended no change from the present law.

For example, the industry suggested that the basic quota division between the domestic and foreign products continue as it is in the existing law. Currently domestic producing areas are entitled to supply 62 percent of the U.S. market requirements. H.R. 8866 would continue this basic quota division.

The industry also suggested that the current growth provisions continue. This provision in the current law permits the domestic industry to share at the rate of 65 percent of the future growth. The industry also suggested that the current division of this growth—47.7 percent to beets and 17.3 percent to Mainland Cane—remain. These growth provisions are incorporated in H.R. 8866, as is the industry's recommendation that all deficits in both domestic and foreign areas continue to be assigned to other foreign countries.

Now let me cover the changes suggested by the industry which the House has adopted in the bill this Committee is reviewing.

First, Mr. Chairman, it was recommended by the industry and adopted in H.R. 8866, that the Mainland Cane sugar producing states of Louisiana and Florida be granted an additional quota of 300,000 short tons, raw value in recognition of the area's unused agricultural and processing potential. It was also recommended that this quota increase be funded, as it were, by reducing the Puerto Rican quota and eliminating the Virgin Islands quota. Both of these areas are, of course, domestic so the additional Mainland Cane quota does not affect the basic quota proration between domestic and foreign sources.

Secondly, it was recommended that provisions be included in new sugar legislation for limited expansion of domestic beet and cane production in new areas. This suggestion along with the industry's recommendations for funding such expansion are included in Section 6 (I) of H.R. 8866.

Mr. Chairman, the industry recommended that the guideline used by the Secretary in establishing the price objective be modified. Currently, the price objective utilizes the index of prices paid by farmers, the so-called parity index, to establish the price objective for raw sugar. The industry recommended—and H.R. 8866 includes—a change by which the Secretary is to use the *average* of the wholesale price index and the index of prices paid by farmers to establish the price objective. This averaging of the two indexes recognizes both grower costs and the cost trend of all items purchased by major users of sugar in setting the guidelines which the Secretary is to use in establishing the price objective of the Act. The sugar users endorse this change.

The industry and the users also recommended certain changes in the quota management sections of the Sugar Act. These suggested changes were as follows:

1. That the Secretary of Agriculture announce the initial consumption estimate in October rather than in the last quarter as required by the current law;
2. That the Secretary of Agriculture use the consumption estimate as the primary tool for maintaining the price objective and that specific guidelines be used to trigger an increase or decrease in the consumption estimate; and



3. That deficits be declared and allocated when known; that foreign suppliers be required to report deficits not later than June 1; and that the Secretary be required to review the deficit situation no less frequently than every 60 days after the declaration of the consumption estimate.

H.R. 8866 incorporates the substance of these suggested changes in the supply management provisions.

Mr. Chairman, we do, however, have some changes to recommend in the bill.

The first is to correct an apparent oversight. The bill omits from Section 202(g) of the present Act a sentence that states, "this subsection shall not operate to reduce the quantity of sugar permitted to be imported for any calendar year from any country below its quota, including deficits allocated to it, for that year." We recommend that it be restored.

The second change we are recommending would clarify that section of the bill that covers the termination of the Secretary's powers under the Act.

H.R. 8866 provides that the Act will terminate on December 31, 1974, or March 31 of the year of the termination of the sugar excise tax, whichever is the earlier. It is not clear, however, as to which would be the last crop upon which payments could be made.

If the tax and payment provisions of H.R. 8866 are adopted, we recommend that the bill be made to conform to language in prior extensions of the Act. This could be done by changing the language that follows the word "under" in line 13 of page 25 of the bill to read, "programs applicable to the crop year immediately preceding the year of termination of such tax and previous crop years."

Mr. Chairman, the bill introduces a number of changes into the deficit section of the Act that are designed to insure that sugar is available when it's needed.

The Secretary is, among other things, directed to determine, declare, and reallocate deficits in quotas he is aware of at the time he announces the initial consumption determination, and as often thereafter as deficits are ascertainable.

In order to further strengthen the deficit provisions, the domestic industry and the industrial users recommended that the Secretary be directed to reexamine the supply situation no less frequently than every 60 days after he issues his initial consumption estimate in October. The House bill modifies this recommendation by directing that the Secretary review deficits every 60 days after the beginning of the quota year.

This is an important change. Four months would lapse from the time of the initial determination, which is in October, until the first reexamination in March.

The industry recommends, therefore, that the 60-day period begin from the date of the initial determination rather than from the first of the year.

This can be accomplished by striking, on page 11, line 12, the words, "after the beginning of the quota year" and inserting in lieu thereof the word "thereafter."

Mr. Chairman, the bill also introduces changes in section 202(g) that are designed to insure that the price objective of the Act is attained, and at the same time insure that consumers have adequate supplies of sugar at all times.

The Secretary has failed to attain the price objective for the past two years. The average price of raw sugar has been well under the price objective.

The amendments to section 202(g) included in H.R. 8866 are designed to protect producers from low prices, and consumers from high prices.

H.R. 8866 directs the Secretary to adjust the consumption requirements whenever the average price for raw sugar is 4 percent under or over the price objective for 7 consecutive market days. The industry believes that the ranges permitted by these guidelines are too broad.

The Secretary's adjustments in the consumption requirements are designed to attain the price objective over the course of a year. As the section is now written in H.R. 8866 prices could be exceptionally poor during one part of the year, but still high enough during the other part to attain the price objective. This is because an annual average will be used.

Thus, the 4 percent leeway could be damaging to producers who market their sugar over a relatively short period of time, as those in Louisiana do.

The industry would like to minimize the chance of that happening by changing the section so as to provide for a 3 rather than a 4 percent swing, and a 5 rather than a 7-day period.

With present raw sugar prices in the neighborhood of \$8.50 per hundredweight, the 4 percent is equal to about \$.35 per hundredweight, while 3 percent is equal to about \$.25. We believe that a \$.50 spread from the price objective (about \$.25

above and below) is fairer than a \$.70 spread to both the sugar producers and the sugar users and is closer to the stated objective in Section 202(g) of attaining the target price on an annual basis.

Assistant Secretary of Agriculture Clarence D. Palmby, speaking for the Administration before the House Agriculture Committee, expressed a preference for our recommended 3 percent permitted variation.

Mr. Chairman, the industry is deeply concerned with the short term of the extension provided for by H.R. 8866.

The bill provides that the Sugar Act would be extended for three years, from January 1, 1972, through December 31, 1974.

The industry recommends that the Act be extended for six years, as it was by the 1965 amendments.

The production patterns peculiar to sugarcane and sugarbeets intensify the need for an extension in line with the industry recommendations, which is necessary to permit the industry, at home and abroad, to better plan ahead for adequate supplies of sugar for consumers.

Sugarcane, which provides around 70 percent of our sugar, is a perennial crop. It normally requires from three to six years between the time of planting until the liquidation of the final harvest. The cost of producing the crop is, of necessity, apportioned over a period of years.

Sugarbeet production is normally based upon a four or five year crop rotation program.

Sugar producers need the assurances that are necessary in order to make the long-term capital investments that are required to produce these crops.

Certain parts of the bill are designed to permit new people to get into the business. Ironically, it will be difficult, if not impossible, for them to get the capital needed, if the extension is only for three years.

In its appearance before the House Committee on Agriculture the Administration recommended a three-year extension. It did so on the grounds that a number of things were pending that hindered its ability to develop long-range recommendations on our sugar program.

It cited, among other things, the reexamination of the Commonwealth Sugar Agreement prior to 1974—the United Kingdom's application for entry into the European Economic Community, and its effect on the Commonwealth Agreement and the Community's common sugar policy—the renegotiation of the International Sugar Agreement, which is scheduled to expire December 31, 1973—and the expiration of the Philippine Trade Agreement in 1974.

Since that time, published reports indicate that the UK's problems are not as grave as first thought. Solution of the sugar problem does not appear to be a prerequisite to entry into the EEC. Thus, final settlement of the problem could be a good way off.

Insofar as renegotiation of the International Sugar Agreement is concerned, we must take exception with the Administration. We believe a short extension of the Act will hinder rather than help the renegotiation of the Agreement. As a practical matter, the ISA tries to adapt to special sugar arrangements such as ours, rather than the other way around.

We do not understand why the expiration of the Philippine Trade Agreement should be a major influence on the period of extension. It is our feeling that such negotiations with any individual quota holder should not have an overriding bearing on the overall sugar policy of the country.

We believe these points brought up by the Administration are secondary. After all, the primary purpose of our program is to insure that American consumers have adequate supplies of sugar at fair prices, under all conditions. We believe a six-year extension will enable us to continue to attain the objectives of the Act.

Mr. Chairman, we have developed recommended changes in the tax and payment structure of the sugar program. As I am sure the members of this Committee are aware, the industry presented these suggested changes to the House Agriculture Committee for its consideration during the hearings on H.R. 8866. At this time I would like to repeat the recommendation as it was presented to that Committee.

Before going into our specific recommendations, it should be helpful to cover the rationale behind the sugar payments and the excise tax on sugar.

Any proposed changes should take into consideration: (1) the direct relationship between the sugar excise tax and such payments; (2) the differences between payments made under the sugar program and payments made

to growers under other farm programs; and (3) the Congressional policy with respect to large payments which has necessitated the sugar industry's search for a workable and equitable substitute for the present successful payment and tax structure.

During consideration of the Sugar Acts in the 1930's, the President recommended that in adopting a quota system to alleviate the distressed conditions in the sugar industry, provision should also be made to guarantee that the sugar dollar be equitably distributed among processors, growers, and farm labor. He specifically recommended that employment of child labor be prevented and that payment of wages of not less than minimum standards be required.

These recommendations were adopted by the Congress along with requirements that the Secretary of Agriculture determine fair prices for sugarcane and sugar beets, and that growers comply with the production restrictions imposed by the Act. Provision was also made for marketing controls on processors when necessary to assure an orderly flow of sugar and to afford equitable marketing opportunities.

In order to assure compliance with these provisions, the initial Sugar Act provided for a processing tax on sugar to be paid into a special fund administered by the Secretary of Agriculture. The Secretary was authorized to make payments from this fund to producers who complied with the regulations developed to implement the several purposes just mentioned.

In the Sugar Act of 1937, the processing tax was replaced by an excise tax on the manufacture of sugar, the tax being paid into the Treasury and payments to growers being made from appropriated funds. Under both the 1934 and 1937 Acts, the purpose was the same, but the change was made for technical legal reasons. In effect, money was collected from producers, held in custody, and repaid to them upon proof of compliance with the labor, fair price, and farm allotment provisions. The program does not work out that exact, of course, as the Act, again upon recommendation by the President, does not provide for uniform rates of payment to all producers. It gives preference to small producers by scaling down payment rates as the tonnage of sugar per production unit increases.

The amount of the sugar tax collected over the years has exceeded the cost of the program by over \$600 million. The excess of collections over payments in recent years has ranged from \$13 million to \$22 million per year.

In summary, Government payments under the Sugar Act are unique in several respects.

First, sugar program payments are fully funded by a sugar excise tax imposed for the sole purpose of financing Government payments to producers.

Second, the Sugar Act payment rates are scaled-down as production increases. Thus the larger producer receives a smaller rate of payment. On most of their production, the payment rate per ton of sugar is only 37.5 percent of the rate paid to small producers.

Third, sugar payments are conditioned upon producers complying with restrictions on production and upon meeting the social and economic provisions of the law which insure that the sugar dollar is equitably distributed among processors, farmers, and farm workers.

Since, as pointed out, the tax and payment are inseparable, any adjustment in the sugar payment feature should be accompanied by an equivalent adjustment in the tax. These adjustments must be designed to continue the returns of both domestic and foreign producers in line with the price objectives of the Act, if the basic supply assurance objectives of the program are to remain effective.

Mr. Chairman, now, if I may, I will briefly outline the industry proposal, and then cover it in more detail later.

Our proposal would reduce the scale of Government payments with an accompanying reduction in the rate of the excise tax on domestic sugar.

Under the industry tax and payment proposal:

- no Government payment for any farm could exceed \$60,400;
- no Government payment at all would be made for a farm producing 60,200 tons of sugar or more;
- the price of sugar to consumers would not be increased;
- the relative economic position of the segments of the domestic sugar industry would remain substantially unchanged;
- the relative economic position of domestic and foreign suppliers would remain unchanged; and
- the program would continue to be self-financing and continue to accrue a net gain to the Treasury at about present levels.

The changes would in no way relieve the farmers of their responsibility to comply with the social, economic, and restrictive provisions of the Act.

The excise tax on foreign sugar would remain unchanged. The price received by the foreign supplier would not be affected, nor would the returns received by domestic suppliers. Hence there would be no advantage to either foreign or domestic producers. Furthermore, the quota rights of foreign suppliers to the American market would not be disturbed by the industry's tax and payment recommendation.

Now, Mr. Chairman, I shall cover the industry's recommendations in a little more detail.

Under our proposal, the rate of Government payment to growers would be reduced by 35 cents in the first production interval of the payment scale, which includes production up to 350 tons, and reduced by 40 cents in all other production intervals. The rate of Government payments would be changed as indicated in exhibit I.

The smaller reduction of 35 cents in the payment on the first interval of 350 tons is designed to compensate the small beet and cane grower for the increased costs they would incur because of the delay in the receipt of that part of their income received through industry channels, which was formerly part of their conditional payments.

Under the reduced payment scale, no Government sugar compliance payment could exceed \$60,400. And no payment would be made for production in excess of 30,000 tons. As a matter of fact, on production in excess of 30,000 tons, 10 cents per 100 pounds of such excess would be subtracted from the amount earned on the first 30,000 tons of production. As a result of these deductions, growers that produce in excess of 60,200 tons of sugar would receive no Government payments at all.

Mr. Chairman, the Sugar Act has worked over the years because it has been able to balance the interests of consumers, refiners, processors, growers, farm workers, and foreign sugar suppliers.

In order to continue that balance, it is necessary to return to the growers, insofar as practicable, the same aggregate amounts as would have been received for their crops under the present Act.

Currently, a grower's income is the sum of that amount which is received for his cane or beets from the processor, and that amount returned to him as the sugar program compliance payment.

To illustrate how the program would be kept in balance, despite the sizeable reduction in Government payments, let us take the case of a small beet farmer. The small beet farmer is one who produces less than 350 tons of sugar, and who, with thousands of other small beet and cane farmers, is an essential cog in providing our domestic sugar supplies.

The sugar produced from that farmer's sugar beets is sold by his processor. Deducted from the price received by the processor are the sales costs plus the amount of the present excise tax. The resulting net proceeds from that sugar is then divided between growers and processors.

In addition to his share in the net proceeds, this small farmer, under the present program, receives a sugar compliance payment of 80 cents per 100 pounds from the Government. Earlier, in pointing out the compliance features of the sugar program, I explained that the farmer receives the Government payment only if he complies with the social, economic, and restrictive provisions of the Act.

The 80 cents per 100 pounds sugar program payment which the small farmer now receives represents a return of the 50 cents tax deducted from the gross sales receipts of his sugar, plus an additional 30 cents, financed in part by payments to large domestic farms which are less than the excise tax collected on their sugar, and in part by the excise tax on foreign sugar upon which compliance payments are not made.

Mr. Chairman, our illustration here confines itself to a small domestic producer. As a grower's production increases, the scale of payment decreases to a level where currently a large grower is, in effect, paying 50 cents in excise taxes, but receiving a compliance payment of only 30 cents per 100 pound on that sugar produced in excess of 30,000 tons.

Under the industry's proposed reduced payment plan, the small beet grower would receive payment for his crop as follows:

The sales expense would be deducted from the price as before. Also deducted would be the amount of the reduced excise tax. Before the net proceeds are divided, the beet processor would be required to return to the grower 40 cents

per 100 pounds arising out of the excise tax reduction. This "pass-back" along with the reduced compliance payment, will round out the grower's proceeds, netting him substantially the same income as under the present program.

For purposes of illustration, we have used a small beet farmer. The small cane farmer will similarly receive a "pass-back" in order that his income under the proposed plan will be substantially the same as under the present scale of payments.

Under the current sugar program, sugar growers throughout the United States have received compliance payments shortly after completing their harvest.

Under the industry's proposal, only about one half of the aggregate amount of the present compliance payment would be paid shortly after harvest. The other half would be paid to the grower when the sugar is sold or in any event at a substantially later date than now.

To offset the farmer's added borrowing costs due to receiving part of his income at a later date, the payment rate in the first production interval is reduced by 35 cents instead of 40 cents as in all other intervals.

Mr. Chairman, a change in the tax rate is necessary to effectuate the foregoing provisions. Under the industry proposal, the rate of tax on refined sugar manufactured from foreign raw sugar would remain the same as under the present program—53 cents per 100 pounds, which expressed in terms of raw value is 50 cents.

However, the rate of tax on refined sugar manufactured from domestic sources would be reduced by 43.2 cents—from 53 cents to 9.8 cents. As mentioned earlier, the rate of "pass-back" to the grower would be equal to 40 cents per 100 pounds, *raw value*. The apparent disparity between 43.2 cents and 40 cents is explained by the fact that the tax is expressed in terms of refined sugar, rather than raw value. The amount of the "pass-back" must be converted to a refined sugar basis, to determine the rate of tax.

USDA figures indicate that in 1969, it required 108 pounds raw value, to produce 100 pounds of refined sugar. Thus, the tax reduction required is  $1.08 \times 40 = 43.2$  cents. Subtracting 43.2 cents from the 53 cents full tax rate for refined sugar results in a domestic tax rate of 9.8 cents.

The excise tax would continue to be paid on the basis of manufactured sugar delivered in each month. The establishment of two different rates of tax would, however, require an apportionment by refiners of the quantity of refined sugar as between sugar manufactured from foreign sugar and that manufactured from domestic sugar.

Mr. Chairman, we propose that the new payment scale would become effective for the 1972 crops of sugar, and that the new tax rate would become effective at various dates that coincide with the marketing of sugar from the 1972 crops.

The industry has again presented and recommended its plan, in lieu of continuation of the present structure as provided in H.R. 8866. We have done so because of the general public misunderstanding of the inter-relationship between the sugar tax and payment features of the sugar program, and the Congressional policy as reflected in the payment limitations applicable under other farm programs.

The industry would continue for some time to have an effective sugar program under the tax and payment provisions of the present law as provided in H.R. 8866 as long as there are no further limitations on payments beyond the present scale-down provisions. However, the continued ever-present threat of payment limitations could reduce the effectiveness of the program by discouraging the investments required to enable some parts of the domestic industry to produce its share of the nation's increasing sugar requirements.

We also have a number of technical or clarifying changes to recommend to the Committee, which we are submitting in a separate statement.

Mr. Chairman, on behalf of the segments of the American sugar industry, I wish to thank the Committee for this opportunity to appear here today.

#### LIST OF ORGANIZATIONS FOR WHOM JAMES H. MARSHALL APPEARED

##### U.S. SUGARBEET INDUSTRY

Alma Sugar Beet Growers, Inc.  
 The Amalgamated Sugar Co.  
 American Crystal Sugar Co.  
 Ark Valley Beet Growers Association.  
 The Big Horn Basin Beet Growers Association.  
 Blissfield Beet Growers Association.

Buckeye Beet Growers, Inc.  
 California Beet Growers Association, Ltd.  
 Caro Sugar Beet Growers, Inc.  
 Central Nebraska Beet Growers Association.  
 Crosswell Sugar Beet Growers Association.  
 Elyhee Beet Growers Association.  
 Farmers & Manufacturers Beet Growers Association.  
 Findlay District Beet Growers Association.  
 Fremont Beet Growers Association.  
 Goshen County Cooperative Beet Growers Association.  
 The Great Western Sugar Co.  
 Holly Sugar Corp.  
 Idaho Sugar Beet Growers Association.  
 Lower Snake River Sugar Beet Growers Association.  
 Michigan Sugar Co.  
 Monitor Sugar Beet Growers, Inc.  
 Monitor Sugar Division of Robert Cage Coal Co.  
 Montana-Wyoming Beet Growers Association.  
 The Mountain States Beet Growers Marketing Association of Colorado.  
 The Mountain States Beet Growers Marketing Association of Montana.  
 The Nebraska Non-Stock Cooperative Beet Growers Association.  
 Northern Ohio Sugar Co.  
 Nyssa-Nampa District Beet Growers Association.  
 Red River Valley Sugarbeet Growers Association.  
 Saginaw Sugar Beet Growers, Inc.  
 Sebewaing Sugar Beet Growers Association, Inc.  
 Southern Colorado Beet Growers Association.  
 Spreckels Sugar Co., Division Amstar Corporation.  
 Texas-New Mexico Beet Growers Association.  
 Union Sugar Division, Consolidated Foods Corp.  
 Utah-Idaho Sugar Co.  
 Utah Sugar Beet Growers Association.  
 Washington Sugar Beet Growers Association.  
 The Western Colorado Beet Growers Marketing Association.

#### MAINLAND SUGARCANE GROWERS AND PROCESSORS

American Sugar Cane League of the U.S.A. and the Florida Sugarcane League representing approximately 5,100 growers and the following processors:

Albania Sugar Co., Inc.	Levert-St. John, Inc.
Alma Plantation, Inc.	Louisiana State Penitentiary
J. Aron & Company, Inc.	Louisiana State University
Atlantic Sugar Association	Louisa Sugar Coop., Inc.
Billeaud Sugar Company	Meeker Sugar Coop., Inc.
Breaux Bridge Sugar Coop., Inc.	Milliken & Farwell, Inc.
Wm. T. Burton Industries, Inc.	Osceola Farms Company
Caire & Graugnard	M. A. Patout & Son, Ltd.
Cajun Sugar Coop., Inc.	Poplar Grove Pltg. & Rfg. Co., Inc.
Caldwell Sugars Coop., Inc.	St. James Sugar Coop., Inc.
Colombia Sugar Company	St. Mary Sugar Coop., Inc.
Cora-Texas Mfg. Co., Inc.	Lulu Factory, Inc.
Dugas & LeBlanc, Ltd.	South Coast Corporation
Duhe & Bourgeois Sugar Co.	Southdown Lands, Inc.
Evan Hall Sugar Coop., Inc.	South Puerto Rico Sugar Company
Florida Sugar Corporation	Sterling Sugars, Inc.
Frisco Cane Co., Inc.	Sugar Cane Growers Coop. of Florida
Glades County Sugar Growers Coop.	J. Supple's Sons Pltg. Co., Ltd.
Assn.	Talisman Sugar Corp.
Glenwood Coop., Inc.	United States Sugar Corp.
Helvetia Sugar Coop., Inc.	Valentine Sugars, Inc.
Iberia Sugar Coop., Inc.	Vida Sugars, Inc.
LaFourche Sugar Co.	A. Wilbert's Sons Lbr. & Sh. Co.
Harry L. Laws & Co., Inc.	

## HAWAIIAN SUGARCANE INDUSTRY

Hawaiian Sugar Planters Association	Laupahoehoe Sugar Co.
Gay & Robinson	Lihue Plantation Co., Ltd.
Grove Farm Co., Inc.	Mauna Kea Sugar Co., Inc.
Hamakua Mill Co.	McBryde Sugar Co., Ltd.
Hawaiian Agricultural Co.	Oahu Sugar Co., Ltd.
Hawaiian Commercial & Sugar Co.	Olokele Sugar Co., Ltd.
Honokaa Sugar Co.	Paauhau Sugar Co., Ltd.
Hutchinson Sugar Co., Ltd.	Pepeekeo Sugar Co., Ltd.
Kahuku Plantation Co.	Pioneer Mill Co., Ltd.
Kehaha Sugar Co., Ltd.	Puna Sugar Co., Ltd.
Kilauea Sugar Co., Ltd.	Wailua Sugar Co., Ltd.
Kohala Sugar Co.	Walluku Sugar Co.

## PUERTO RICAN SUGARCANE INDUSTRY

Association of Sugar Producers of Puerto Rico
Antonio Roig Sucesores, Inc.
Central Coloso, Inc.
Central Eureka, Inc.
Central Igualdad, Inc.
Central Mercedita, Inc.
Central Monserrate, Inc.
Central Roig Refining Co.
Central San Francisco
Plata Sugar Co.
Puerto Rican American Sugar Refinery, Inc.
Western Sugar Refining Co.

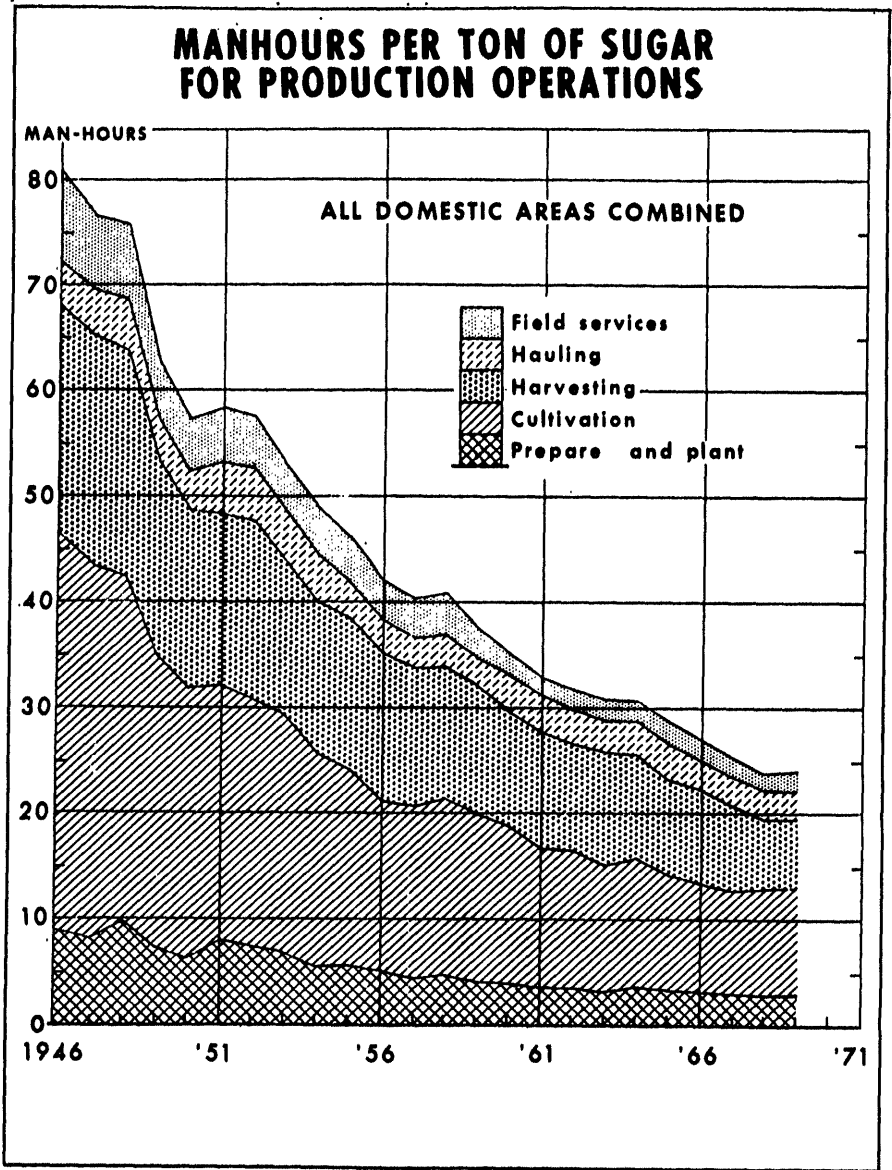
## U.S. CANE SUGAR REFINING INDUSTRY

U.S. Cane Sugar Refiners' Association
Amstar Corporation
J. Aron & Company, Inc.
California & Hawaiian Sugar Company
Godchaux-Henderson Sugar Co., Inc.
Imperial Sugar Company
The National Sugar Refining Company
Refined Syrups & Sugars, Inc.
Revere Sugar Refinery
Savannah Foods & Industries, Inc.
The South Coast Corporation
SuCrest Corporation

## WORK TIME NEEDED TO PURCHASE ONE POUND SUGAR AT RETAIL, 1968

Country	Average hourly earnings manufactur- ing, <sup>1</sup> U.S. dollars	U.S. cents per minute	Retail price for sugar 1968 <sup>2</sup> (U.S. cents)	Minutes worked per lb. of sugar	Index U.S.=100
United States.....	\$3.01	5.02	12.2	2.4	100
Canada.....	2.39	3.98	8.9	2.2	92
Japan.....	.57	.95	16.1	16.9	704
Austria.....	.73	1.22	11.9	9.8	408
Belgium.....	1.06	1.77	15.5	8.8	367
Denmark.....	1.79	2.98	13.5	4.5	188
Finland.....	1.02	1.70	13.1	7.7	321
France.....	.88	1.47	13.1	8.9	371
Italy.....	.73	1.22	17.1	14.0	583
Netherlands.....	1.02	1.70	15.6	9.2	383
Norway.....	1.57	2.62	6.3	2.4	100
Sweden.....	1.91	3.18	13.0	4.1	171
Switzerland.....	1.31	2.18	9.3	4.3	179
United Kingdom.....	1.03	1.72	8.5	4.9	204
West Germany.....	1.22	2.03	14.0	6.9	288

<sup>1</sup> U.S. Department of Labor—Division of Foreign Labor Statistics—available only for developed countries.<sup>2</sup> International Sugar Council.





## RATE OF SUGAR ACT PAYMENTS UNDER THE PRESENT PROGRAM AND THE SUGAR INDUSTRY RECOMMENDATIONS

Sugar production intervals, short tons, raw value	Rates of payment <sup>1</sup>	
	Present	Proposed
Less than 350.....	\$0. 80	\$0. 45
350 to 700.....	.75	.35
700 to 1,000.....	.70	.30
1,000 to 1,500.....	.60	.20
1,500 to 3,000.....	.55	.15
3,000 to 6,000.....	.525	.125
6,000 to 12,000.....	.50	.10
12,000 to 30,000.....	.475	.075
Over 30,000.....	.30	( <sup>2</sup> )

<sup>1</sup> Per hundredweight of production within intervals.

<sup>2</sup> Farms producing in excess of 30,000 tons would have deducted from their payment an amount equal to 10 cents per hundredweight of such excess sugar until the deductions equal the amount computed up to 30,000 tons. Therefore, growers producing more than 60,200 tons of sugar would receive no payment at all. Under the industry proposal, no payment per farm could exceed \$60,400.

Note: Abandonment and deficiency payments would continue at the present rate.

The CHAIRMAN. I would like to get this matter straight with you. If this Nation did not care to have its own domestic sugar producers, presumably, it could have sugar somewhat cheaper. Now, if it did that, what problems would that raise as far as this Nation is concerned?

Mr. MARSHALL. Mr. Chairman, I think in the first place that the presumption is a little shaky, the presumption that we would have cheaper prices if we should choose to get all of our supplies or all that we could get on the world market. That would be an entirely different market than it is today. As you know, our requirements are over 11 million tons per year. The amount of sugar currently traded in the so-called world market, so-called free market, whichever term you choose, is somewhat smaller than that quantity. If we should not support our domestic industry and become dependent upon the world market, there is absolutely no assurance that we will get cheaper sugar and we could get considerably higher priced sugar, especially at a time which we appear to be in now, where the outlook is quite uncertain as to whether there may be a vast supply in the world market over the next 2 or 3 years.

The CHAIRMAN. The thought occurred to me that we would have a less dependable supply of an essential commodity if we are not able to produce it ourselves.

Mr. MARSHALL. I am quite sure we would have.

The CHAIRMAN. Secondly, it would give us additional problems with our balance of payments that we are unable to get in line, for the time being, anyway. Currently, our balance of trade is in far worse shape than our State Department wants to admit. Statistics that leave out the freight on the imports and put the giveaways in with the exports to try to keep the balance of trade from showing the terrible shape it is actually in are plain deceptive. We do not have a balance of trade, we have a deficit; running about \$3 billion when you take out the giveaways and put the freight charges on your imports. I do not really know how we would correct that if we had to add this to it.

How much would that further unbalance our unfavorable balance of payments if we had to bring into this country all the sugar we are consuming?

Mr. MARSHALL. We are currently bringing in a little over 4 million tons. Almost 7 million tons are being produced domestically. If we let the domestic industry go by the boards by not supporting it, we would bring in another 7 million tons. That would increase year by year. So we unbalance it by 7 million times whatever price per ton we would have to pay for the world sugar.

The CHAIRMAN. About how much is it? How much are we paying? I would be the first to agree that you cannot buy that much sugar at a so-called world market price, because that is just a dumped price. That is only about 12 percent of sugar which has no home that sells on the world market at a distress price. But if you look at the price we are paying our Latin friends, for example, we could buy it at that price, I assume. How much would that be per ton?

Mr. MARSHALL. I would assume that we would be lucky if we were able to buy it for less than our current price, which is \$8.50, or roughly \$165 or \$170 per ton. If you want to take a lower figure of \$150 and multiply it by 7 million there is your answer.

The CHAIRMAN. That, then, would put our balance of payments roughly a billion dollars further out of line.

Mr. MARSHALL. Yes.

The CHAIRMAN. Thank you, very much.

Senator Bennett?

Senator BENNETT. I did not quite get your answer to the chairman or whether you did give him the answer to this question. How many million tons are available in the world market today, so-called world market?

Mr. MARSHALL. Senator, the world market today is in a reasonable balance, but balance in part is, of course, achieved by an international sugar agreement. Under the current agreement, and I think the situation would not be very different for some time at least, for some few years if we did not have the agreement, there is virtually no surplus sugar in the world.

Senator BENNETT. That is the point I am trying to get at. We produce 7 million tons in the United States. Is there 7 million surplus tons floating around in the world which could fill up this gap?

Mr. MARSHALL. Absolutely not, nor six nor five nor four nor three.

Senator BENNETT. So what would have to happen if this Sugar Act were wiped out, we would go through a period where we would either have to bid up the price of sugar to draw sugar out from other countries, or we would have to have a shortage of sugar?

Mr. MARSHALL. Yes, we would have to get the situation back in balance. We would have to wait until enough new facilities could be built around the world to produce additional sugar to supply us plus the rest of the world.

Senator BENNETT. Well, I would like to ask the question in another way. How long could the American sugar industry continue to produce sugar and sell at the current world market price in competition, assuming that we decided we could not afford to go without sugar, so we would try to put pressure on the American producer to continue to produce?

Mr. MARSHALL. I would not expect the current world market to stay the same; it would go up.

Senator BENNETT. But we will assume.

Mr. MARSHALL. You will assume it stays there. And if there were no hope that this was simply a temporary situation, I think virtually all, if not all, of our domestic industry would be liquidated as soon as the existing crops could be liquidated.

Senator BENNETT. Do you have any idea of how much additional unemployment that would create?

Mr. MARSHALL. I could not offhand give you a figure on that, Senator; no.

Senator BENNETT. But it would be very substantial and it would spread across the country?

Mr. MARSHALL. Yes, it would.

Senator BENNETT. There is another aspect to this. One of the values of our present sugar program is that the consumer has rather effective price stability. The price of sugar does not go up-and-down daily or weekly. What would happen if the act were cut out? What would happen to the prices that the refiner in this country would have to pay for foreign sugar? Would that be stable? Would they be stable?

Mr. MARSHALL. The world market characteristically, except during periods when it has had a reasonably effective international agreement, has been a very volatile market. It is still considerably more volatile than our domestic market. With even larger scale demands put on the world market, I think it could be expected to be tremendously more volatile. So you would not have stability, in my estimation.

Senator BENNETT. It would be pretty hard for bakers and candy-makers and soft drink manufacturers to forecast their production and price it effectively; would it not?

Mr. MARSHALL. They are going to appear before you shortly. I would not speak on their behalf, but I certainly think so; yes.

Senator BENNETT. And since sugar is so much a part of the diet of every person in the United States, I would think that kind of a market on sugar, both to the industrial producer and the person who buys a 5-pound bag in the supermarket, would be very unsettled.

Mr. MARSHALL. It certainly would not be in the interest of either type of consumer.

Senator BENNETT. I doubt that the American people have realized the value of the stability factor in this program.

Well, Mr. Chairman, I have no other questions. I have been kept aware over the months of the activities of the various factors in the sugar industry, trying to be able to present us with a logical program that they could all support, and since Mr. Marshall is speaking for all of them today, I am delighted to have his testimony. I hope the committee will find between his or the industry's proposals and the House bill an opportunity to work out continuation of the present benefits of the program.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. I have nothing.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. Mr. Marshall, in some quarters, we hear that consumption of sugar is going up very rapidly and there may well be a shortage of sugar in the not too distant future. Do you have any comments on that?

Mr. MARSHALL. Senator Talmadge, consumption has been going up in the past few years, both per capita and total, because of the increasing population. As I indicated earlier, I certainly do not intend to be a scaremonger, but, unless we find more new investments in sugar production around the world, the outlook seems to be for rather tight supplies in the world market over the period of the next few years. Certainly any calamity, and we do have those occasionally, could bring that on fairly promptly. So supplies are in rather close balance and, as I say, under those circumstances, you could get a very tight supply situation at any time with unusual developments, such as a failure of the crop in a major producing area.

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

The CHAIRMAN. Senator Miller?

Senator MILLER. Mr. Marshall, on page 6 of your statement, you refer to a proposal by your organization that no payment per farm exceed \$60,400. Do you mean no payment per producer?

Mr. MARSHALL. Yes; any given farm defined under this program would get no payment over \$60,400.

Senator MILLER. Well, you may have a producer with several farms. Suppose you have farms located in the same county, but they might be different, they might be separated somewhat, but they have a single owner, a single producer. Is that what you are talking about?

Mr. MARSHALL. I am not sure I understand the question, Senator, but anything that could be classified as a farm for Sugar Act purposes that produces over 60,200 tons, would have no payment.

Senator MILLER. You see, in the feed grains program, in the wheat program, we provided for a \$55,000 payment limitation per producer and I would hope that you were taking the same approach, rather than just look at a farm. You have producers that have several farms.

Mr. MARSHALL. I am not quite sure what the definitions of farms are in the other programs.

Senator MILLER. Would it be your intention that if a producer owned three or four farms—let's say sugar beet farms—and they were not all adjacent to each other, but he was operating all of them as a producer, filing his tax returns with the schedule covering all four farms, that this is the approach you are taking? Is this the one you are thinking about? I do not know what you have in mind.

Mr. MARSHALL. I have in mind the structure that we have in the sugar industry today; the units as they are constituted today under the program. It is a rather complicated definition, as you know, as to what constitutes a farm with reference to ownership and management and common use of the major equipment that is used in production.

Senator MILLER. Well, suppose on these four sugar beet farms you have a single manager, you have the same equipment used; they just truck it on down the road to the next farm after they use it at one farm. It is a rather tight operation, but it is owned by one producer. He is the one to whom the Federal Government writes the payment checks.

Mr. MARSHALL. Well, the type of operation that you are describing sounds to me, as if it, from what I can remember of the definition, would be one farm.

(Mr. Marshall subsequently submitted the following statement:)

There are different definitions of a farm under USDA regulations for the sugar program and the other programs. Because of the different definition and the scale-down of payments under the sugar program, USDA has enforced the sugar definition so that so-called separate farms have been combined into one farm unit.

Senator MILLER. All right. Now, how many of these producers, or one farms as you have just referred to them, would this \$60,400 limitation affect?

Mr. MARSHALL. It would not affect very many of them, because as you know, throughout the beet area and throughout some parts of the cane area, the farms are relatively small. There are some cane farms and some are in my notes—I am sure I have a figure, but I cannot recall it offhand.

Senator MILLER. Will you supply that figure for the record, please, sir?

Mr. MARSHALL. There might be some of my colleagues in the audience, that can answer the question now.

It is 178, which we get from our tabulation from the Department of Agriculture, over \$55,000. We do not happen to have a tabulation applying to the \$60,000 figure.

Senator MILLER. You mean there are 178 over \$55,000?

Mr. MARSHALL. Right.

Senator BENNETT. Now, under the present law.

Mr. MARSHALL. Under the present law.

Senator MILLER. You do not have the figure for \$60,400?

Mr. MARSHALL. No; but it would be slightly less because of the difference between 55 and 60—you would probably not find many farms falling in that category.

Senator MILLER. What is the rationale for selecting the figure \$60,400?

Mr. MARSHALL. It was not selected, actually, Senator. We have been working to try to find a program under which we could get rid of these big payments that are so unpopular and they are unpopular even with reference to sugar. Sugar is entirely different in that it is paying its own way and has its own tax structure, which was designed to take the money from the producer through the excise tax and then pay it back to him when he complied with all the conditions that are required under the Sugar Act.

Senator MILLER. Well, specifically, suppose that we legislate a \$60,400 maximum payment and I go back to my State of Iowa and I talk with a group of farmers and they say, Senator, you put a \$60,400 payment limitation in the Sugar Act; you put \$55,000 in the wheat and the feed grains program; how come the difference? What am I going to tell them?

Mr. MARSHALL. Well, I can tell you what I would tell them. I would tell them that, No. 1, the sugar program is an entirely different type of program; it is one that was developed on an entirely different basis for a different purpose than the other commodity programs. It was developed in such a manner that it would be self-financing. At the time it was first developed, farmers were required to pay fair wages

to their field workers, not employ child labor, and comply with other restrictive and social provisions of the act. The inducement for them to do so rather than say by law, thou shalt do these things, was a device to tax the producer on his sugar and then to pay a part of it back to him if he complied with these conditions. Now, that has not been true of any other commodity. This does not take anything from the Treasury. As a matter of fact, as I am sure you know, it leaves a net balance in the Treasury from the operation of the program as a whole.

Senator MILLER. They are still going to want to know why we did not make it \$55,000.

Mr. MARSHALL. We did not because adjusting the figures to come out with that result made it very difficult to achieve equity between areas and among farms of different sizes. We could, by arithmetic, do this, but it seemed to create problems that the other approach did not present.

Senator MILLER. I wish you would do this for the committee—at least for me: Provide for the record some computation working this thing out at \$55,000 rather than \$60,400, because I must tell you that I am going to have to see some pretty good mathematics to persuade me to come out with \$60,400.

Now, the next thing is you recommended no payment whatsoever to a farm producing 60,200 tons. Now, 60,200 tons is getting down to a pretty fine point. Why not 60,000, why not 55,000, why not 50,000? What is the rationale for 60,200 tons?

Mr. MARSHALL. It is the same as the one I just gave you, Senator. Any combination of arithmetic that we could find after looking at lots of possible combinations came out with this result.

Senator MILLER. They are tied together; are they?

Mr. MARSHALL. Yes, they are.

Senator MILLER. In other words, the \$60,400 payment limitation and the 60,200 tons no payment at all are tied together?

Mr. MARSHALL. Yes.

Senator MILLER. Then I would ask you if they are tied together and if, when you work up your mathematics to furnish to the committee on your \$55,000 payment limitation, would you then work up a corresponding tie-in figure for total tons for no payment at all. Can you do that?

Mr. MARSHALL. Yes; we can do it to get that result and then let you make your own decision. Actually, under the plan we have proposed a farm gets its maximum payment at 30,000 tons. It then provides for a reduction in the total payment so when production gets to the 60,200 tons the payment is zero. That is the way it works out.

Senator MILLER. If you would provide those mathematics to the committee, I would appreciate it.

Mr. MARSHALL. We will, thank you.

(The information referred to follows:)

Sugar production intervals short tons, raw value	Rates of payment <sup>1</sup>	
	Present	Proposed
Less than 350.....	\$0. 80	\$0. 45
350 to 700.....	. 75	. 35
700 to 1,000.....	. 70	. 30
1,000 to 1,500.....	. 60	. 20
1,500 to 3,000.....	. 55	. 15
3,000 to 6,000.....	. 525	. 125
6,000 to 12,000.....	. 50	. 10
12,000 to 27,000.....	. 475	. 075
27,000 to 30,000.....	. 475	(4)
Over 30,000.....	. 30	(3)

<sup>1</sup> Per hundredweight of production within intervals.

<sup>2</sup> Farms producing in excess of 27,000 tons would have deducted from their payment an amount equal to 10 cents per hundredweight of sugar until such deduction equals the amount computed under this table. Growers producing more than 55,225 tons of sugar would receive no payment at all, and the maximum conditional payment per farm would be \$55,000.

Senator MILLER. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you, Mr. Chairman.

Mr. MARSHALL, in response to a question Senator Bennett asked you, I understood you to say that at the present world price, all domestic producers would be forced into liquidation. Without giving specific numbers as to cost of production, which I know is variable among American producers, and the world price, which is also a variable, can you give us an estimate of how much greater the cost of production of American producers is, generally, than the world price? Is it twice as high, it is 50 percent higher? Give us something, some generalization.

Mr. MARSHALL. Senator, I cannot give you any generalization simply because I do not know. There is a very considerable variation, of course, in the cost of production as between our major domestic areas and certainly among producers in any given area.

Senator JORDAN. Yes.

Mr. MARSHALL. I think one way to answer the question would be to point out that currently, the difference between the world price of sugar and our domestic price, after you make allowances for freight and duty on the foreign sugar, is something over 3 cents per pound. Let's say it is just 3 cents per pound. That is \$60 per ton.

Senator JORDAN. Is this the world price or the difference?

Mr. MARSHALL. I am talking about the difference. The difference is about \$60 per ton, although certainly no one in the domestic industry, I think, has a profit of anything approaching \$60 per ton. So that difference is considerably more than any net return in the domestic industry. So that is the differential.

Senator JORDAN. \$60 a ton is the difference in the average cost between American producers and the world?

Mr. MARSHALL. No, sir; I am really saying \$60 is just the difference in the two prices at the moment.

Senator JORDAN. In the domestic price and the world price?

Mr. MARSHALL. Right. Obviously, the cost of domestic production is higher because our wage scale is higher than other producing areas and all of our costs are higher than virtually all of their costs. The taxes, the land, virtually all of our costs are higher.

Senator JORDAN. That gives me the kind of base I want for purposes of calculating the justification for subsidy payment or tariff adjustments or whatever we use.

Thank you. That is all.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. I do not believe I have any questions, Mr. Chairman.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. I do not have any questions. I merely want to certify to the committee that this man is a very fine person and knowledgeable in his work. He was in the Department of Agriculture a great many years ago. He was in charge of the sugar branch. He was a fine man throughout for that job and his testimony today is an indication of that.

Mr. MARSHALL. Thank you, sir. I might say I had a great leader there.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Mr. Marshall, I was called out on another matter and I did not hear the first part of your presentation, but I have gone over the summary of it. As I understand it, you support in the main the House bill so far as it relates to the domestic matter with the few exceptions that you have noted in your summary there?

Mr. MARSHALL. Yes, sir; the major exception being the tax and payment feature of the program and the term of the extension.

Senator CURTIS. I have no questions, Mr. Chairman.

Senator MILLER. Mr. Chairman, I am a little confused. I would like to follow on Senator Curtis' question.

If I read your statement correctly, you want to continue the present domestic share of growth at 65 percent as in the current act.

Mr. MARSHALL. Yes, sir.

Senator MILLER. Is that not substantially different from what the House has done?

Mr. MARSHALL. I believe on that provision, it is identical with the House bill, sir.

Senator MILLER. Well, following this, you say, the House bill—maybe I am not reading this correctly. You have a statutory quota that is domestic.

Mr. MARSHALL. Yes.

Senator MILLER. When you say in the House bill, you mean that is the way it is in the House bill, is that right?

Mr. MARSHALL. Right.

Senator BENNETT. Mr. Chairman, before Mr. Marshall leaves, turning to page 20 of your statement, where we find the two figures that Senator Miller referred to, take me back through your arithmetic for a minute and maybe we can clear this up for Senator Miller right now.

What is the payment per ton, benefit payment per ton under your recommendation? Is it not 10 cents?



Mr. MARSHALL. If you will turn to exhibit 3 attached to that statement, you will see two columns over on the right. The left column is the present scale-down provision and the right column is the proposed scale-down.

Senator BENNETT. Then maybe it is not quite as simple as I thought at first glance. Is there any relation between the \$60,400, which would be the limit of benefit payments, and the 60,200 tons of sugar which could be produced?

Mr. MARSHALL. There is no direct relation. Each of those two figures, are the result of the arithmetic. They fall within the design.

Senator BENNETT. Looking at exhibit 3, in order to get that figure of \$60,400 down to \$55,000, you would have to change the figures in the rate of payment. Maybe instead of 45 cents for less than 350 tons, you would have to have 42 cents, and maybe instead of 20 cents on the thousand or 1,500 tons, you would have to have 19 cents. Is this a case where you are dealing with what we might call round figures, normal arithmetical divisions, where, in order to arrive at the other things and keep some sense of equity among the various sizes of the producers, you would have not only to have odd cents, but you might have to have fractions of cents?

Mr. MARSHALL. We did not say that there was anything in here called a payment limit. It just happens that the program works out that \$60,400 is the maximum.

Now, if we do it in a way that we did not think is palatable, we could achieve the result. What we are trying to avoid saying is that the arithmetic results in a limit?

Senator BENNETT. OK. I do not know whether that is helpful, Senator Miller, but it seems to me that is the basic essence of the problem.

Senator MILLER. I appreciate what Senator Bennett is trying to do here. However, the rationale we took in the Agriculture Committee on the farm bill was because regardless of all the permutations and calculations, \$55,000 was the total limit of any check that could go out to any one producer in any year. In this schedule of payments, you might have to keep these proposed payments the way they are but simply say that when you get up to this 12,000 or 30,000 ton area, the payment will be at the rate of 0.075 per ton, but it is too bad when they get to \$55,000, that is the end of it. What is wrong with that?

Senator BENNETT. The difference here is that that is taking money out of the Treasury. This money is provided by the man who raises the sugar. It passes through the Treasury, but it does not cost the taxpayer.

Senator MILLER. Well, then, if that is the case, what are we quibbling about a payment limitation for in the first place?

Senator BENNETT. The administration says leave things as they are and do not change the payment program.

Senator MILLER. I so understand, but you have a witness here who is advocating a payment limitation.

Mr. MARSHALL. I have not advocated a payment limitation as such, sir. We have tried to stay away from it. We have not advocated it by any means. We are merely recognizing the temper of the times, the general misunderstanding throughout the country about the sugar program, at least with reference to the tax and payment provisions.

People just do not understand it. It is not simple. You cannot explain it unless you sit down and talk to individuals for an hour. We are trying to recognize that and come up with something that will not have big payments.

Senator CURTIS. Would you yield?

Senator MILLER. Yes.

Senator CURTIS. In reference to this change in the tax you have proposed, would it have any effect on the payment or the tax of the small and medium sized producers?

Mr. MARSHALL. If I understand your question correctly, it would have an effect on the tax and the payments of everyone, but in so doing, it would leave their economic position, the income they get from the combination of sale of their product and the tax payment structure closely as possible to where it is today and by and large, we have achieved that.

Senator CURTIS. In other words, this change would affect all growers?

Mr. MARSHALL. Yes. But it would have no net financial effects, sir.

Senator CURTIS. On the smaller and medium sized growers?

Mr. MARSHALL. If adopted as we have recommended it, you will note that the first payment interval has a reduction of 35 cents instead of 40 cents from the current 80 cents, simply because of the necessity for compensating the small producers. Currently, they get their payments fairly shortly after they complete the crop. Under our proposal, they are going to get half of that income from the processor who sells their sugar. Their arrangement with the processor would provide for payment as the sugar is marketed. They would therefore get it considerably later. And this difference is to compensate them for that cost of money for that long a period.

Senator CURTIS. The grower will get what payment later?

Mr. MARSHALL. The payment that he would get from the processor because of the tax saving.

Senator CURTIS. And when that is remitted back to him, it would be at a later time than his payment ordinarily arrives?

Mr. MARSHALL. Yes, sir.

Senator CURTIS. How much later, as a guess?

Mr. MARSHALL. Oh, a matter of 3 to 5 months, I would guess, 3 to 6 months.

Senator CURTIS. Frankly, I cannot see any comparability between the payments under other farm programs and the sugar program.

Mr. MARSHALL. Not can I.

Senator CURTIS. One is paid from general funds provided by the general taxpayers as a subsidy. This is quite different. This is definitely carried as a cost of the sugar, and also produces a profit.

Mr. MARSHALL. Yes, sir.

Senator CURTIS. Thank you.

The CHAIRMAN. Thank you very much, sir.

The next witness will be Mr. John Mount in behalf of the General Users of Sugar, accompanied by Joseph Creed, general counsel.

Senator TALMADGE. Mr. Chairman, it is a pleasure to welcome one of my valued friends and constituents to appear before the committee, Mr. John Mount.

**STATEMENT OF JOHN M. MOUNT, VICE PRESIDENT, COCA-COLA,  
U.S.A.; CHAIRMAN, LEGISLATIVE COMMITTEE, SUGAR USERS  
GROUP; ACCOMPANIED BY JOSEPH M. CREED, GENERAL COUNSEL,  
AMERICAN BAKERS ASSOCIATION, AND CHAIRMAN, SUGAR  
USERS GROUP**

Mr. MOUNT. Thank you, Senator.

Mr. Chairman, members of the Finance Committee, my name is John M. Mount, vice president of Coca-Cola, U.S.A. I appear today at this hearing as chairman of the legislative committee of the Sugar Users Group. With me is Mr. Joseph M. Creed, general counsel, American Bakers Association, and chairman of the Sugar Users Group.

The Sugar Users Group is comprised of trade associations and their member companies who are users and consumers of sugar. The organizations within the group are:

- American Bakers Association
- Associated Retail Bakers of America
- Biscuit and Cracker Manufacturers' Association of America
- Chocolate Manufacturers Association of the United States of America
- Flavor and Extract Manufacturers' Association
- International Association of Ice Cream Manufacturers
- National Bakery Suppliers Association
- National Canners Association
- National Fruit and Syrup Manufacturers' Association, Inc.
- National Preservers' Association, Inc.
- National Soft Drink Association
- Pickle Packers International, Inc.

We appreciate this opportunity to present our views on this important legislation to this committee. We know you are aware that industrial use of sugar in the United States accounts for approximately 75 percent of all the sugar consumed in the country. The remaining 25 percent is purchased by the housewife directly from the grocery shelves. The member companies of the Sugar Users Group use approximately 80 percent of all industrial sugar.

As we have previously testified before the House Agriculture Committee, the significance of sugar to our industries cannot be underestimated. It is a basic commodity in the broadest sense of the word. The Sugar Users Group is concerned primarily with assuring an adequate supply of sugar at reasonable prices under all conditions to industrial users and other consumers.

In our House testimony, we made recommendations with respect to the content of the legislation then under consideration. Our recommendations were intended to enable the Sugar Act, as amended, to fulfill satisfactorily the aims which we have set forth here. H.R. 8866, as approved by the House Agriculture Committee and the House of Representatives is, for the most part, an acceptable compromise as between our views and the recommendations of the domestic sugar industry. Recognizing that the Congress is going to enact sugar legislation in some form to protect the domestic industry, we believe that the proposed revision in the method of determining the price objective of section 201 will be more equitable than the present provisions of the

act, which, in our opinion, have resulted in an unnecessary inflationary spiral in sugar prices.

In our testimony to the House committee, we recommended that the Secretary in applying the new pricing provisions should be required under section 202(g) to change his quota determination only after the passing of 10 consecutive marketing days during which period the average price of raw sugar changed plus or minus 5 percent from the average price objective for the 2 preceding calendar months. We urge this committee to accept our recommendation of 10 consecutive days and 5 percent instead of the ranges established in the House bill of 7 days and 4 percent. We feel that a range of plus or minus 5 percent and a 10-day period are necessary to enable the sugar futures market to function properly. An active futures market is an essential tool for industries which have to commit themselves for sugar supplies for long periods ahead to protect their position through the use of forward contracts. The 5-percent price fluctuation up or down provides a reasonable range of prices and the 10-day period before a quota adjustment is required by the Secretary will avoid his having to take action based on a temporary market condition such as one or two distress cargoes or some other temporary market feature, and it strongly discourages potential manipulation.

H.R. 8866 would make substantial changes in the Sugar Act by directing the Secretary to take certain actions to assure prompt findings of fact and reallocation of deficits in producing areas. Reluctance on the part of the Secretary promptly to reallocate known deficits each year has distorted the supply lines and contributed to the upward pressures on sugar prices. We believe the revisions provided by H.R. 8866 will improve that situation.

We would, however, suggest to the committee on further amendment in the language of section 5 of the House bill, which amends section 204 of the act, covering deficit reallocations. It is our recommendation and the purpose of the amendment that the Secretary be required to review the deficit situation at least every 60 days, if not compelled by circumstances to do so more frequently. The language of the House bill as it emerged from the committee enables the Secretary to avoid making his first such finding of fact until after January 1 of each year, which is 120 days after his initial quota determination in the proposed amendments to the Sugar Act. To make certain that the Secretary does take this action every 60 days, which we feel is essential, we suggest that beginning on line 12 of page 11 of H.R. 8866, the words "after the beginning of the quota year" be deleted and the word "thereafter" be inserted. This change is needed to implement effectively the purpose of this amendment.

We also recommend, as we did to the House committee, that sugar for all animal use be removed from the quota. Sugar for livestock feed is already exempt and such a provision would equalize the treatment for all sugar for animal use. This would involve an additional 40,000 to 50,000 tons annually, all of which would be refined or processed in the United States. H.R. 8866 does not provide such an exemption, and we recommend it for favorable consideration by your committee.

We note with approval the amendment to section 404 of the act, which for the first time would provide for judicial review of the Secretary's actions under the Administrative Procedures Act. Lack of such a provision has been a serious deficiency in the act, in our opinion,

and we are glad the Agriculture Committee saw fit to give those covered by this act, including consumers, the right of appeal to the courts in appropriate cases.

We concur in the termination date of 3 years from December 31, 1971, as provided in the House bill. The pattern of sugar supplies is changing constantly. Because of this, we believe Congress should review the Sugar Act at least every 3 years. Accordingly, we strongly recommend that the act be extended for only a 3-year period to December 31, 1974.

With reference to the foreign sources of raw sugar to this country, the Sugar Users Group has always taken the position that if there is to be a quota system for sugar coming into the United States, the principal criteria for giving quotas to any country should be the ready availability of sugar in that country when required by the United States and willingness on the part of such country to make timely shipments. This, of course, presupposes adequate inventories at all times in foreign countries to qualify for inclusion in the quota system. To that end, we believe the permanent reallocation of a substantial portion of the Cuban sugar reserve, on a permanent basis to these countries, will provide them with sufficient incentive to make long-term investments in physical facilities to assure our needs for the future.

Because we as sugar users are concerned that at any given moment in time there could be another disruption of sugar supplies from one source or another, it has been our view that quotas should be established for any country which meets the tests of sufficiency of supply, willingness to make timely shipments and maintenance of adequate reserves. We have not presumed to suggest any particular quota for the foreign countries which supply us. We have felt it not to be within our province to do so.

We urge that no country participate on a basis of less than 12,000 short tons, raw value. We further suggest that the quotas for countries with small quotas be established on a specific tonnage basis. This will prevent minute fragmentation of less than shipload quantities resulting from a percentage pro rata share in any increase in quota or reallocation of deficits.

We strongly emphasize and repeat that the far-reaching control program of the Sugar Act over this basic commodity can be justified only to the extent it achieves the major objectives which we have cited here. In establishing quotas, the overriding consideration should always be adequacy of supply at reasonable prices from all participating suppliers whether foreign or domestic.

Mr. Chairman, may I again express my appreciation to you and the committee for your courtesy in hearing our presentation.

The CHAIRMAN. Senator Anderson?

Senator ANDERSON. I have no questions.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Yes; I just have one, Mr. Chairman.

In your last statement, your summary, you mentioned adequacy of supply at reasonable prices. Are you interested in stability, reasonable stability of prices?

Mr. MOUNT. Yes, sir; reasonable stability.

Senator BENNETT. You would not want to see the price of sugar change several times a day. You could not operate successfully, you could not operate forward with that kind of situation, could you?

Mr. MOUNT. That is correct, Senator. However, we should say as we pointed out in our statement, we do need in certain industries, particularly, which I am speaking for here today, we do need a viable sugar futures market, where they can have an opportunity to price forward. The act in the way the administration has been in the last few years has practically forbidden any futures transactions or trade in the industry.

Senator BENNETT. You feel that your forward figure of 5 percent would provide you with an adequate futures market?

Mr. MOUNT. Yes; we feel so. We have had adequate information from the exchange that that is their opinion also, this prior concept.

Senator BENNETT. No further questions.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. What are the animal uses to which you refer?

Mr. MOUNT. Various types of pet and other foods. Today, livestock, the definition of which includes horses and various types of livestock, both on the farm and off, are included under the definition of quota exempt. We understand that beeves are considered as livestock at the present time. Other animal uses are not. This is a question where some of the members of the group who are very heavily involved in the manufacture of all types of animal foods would like to have it excluded for all purposes, not just for a few.

Senator CURTIS. And some of those concerns are members of your association for whom you speak today?

Mr. MOUNT. Yes; they are members of one of these 12 associations. Some of them are members of several associations.

Senator CURTIS. That is all, Mr. Chairman.

The CHAIRMAN. Senator Byrd, any questions?

Senator BYRD. Just one brief question, Mr. Chairman.

Mr. MOUNT, you advocate taking the quota away from Cuba and you want a permanent reallocation of the Cuban quota on a permanent basis to the other countries?

Mr. MOUNT. Senator, we recommended taking a substantial portion of it. If I may, I will quote the testimony as presented to the House committee. The industrial sugar users recommended that approximately a third of the Cuban set-aside or 500,000 tons out of a million and a half tons be permanently reassigned to the other supplying countries.

Senator BYRD. I have right much sympathy for the people of Cuba. They were deceived by Castro and this country helped to deceive them, the New York Times helped to deceive them. I have right much sympathy for the individual citizen in Cuba. I would sort of hate to see us take away any opportunity to get back on the quota system with the United States.

Mr. MOUNT. Senator, we do not feel that that should be the case, that it should be taken away. At the time of the 1964-65 amendments to the Sugar Act, when Cuba was established with a quota of 50 percent and then temporarily suspended, the quota was, their quota at the time was roughly in the neighborhood of one and a half million tons under the demands of the market at that time. We are suggesting

that our primary aim is to be assured of supplies of sugar at all times from all areas of the world, wherever the Congress may decide receives a quota.

Senator Talmadge, in a question to Mr. Marshall, asked about whether or not there was beginning to be an overall tight world supply. In our opinion, the world demand, from the figures we see, the world demand is increasing at a more rapid rate than world production. In order to assure adequate supplies for the U.S. consumers, which we are representing a large part of here, we feel that these countries who have filled the quotas both permanent and temporary in the last 10 years should be given some incentive of a permanent nature so that they will continue to always have the supplies we need when we need them.

Senator BYRD. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Gentlemen, the Senate is voting right now and I think the Senators, if they want to be on record on that vote, we had better plan to go over there.

Senator BENNETT. With a 20-minute time spread and 15 to go, I will be glad to stay here and wait until somebody comes back to relieve me if some of you fellows will go rapidly.

The CHAIRMAN. Fine. We will call the next witness, then, and I will stay for a few minutes myself.

Senator Burdick has a brief statement.

#### **STATEMENT OF HON. QUENTIN N. BURDICK, A U.S. SENATOR FROM THE STATE OF NORTH DAKOTA**

Senator BURDICK. Mr. Chairman, members of the committee, thank you for giving me the opportunity to discuss briefly the extension of the Sugar Act. The bill H.R. 8866, as approved by the House of Representatives, extending the Sugar Act for 3 years, is basically sound legislation. This bill is of great importance to a large segment of the agricultural producers of the United States. It is a growing industry, one whose economic health should be guarded.

There are those who suggest that our domestic sugar industry should, in effect, be frozen at its present level of production. Or they suggest that the domestic industry should have a lower level of growth than now exists. H.R. 8866 has taken a realistic approach to the need for sugar farmers to share fairly in the growth of total sugar consumption as our population grows. Since 1956, American farmers have participated in these annual increased requirements and now are being permitted to market 65 percent of the consumption growth accruing above a given benchmark figure. The American sugar farmers have demonstrated their ability to meet their obligations to American consumers in a growing market.

Therefore, Mr. Chairman, I would like to take strong exception to one of the recommendations made by the Department of Agriculture witness at the opening of this hearing. That is the recommendation that the 230,000 tons of market growth represented by sugar requirements between 11.3 and 11.53 million tons be assigned in its entirety to the foreign countries. This flies straight in the face of the interests of our domestic sugar producers.

American sugar beet farmers have assumed a major share of the responsibility to meet market needs every year. On the basis of total annual sugar consumption, the American beet sugar industry has fulfilled its obligations to the American consumer. And sometimes, in the face of adversity.

For instance, in 1969, Mother Nature played a cruel trick on beet farmers in the Rocky Mountain area. Unseasonable early snows, followed by freezing weather, delayed harvest and thus caused deterioration of most of the crop in some of the area's prime sugar beet producing sections. And those beets that were salvaged suffered the effects of the unseasonal weather insofar as sugar content and extraction factors were concerned.

Nevertheless, total beet sugar production from that crop was adequate to meet the industry's 1970 assigned quota obligations and provide sufficient carryover of sugar to assure adequate supplies.

Some effects of that crop disaster are still being felt. The planted acreage in the area is today somewhat below its historical average. But the slack is being taken up by beet growers in other areas, a virtue of the diversity of the industry. So there is little doubt that the industry, as a whole, will fulfill its obligations under the proposed Sugar Act.

I represent the State of North Dakota where the Red River Valley is ideally adapted to the production of sugar beets. The sugar beet production and processing of 1 acre of dry land is estimated to generate \$465.47 per acre in the form of business activity and employment. This represents an increase in income above that produced by the next best alternate crop in the Red River Valley. Any proposal to freeze the size of the share of sugar by these producers is a blow at the heart of the economic growth of North Dakota.

I trust that this committee, Mr. Chairman, will look very closely at this suggestion to halt the progress of a responsible American industry, especially at a time when the economic policies followed by this administration have brought us to a state of simultaneous high levels of unemployment and simultaneous inflation.

Also, I must object to section 6 of H.R. 8866 which, in referring to the location of new beet processing facilities, states that "priority shall be given to processing facilities located or to be located in or adjacent to growing areas where processing facilities were closed during 1970 or thereafter."

Such a provision discriminates against growers in the Red River Valley of North Dakota and Minnesota. If arrangements can be made to finance the expansion of existing plants or the establishments of new sugar plants in that area, I believe they should have the right to compete fairly and squarely with proposals presented from any other part of the country.

Mr. Chairman, I know that this committee will take a national and objective view of this section of the bill.

Again, let me thank you for this opportunity to express my views.

The CHAIRMAN. Thank you, sir.

I have a letter from Senator Dominick which I will submit for the record at this point. He supports the same point you have testified to, Senator Burdick.

(The letter referred to follows:)



U.S. SENATE,  
Washington, D.C., June 14, 1971.

HON. RUSSELL B. LONG,  
New Senate Office Building,  
Washington, D.C.

DEAR RUSSELL: I understand the Finance Committee has scheduled hearings this week on H.R. 8866, the Sugar Act Amendments of 1971. I would like to express to you my views on one issue which will be involved.

As you know, one of the provisions of the 1971 amendments is that 300,000 tons of the 800,000-ton Puerto Rican deficit, which has heretofore been divided among foreign countries, will be allotted to the domestic cane industry. The administration has proposed that the 300,000-ton reduction in foreign quotas be compensated for by freezing beet industry quotas at present levels and allowing its share of the growth in domestic consumption to accrue to foreign quotas.

Under current law, the beet industry is entitled to 47 percent of the annual increase in domestic consumption. Reallocation of this growth to foreign countries would result in a loss to the beet industry, approximating 300,000-450,000 tons over the life of the act, and would, of course, have serious economic impact. The House Agriculture Committee rejected this proposal, and I hope your committee will do the same.

Best personal regards.  
Sincerely,

PETER H. DOMINICK,  
U.S. Senator.

The CHAIRMAN. The next witness is Mr. Arnold Mayer, legislative representative, Amalgamated Meat Cutters and Butcher Workmen of North America, AFL-CIO.

**STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE,  
AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN OF  
NORTH AMERICA (AFL-CIO)**

Mr. MAYER. Mr. Chairman, Senator Bennett. I greatly appreciate the opportunity to testify before the committee on the Sugar Act. We have prepared testimony and we respectfully ask that it be placed in the record. I will briefly summarize that testimony in order to comply with the 10-minute rule.

Our union, despite its name, is also in the sugar industry. We have members in refineries and processing plants and, hopefully, will soon have members among fieldworkers.

I am here today to seek some equity for sugar farm and processing workers within the framework of the Sugar Act. Although the Sugar Act is aimed at maintaining the income of the participants in the sugar industry, the workers in this industry are the odd men out. The wages in the industry are quite low, very low. They range from \$1.50 an hour to \$1.85 in sugar beets, \$1.75, \$2 in Florida. But the last wages are not paid to many, if to any, American workers, since most of the fieldworkers in Florida are foreign workers. I will get to that in a minute.

The earnings which are produced, since this is seasonal work, put the sugar field workers and the processing workers far below the poverty level. They would make the workers eligible for welfare supplements under the bill that has been reported by the House Ways and Means Committee. The wages are that low.

Although the work is similar to some in the manufacturing industry, although the work is generally skilled, the wages are far below what is paid in industry. Tractor drivers, for example get \$1.55, \$1.60 an hour.

That it is possible to pay more decent wages and to provide fringe benefits is shown by the experience in Hawaii. There, a union—not ours—another union has the whole sugar industry organized. Wages by the end of the year will range from \$2.49 to \$4.49 an hour. The Hawaii industry, pays the usual fringe benefits, which are paid by other industries in this country—pensions, health and welfare, vacations, holidays, et cetera.

The problem is not just a matter of wages, though. There are other factors in this industry or in parts of the industry. For example, in Florida, the work is predominantly, if not completely, done by foreign workers. The wage is set at a level which is sufficient to bring workers from Jamaica and other Caribbean islands; it is not adequate to attract sufficient U.S. workers. However, the industry does not have to raise wages in order to attract more U.S. workers as other industries have to. The workers are brought in under a contract, at least with the help of the Federal Government, from these foreign countries. These workers are semicaptive. By that, I mean they must work for the association that has contracted for them. They cannot move on to another employer in the hopes of seeking higher wages. Their alternative to working for the particular group which has contracted for them is simply to go back to their island where there is extreme poverty and extreme unemployment.

In addition, there are a great many illegal aliens. There are an estimated 1 million illegal aliens working in the United States. There is no estimate of how many of them are in sugar. However, the testimony before the House committee was that there is a large number in sugar beets. These illegals are easily exploitable because they can be told that a simple call to the Immigration Service will land them in jail and back in the poverty of Mexico or wherever they come from. Most of them do come from Mexico.

The CHAIRMAN. I will have to call a brief recess for about 5 minutes so that Senator Bennett and I can vote. We will be right back.

Senator BENNETT. Maybe we can start it when one of our colleagues comes back.

(Recess.)

The CHAIRMAN. Mr. Mayer, you may continue.

Mr. MAYER. Thank you, Mr. Chairman.

I was talking about some of the problems the sugar field and processing workers face.

There is a so-called "bonus system" operating in some part of the sugar beet industry which is no bonus at all. Workers have wages withheld during the time they work and those wages are paid to them only if they stay the entire season and forgo the opportunity of earning more money during the latter part of the season when the pickings are lean. They must forgo the opportunity to go into other harvests and make more money. The bonus which they then get is their own money, which they have previously earned.

There are problems in some areas about prices that are charged in the company stores—prices for facilities, for housing, for food, and so on, and workers are kept continuously in debt. There are problems about housing. Housing is provided, but in many cases, they are dilapidated shacks.

There is a problem about the disputes machinery. If a worker has a dispute with his employer about his wages, if he has a claim that he did not get the minimum wage paid to him or the right amount of wages, the only place he can go to is the local ASCS committee. This panel is made up of only local growers. He, therefore, has no recourse to a fair or impartial consideration of his complaint.

Basically, there is also a problem in the setting of the minimum wages, in the setting of the conditions. The Department of Agriculture has a conflict of interest in dealing with the problems of workers' wages and conditions because the major concerns of the Sugar Division or the Department are the problems of the growers and processors. It is responsible for the Sugar Act, as a whole. Therefore, the interests of the workers are necessarily secondary to the Division or Department.

These are some of the problems, Mr. Chairman and members of the committee. We have proposed a series of recommendations at the end of our statement covering wages and these other problems which I have discussed. Because of the limitation of time, I will not go into the recommendations, but they are in the statement. They do cover the factors we have discussed. We appeal to you to adopt these reforms in order to provide equity to sugar workers in the field and in the processing plants.

(The prepared statement of Mr. Mayer follows :)

The following is a summary of the testimony presented by Arnold Mayer, Legislative Representative, Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO), to the Senate Finance Committee concerning the need for farm labor amendments to the Sugar Act :

1. Although the Sugar Act is meant to protect the income of all participants in the sugar industry and although the industry is federally controlled, regulated and subsidized, fieldworkers and processing workers suffer from dire poverty and deprivation. Reform is needed.

2. Minimum wages set by the Agriculture Department are very low and produce incomes below the poverty level. Semi-captive foreign workers overwhelmingly dominate the work in one major cane area. Easily exploited illegal aliens are at times used with immunity for the employer. Workers are often overcharged for goods, services or facilities supplied them by the employer or his agents. Most laborers are continuously in debt. A fake bonus system uses the money some sugar beet workers have already earned to keep them from going to other harvests and getting a better income. The housing supplied often is substandard and dilapidated.

3. The procedure for setting the minimum wages and other administrative actions concerning workers' conditions are stacked against the laborers. The annual hearings concerning wages are a farce. The committees which have the obligation to hear disputes between workers and their employers are made up of local sugar growers. The workers' interests are of secondary concern to the Department and the specific Division which administers the labor provisions of the Sugar Act.

4. A series of recommendations is proposed for providing some equity and justice to sugar workers. We urge that they be added to the Sugar Act.

**STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO)**

My name is Arno'd Mayer. I am the Legis'ative Representative of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO).

The Ama'gamated is a labor union with 550,000 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 and fur industries.

## REGULATED INDUSTRY

We are appearing before the Committee today to urge legis'ation which will provide better conditions for farm and processing 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 contro'led, regulated and subsidized by the government. In the sugar industry, production quotas are set and enforced; federal payments of about \$91 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 \$55,000 a year. The legis'ation which Congress enacted last year makes sugar—alone among all the commodities—free of any payment limitation.

In 1970, 64 of the 39,625 individua's or firms receiving sugar payments got over \$55,000, according to the Department of Agriculture. They received \$16,257,000 out of the \$92,635,000 total payments. In other words, 1½ per cent of the producers got 18 per cent of the payments.

## DISTRIBUTION OF PAYMENTS

Here is the distribution of sugar payments in 1970 :

Payment	Number of producers	Amount received
Over \$1,000,000	3	\$3,414,707
Between \$750,000 and \$1,000,000	0	0
Between \$500,000 and \$750,000	3	1,568,067
Between \$200,000 and \$500,000	24	8,096,346
Between \$100,000 and \$200,000	12	1,723,504
Between \$55,000 and \$100,000	22	1,454,668
Between \$50,000 and \$55,000	10	522,588
Between \$45,000 and \$50,000	16	760,325
Between \$40,000 and \$45,000	12	503,840
Between \$35,000 and \$40,000	26	969,329
Between \$30,000 and \$35,000	28	902,365
Between \$25,000 and \$30,000	67	1,815,539
Between \$20,000 and \$25,000	110	2,464,211
Between \$15,000 and \$20,000	264	4,505,315
Between \$10,000 and \$15,000	690	8,325,648
Between \$7,500 and \$10,000	739	6,400,633
Between \$5,000 and \$7,500	1,649	10,046,171
Between \$4,000 and \$5,000	1,309	5,820,661
Between \$3,000 and \$4,000	2,166	7,438,347
Between \$2,000 and \$3,000	3,519	8,655,771
Between \$1,000 and \$2,000	6,555	9,483,860
Below \$1,000	22,401	7,713,425
Total	39,625	92,635,32

## 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 field and processing workers are deprived outsiders in the system of income protection by the government 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 direst poverty.

In Louisiana, the work performed by farm workers is mostly highly skilled. Production, cultivation and harvesting are mechanized. Two corporations, South Coast and Southdown, 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 \$1.55 an hour for tractor drivers and \$1.50 for all other workers. For harvest work, harvester and loader operators receive \$1.65 an hour; tractor drivers, truck drivers, harvester bottom blade operators and hoist operators \$1.60, and all other workers \$1.50.

For sugar beet work throughout the country, a minimum wage of \$1.85 an hour has been set for the 1971 season. Piece rates are also established and a worker can earn more, but the piece rates are based on the \$1.85 an hour standard.

#### FOREIGN WORKERS

In Florida, tractor drivers and principal operators of mechanical harvesting and loading equipment get a \$2.00 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 \$1.75.

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. Today, wages range from \$2.35 to \$4.25 an hour. Two additional increases in 1971 will bring the wage range to \$2.49 for the least skilled category to \$4.49½ an hour for the highest. 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 field and first processing 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 comparison 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 them 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 feel 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!

#### HOUSE TESTIMONY

In the absence of fair or impartial means of considering the laborers' complaints and in the absence of meaningful protection for them, many sugar fieldworkers are exploited. The following techniques, for example, were the subject of detailed testimony before the House Agriculture Committee in April:

The income of fieldworkers and processing workers are often reduced by the outlandishly high prices charged them on plantations or at work for housing, food, purchases in the company store, and other services or facilities. Workers are kept in debt and loan sharking is frequent.

In some sugar beet harvests, workers suffer from a fake "bonus system." Wages they have earned are withheld and they get the money only if they stay throughout the entire harvest. That means that during the last weeks, when the picking is extremely slim, workers are forced to forego higher incomes for work on other crops in order to get money which is already rightfully their own.

Aliens who have illegally entered the U.S. or are working illegally here compete with American fieldworkers. The illegal aliens are easily exploited since they can be quickly scared with the threat of a call to the immigration authorities. The employer is in no legal danger for transporting, hiring or working these illegals.

The provision of housing is often cited as an extra benefit for the sugar workers. But it is often little more than dilapidated shacks. A survey in Louisiana showed 62 per cent of the company-supplied housing had holes in the walls, 50 per cent had leaky roofs and 71 per cent had rats. The rents charged for the shacks are often extremely high and add to the debts of the fieldworkers.

#### FARM LABOR CONDITIONS

We could go on giving examples of how poorly farm workers are treated under this law, but we believe we have made our point and we shall not try your patience. Instead, we should like to state what these wages and conditions really mean:

In this government-controlled and subsidized industry, skilled workers earn only a fraction of the earnings of employees performing similar jobs in non-subsidized industries. And sugar field and processing workers rarely get the variety of fringe benefits which other workers receive, such as life and health insurance, pension, paid vacations, paid holidays and job guarantees.

The earnings of sugar fieldworkers put them far below the U.S. government's poverty line. Even year-round work at the minimum wages provided American sugar workers produces a poverty category income. But since this work is seasonal, the workers are far below the poverty line set by the U.S. government. In fact, a survey taken in Louisiana in January 1970 showed an average family to be composed of six persons and its income to be \$2,635 or only about two-thirds of the current poverty level.

## WELFARE ELIGIBILITY

Farm labor earnings from sugar are so low that most of the families will be eligible for welfare payments under the bill reported by the Ways and Means Committee of the other body. The income of these families generally does not even come near the \$4,110 limit for federal welfare supplements to the incomes of "working poor" families of four persons.

Wages in one area of production of this subsidized industry—Florida—are set at a level sufficient to attract hungry foreign workers, but not adequate to recruit a little less hungry domestic workers. To be more accurate, the wages are established so that the West Indian governments will supply workers.

U.S. workers will not do the work in the Florida swamps *at the wages offered*. In other industries—non-subsidized industries—wages must be raised until sufficient U.S. workers are attracted. That is the way the free enterprise system works. But not in the sugar industry, where a system of determined "fair and reasonable" wages is in effect.

Not only are sugar farm workers denied a decent standard of living, but they are generally without the fringe benefits now accepted in most other American industries. They are also exempted from the protections which most other workers enjoy, such as unemployment compensation, workmen's compensation, the right to organize into unions, and premium pay for overtime work.

The farm workers producing sugar are often provided housing, but what housing it is. Federal regulations set minimum standards for shelter if workers are recruited through the U.S. Employment Service. But if a recruitment is carried on without government help, even these standards do not apply.

## PROCESSING WORKERS

There is another group of workers in this industry who are legislatively discriminated against and who suffer from real poverty. They are the employees of the first processing operations. Their wages are low—often at the current Fair Labor Standards Act's minimum of \$1.60 an hour or slightly above. They work long hours during the season, but get no premium pay for overtime. They are vital to prevent crop spoilage and they put their muscle and efforts into quickly processing the crop into sugar ready for the refinery, but they are not recompensed at anything but a subsistence level.

## OUR RECOMMENDATIONS

Because of the facts we have presented, we respectfully urge the Committee to make the following changes in the farm labor provisions of the National Sugar Act:

1. Require that the sugar minimum wages (a) produce earnings at the very least above the maximum level at which a family of four is eligible for welfare payments in the forthcoming federal legislation, (b) be based—as a major criterion—on the wages paid for similar work in non-agricultural industries, (c) be sufficient to attract U.S. workers to all phases of sugar production in all areas of the nation and (d) account for increases in the cost of living and agricultural productivity.

2. Provide that the U.S. Secretary of Labor is responsible for enforcing the labor provisions of the Act and the regulations he would promulgate under it.

3. Assure that all workers employed in the production and processing of subsidized sugar are fully covered by state and federal laws which now protect non-agricultural workers, including full coverage under the Fair Labor Standards Act, National Labor Relations Act, Unemployment Compensation laws and Workmen's Compensation laws.

4. Require that at least the federal standards for housing for workers recruited by the U.S. Employment Service apply to all farm workers in the sugar industry for whom housing has been traditionally supplied by growers or their associations.

5. Provide a fair and impartial means for settling disputes between workers and employers over wages, charges for services and facilities and other work-related factors.

6. Make employers legally liable for hiring illegal aliens.

## EQUITY FOR WORKERS

Mr. Chairman and Members of the Committee, the changes we are urging you to write into the Act are moderate. They are not panaceas for the multiple poverty problems of field and first processing workers. We are sorry to say that these laborers will still be among the low paid workers in our nation—although no longer among the lowest paid.

These changes can be a start in bringing some equity to field and first processing workers in this subsidized, government-controlled industry. They will be able at last to share in the fruits of your and the rest of the federal government's decision to provide a basic defense against poverty and deprivation among the participants in the sugar industry. The workers will no longer be the odd men out in the government's benefits to this industry.

We believe they deserve this share. We hope you think so, too.

The CHAIRMAN. Thank you very much, sir.

Any questions, gentlemen?

Senator BENNETT. I have none.

Senator CURTIS. I have none.

The CHAIRMAN. Thank you very much.

The next witness will be Mr. John Bleke, vice president of the National Confectioners Association.

**STATEMENT OF JOHN H. BLEKE, VICE PRESIDENT, NATIONAL CONFECTIONERS ASSOCIATION; ACCOMPANIED BY JAMES MACK, COUNSEL**

Mr. BLEKE. Mr. Chairman, my name is John H. Bleke. I am president of Wayne Candies, a candy manufacturing company located in Fort Wayne, Ind., and appear as vice president and in behalf of the National Confectioners Association, which is the national trade association of candy manufacturers and suppliers of goods and services to the industry located throughout the United States. With me is Mr. James Mack, our counsel. You have our statement and I am going to highlight the statement as it is presented to you in order to stay within the time limit.

The purpose of my appearance is to request that the committee add an amendment to the Sugar Act extension to provide for an import quota on confectionery.

When the House Agriculture Committee held hearings on Sugar Act extension legislation earlier this year, I requested that committee to add a confectionery import quota amendment to the bill. The committee then did add such an amendment. After it had been added, Chairman Wilbur Mills of the Ways and Means Committee asked that it be deleted on committee jurisdictional grounds. Responding to this request, the House Agriculture Committee, by a 14-13 vote, did change its mind and remove the amendment. It was apparent that a majority of the committee favored the amendment on its merits but withdrew it because of the committee jurisdictional question which was raised by Mr. Mills. Your attention is invited to the language of the House committee report (H. Rept. 92-245) on page 8 in which the House Agriculture Committee explains its position. I will not read that to you; it is on the record.

Foreign produced confections marketed in the United States do not contain any U.S. produced sugar. They also do not contain, except in rare instances, any U.S. produced corn syrup, peanuts, dairy



products, almonds, filberts, walnuts, raisins, and other U.S. produced agricultural products.

Although 1970 statistics as yet are not available, according to the U.S. Department of Commerce the U.S. confectionery industry in 1969 used 1,493,660,000 pounds of sugar, 970,001,000 pounds of corn syrup, 376,183,000 pounds of chocolate coatings (which consists of cocoa beans, sugar and U.S. produced milk), 229,525,000 pounds of shelled peanuts, 28,734,000 pounds of almond kernels, 27,839,000 pounds of other nuts, and 58,790,000 pounds of fats and oils. Milk products are not reported by volume but with a declared value of \$64,045,000 (this is in addition to the milk products referred to herein as contained in chocolate coatings). The total dollar value of all agricultural ingredients used by the U.S. confectionery industry according to the U.S. Department of Commerce publication "Confectionery Manufacturers' Sales and Distribution 1969" was \$717,819,000.

As the committee well knows, only a small percentage of the world produced sugar is sold on a world market price basis, and yet it is world market priced sugar which is used in the manufacture of confectionery when the confectionery is produced abroad for shipment to the United States. Under the existing Sugar Act, quotes effectively prevent world priced raw sugar from entering the U.S. market. Likewise quotas prevent world priced refined sugar from entering the U.S. market. However, there is no quantitative limitation on confectionery being imported which is manufactured with world priced sugar. Under the Tariff Act of 1930, confectionery was dutiable at 40 percent. This duty continuously has been reduced, and when the full effects of the Kennedy Round International Negotiations are realized in January of next year, confectionery instead of being dutiable at 40 percent will be dutiable at only 7 percent except that solid chocolate items will be dutiable at only 5 percent.

As you are aware, the difference between the U.S. sugar price and the world market price practically all of the time is very substantial. Currently the United States spot raw price is 8.57 cents per pound in contrast to a world raw price of 4.11 cents per pound. Much of the time the disparity is even greater. At times the U.S. price has been approximately four times the world market price.

Not only is the price inequity readily apparent in the case of sugar but also concerning most of the other agricultural items used by U.S. confectionery manufacturers. This includes peanuts, dairy products, almonds, other tree nuts, and various other agricultural ingredients. We contend that amendment to the Sugar Act is the appropriate statute in which to place some limitation on the quantity of confectionery items which may be imported.

We want to make several points quite clear in connection with our request. They are as follows:

1. We are not attempting to prevent foreign confectionery manufacturers from selling in the U.S. market. We believe this market is one in which they should continue to participate and grow—that is, a market in which they should share but not be permitted to preempt because of unfair economic advantages due to much lower priced agricultural raw materials. The much higher prices which U.S. confectionery manufacturers must pay for ingredients than their foreign

competitors is because of the Sugar Act, price support and marketing agreements, and other programs of the U.S. Government.

2. We expect them to further increase their sales in the U.S. market not only quantitywise but also as a percentage of the total U.S. confectionery market.

3. Specifically, we recommend that they be permitted to increase their share of the market from the current approximately 4 percent to 5 percent of the domestic market. This would permit them to increase their sales in the U.S. market by approximately 25 percent above the 1970 level. Then as the U.S. market increases, they should be permitted to ship to the United States either a quantity equivalent to 5 percent of U.S. manufacturers sales or the average of imports for the 3 preceding years, whichever is the larger.

Our whole objective is to develop a basic formula for the sharing of the U.S. confectionery market just as for years Congress has adopted a formula for the sharing of the raw and refined sugar markets in the United States.

Therefore, we believe that now that confectionery imports have developed to a level to be significant, with the danger signals for drastically increased imports obvious, that Congress in all fairness both to the domestic industry and foreign confectionery manufacturers should act to develop guide rules for future market sharing before foreign manufacturers and importing interests have expended sufficient funds to contend that they have a vested interest. We believe that action should be taken which will allow them to grow, but which will make it clear the extent to which they should make investment for further expansion during the period of the next Sugar Act extension, that it be known to them. If our recommendation is adopted, then just as this committee reviews raw and refined quotas each time the Sugar Act is extended, the confectionery import quota could also be reviewed at the same time with appropriate adjustments made according to the requirements.

We urge adoption of an amendment to section 206 of the Sugar Act which would impose an import quota on confectionery to be an average of the quantity of confectionery items imported during the 3 years immediately preceding, but in no event less than a quantity equivalent to 5 percent of U.S. manufacturers sales.

Mr. Chairman, that is our statement.

(Prepared statement follows:)

STATEMENT OF JOHN H. BLEKE, IN BEHALF OF THE NATIONAL CONFECTIONERS ASSOCIATION

Mr. Chairman, my name is John H. Bleke. I am President of Wayne Candies, a candy manufacturing company located in Fort Wayne, Indiana, and appear as Vice President and in behalf of the National Confectioners Association which is the national trade association of candy manufacturers and suppliers of goods and services to the industry located throughout the United States.

The purpose of my appearance is to request that the Committee add an amendment to the Sugar Act Extension to provide for an import quota on confectionery. It is recognized that the current Section 206 of the Sugar Act authorizes the Secretary of Agriculture to impose import quotas on sugar containing products under certain conditions and while according to the statute this authority is vested fully in the Secretary of Agriculture, we know that in connection with any administrative handling of an international trade matter that many governmental departments become involved and that it

becomes exceedingly difficult for any industry to receive reasonable import protection through an administrative process. Furthermore, the criteria required for an import quota on a sugar containing product under Subsection 206 (a) of the Sugar Act is that imports "will substantially interfere with the attainment of the objectives of this Act." We believe that this is an unreasonably strict requirement for obtaining an import quota on a sugar containing product.

When the House Agriculture Committee held hearings on Sugar Act extension legislation earlier this year. I requested that Committee to add a confectionery import quota amendment to the bill. The Committee then did add such an amendment. After it had been added, Chairman Wilbur Mills of the Ways and Means Committee asked that it be deleted on Committee jurisdictional grounds. Responding to this request the House Agriculture Committee by a 14-13 vote did change its mind and remove the amendment. It was apparent that a majority of the Committee favored the amendment on its merits but withdrew it because of the Committee jurisdictional question which was raised by Mr. Mills. Your attention is invited to the language of the House Committee Report (H. Rep. 92-245) on Page 8 in which the House Agriculture Committee explains its position.

Foreign produced confections marketed in the United States do not contain any United States produced sugar. They also do not contain, except in rare instances, any United States produced corn syrup, peanuts, dairy products, almonds, filberts, walnuts, raisins, and other United States produced agricultural products. For example, the U.S. Department of Agriculture regulation governing the export of peanuts (Announcement OC-10, Section XVII, Page 19) provides as follows:

**"I. Reentry; Transshipment**

"Peanuts exported as peanuts or as peanut products shall not be reentered by anyone into the United States in any form or product and shall not be caused by the purchaser to be diverted or transshipped to other than an eligible country in any form or product."

No objection is expressed to the foregoing regulation because obviously peanuts which are surplus to United States needs and which must be exported at severely depressed prices in comparison to United States prices cannot be permitted to reenter the United States in any form in order to protect the U.S. peanut price support program. Reference is made to the foregoing regulation only in explanation of my statement that only in rare instances are any United States produced agricultural commodities used in foreign produced confections imported into the United States.

Although 1970 statistics as yet are not available, according to the United States Department of Commerce the United States confectionery industry in 1969 used 1,493,660,000 pounds of sugar, 970,001,000 pounds of corn syrup, 376,183,000 pounds of chocolate coatings (which consists of cocoa beans, sugar and U.S. produced milk), 229,525,000 pounds of shelled peanuts, 28,734,000 pounds of almond kernels, 27,839,000 pounds of other nuts, and 58,790,000 pounds of fats and oils. Milk products are not reported by volume but with a declared value of \$64,045,000 (this is in addition to the milk products referred to herein as contained in chocolate coatings). The total dollar value of all agricultural ingredients used by the United States confectionery industry according to the United States Department of Commerce publication "Confectionery Manufacturers' Sales and Distribution 1969" was \$717,819,000.

As the Committee well knows, only a small percentage of the world produced sugar is sold on a world market price basis, and yet it is world market priced sugar which is used in the manufacture of confectionery when the confectionery is produced abroad for shipment to the United States. Under the existing Sugar Act, quotas effectively prevent world priced raw sugar from entering the United States market. Likewise quotas prevent world priced refined sugar from entering the United States market. However, there is no quantitative limitation on confectionery being imported which is manufactured with world priced sugar. Under the Tariff Act of 1930 confectionery was dutiable at 40 percent. This duty continuously has been reduced, and when the full effects of the Kennedy Round International Negotiations are realized in January of next year, confectionery instead of being dutiable at 40 percent will be dutiable at only 7 percent except that solid chocolate items will be dutiable at only 5 percent.

As you are aware, the difference between the U.S. sugar price and the world market price practically all of the time is very substantial. Currently the United States spot raw price is 8.57 cents per pound in contrast to a world

raw price of 4.11 cents per pound. Much of the time the disparity is even greater. At times the United States price has been approximately four times the world market price.

Not only is the price inequity readily apparent in the case of sugar but also concerning most of the other agricultural items used by United States confectionery manufacturers. This includes peanuts, dairy products, almonds, other tree nuts, and various other agricultural ingredients. We contend that amendment to the Sugar Act is the appropriate statute in which to place some limitation on the quantity of confectionery items which may be imported. The United States confectionery manufacturing industry has not been seriously injured from confectionery imports, but we do not want to be injured and in the absence of import quota provisions, there is a built-in situation whereby confectionery imports could and very likely will escalate tremendously. Currently confectionery imports represent a quantity equivalent to approximately four percent of domestic industry sales. However, with the tremendous economic advantage enjoyed by foreign confectionery manufacturers because of the much lower prices for which they may purchase the agricultural products used to manufacture confectionery, the quantity of imports could increase precipitously.

We want to make several points quite clear in connection with our request. They are as follows:

1. We are not attempting to prevent foreign confectionery manufacturers from selling in the United States market. We believe this market is one in which they should continue to participate and grow—that is, a market in which they should share but not be permitted to pre-empt because of unfair economic advantages due to much lower priced agricultural raw materials abroad over which United States manufacturers have no control. The much higher prices which United States confectionery manufacturers must pay for ingredients than their foreign competitors is because of the Sugar Act, price support and marketing agreements, and other programs of the United States Government.

2. We expect them to *further* increase their sales in the United States market not only quantity wise but also as a percentage of the total United States confectionery market.

3. Specifically we recommend that they be permitted to increase their share of the market from the current approximately four percent to five percent of the domestic market. This would permit them to increase their sales in the United States market by approximately 25 percent above the 1970 level. Then as the United States market increases, they should be permitted to ship to the United States either a quantity equivalent to five percent of United States manufacturers sales or the average of imports for the three preceding years, whichever is the larger.

Our whole objective is to develop a basic formula for the sharing of the United States confectionery market just as for years Congress has adopted a formula for the sharing of the raw and refined sugar markets in the United States.

We think we are at a critical point. When imports of an item are very small as a percentage of domestic industry sales such as one percent, invariably it is stated that the affected United States competitive industry should not be concerned because after all imports are very small. There is merit in such a contention. Likewise when imports begin to reach a substantial level such as perhaps ten percent and the domestic industry rightfully becomes seriously concerned, then importing interests frequently can be heard to state that they then have a vested interest in the market having built up channels of supply and distribution with sales forces and warehouses. There is also merit in this contention. Therefore, we believe that now that confectionery imports have developed to a level to be significant, with the danger signals for drastically increased imports obvious, that Congress in all fairness both to the domestic industry and foreign confectionery manufacturers should act to develop guide rules for future market sharing before foreign manufacturers and importing interests have expended sufficient funds to contend that they have a vested interest. We believe that action should be taken which will allow them to grow but which will make it clear the extent to which they should make investment for further expansion during the period of the next Sugar Act extension, that it be known to them. If our recommendation is adopted, then just as this Committee reviews raw and refined quotas each time the Sugar Act is extended, the confectionery import quota could also be reviewed at the same time with appropriate adjustments made according to the requirements.

We urge adoption of an amendment to Section 206 of the Sugar Act which would impose an import quota on confectionery to be an average of the quantity of confectionery items imported during the three years immediately preceding but in no event less than a quantity equivalent to five percent of United States manufacturers sales.

#### SUMMARY OF PRINCIPAL POINTS

1. Section 206 of the current Act which pertains to import quotas on sugar containing products should be amended to impose an import quota by statutory formula on confectionery imports.

2. The confectionery import quota recommended would be a quantity equivalent to five percent of United States manufacturers sales in the preceding year or an average of confectionery imports for the three preceding years, whichever is higher.

3. The proposed confectionery import quota is not designed to stop imports or even to prevent them from increasing, but only to keep such imports within reasonable bounds. 1970 imports represented a quantity equivalent to approximately four percent of United States manufacturers sales and the proposed import quota would allow imports to increase to at least five percent of United States manufacturers sales during the period of the next extension of the sugar Act.

4. The Sugar Act prevents world priced raw sugar from entering the United States market. It also prevents world priced refined sugar from entering the United States market. However, an unlimited quantity of confectionery may be entered which uses world priced sugar at a very low import duty. An import quota should be imposed to limit such imports.

5. The import quota on confectionery is further justified because in addition to sugar, United States confectionery manufacturers also must pay much higher prices for most of the raw agricultural commodities they use in the manufacture of confectionery in comparison to the prices for which these same raw materials may be purchased by foreign confectionery manufacturers when the confectionery is to be shipped to the United States.

Senator BENNETT. Mr. Chairman, I would just like to ask one question: Can you supply the committee with some kind of record showing the source of imports into the United States, which areas of the world are—

Mr. BLEKE. Well, we can give you some idea what they are. Basically, England is the largest supplier. Then comes Canada, then after that, I think you will find Holland, Germany, and several of the countries in succession that are supplying the confectionery products in the United States.

Senator BENNETT. You do not have any figures on the total quantity.

Mr. BLEKE. We have figures of the total quantity if you would like to have them, sir.

I have a report which we can, which is available to the committee and we can make sure you have it. It is a digest of confectionery and sweetened chocolate imports from the year 1948 on through 1970.

Senator BENNETT. Those are totals, but I meant totals from countries.

Mr. BLEKE. All right.

Senator BENNETT. I am not interested in the overall total. That is obviously available, but I am curious about the countries from which it comes.

Mr. BLEKE. I am going to ask Mr. Mack, who is more familiar with this—

Senator BENNETT. It would be satisfactory to supply that for the record, rather than have it read in.

Mr. BLEKE. We have it available right here.  
 Senator BENNETT. Will you submit it for the record?

Mr. BLEKE. Yes, we will.

(The following was subsequently supplied for the record:)

NATIONAL CONFECTIONERS ASSOCIATION  
 OF THE UNITED STATES, INC.,  
 Washington, D.C., June 18, 1971.

Mr. TOM VAIL,  
 Chief Counsel, Senate Finance Committee,  
 U.S. Senate,  
 Washington, D.C.

DEAR MR. VAIL: Following my statement yesterday to the Finance Committee during Sugar Act extension hearings, Senator Bennett inquired and I agreed to supply for the record the sources by country of origin of confectionery imports. Confectionery imports involve three tariff paragraphs, namely, solid chocolate candy, candy containing chocolate but not solid chocolate, and candy not containing chocolate. The data which is that of the United States Bureau of the Census is attached for the calendar year 1970.

Respectfully submitted.

JOHN H. BLEKE.

Enclosure.

1970 IMPORTS

156.30 CHOCOLATE SWEETENED EXCEPT BARS OR BLOCK WEIGHING MORE THAN 10 POUNDS OR MORE EACH

Countries	Pounds	Value	Countries	Pounds	Value
Canada.....	5,955,690	\$2,401,050	Netherlands.....	2,745,150	\$1,680,333
Mexico.....	63,715	42,199	Belgium.....	3,663,315	1,416,243
Dominican Republic.....	993,122	157,775	France.....	43,067	25,318
Trinidad.....	18,600	2,999	West Germany.....	1,654,720	947,330
Colombia.....	31,765	12,000	Austria.....	65,289	59,465
Venezuela.....	2,540	1,332	Czechoslovakia.....	304,037	137,060
Brazil.....	55,115	35,000	Hungary.....	4,440	2,726
Argentina.....	5,732	3,250	Switzerland.....	1,091,930	801,029
Iceland.....	1,656	985	Italy.....	1,275,380	951,522
Sweden.....	1,901	1,274	Greece.....	8,072	4,224
Norway.....	24,587	12,481	Israel.....	290,609	169,567
Finland.....	12,129	8,096	Japan.....	50,808	32,897
Denmark.....	11,284	8,952			
United Kingdom.....	14,151,769	3,172,902	Total.....	52,309,710	15,597,779
Ireland.....	19,783,288	3,509,770			

157.20 CANDY AND OTHER CONFECTIONERY NOT SPECIALLY PROVIDED FOR NOT CONTAINING COCOA OR CHOCOLATE

Countries	Pounds	Value	Countries	Pounds	Value
Canada.....	4,808,000	\$1,300,002	Switzerland.....	1,237,876	\$877,405
Mexico.....	373,121	90,805	Poland.....	1,389,849	224,362
Nicaragua.....	1,920	307	U.S.S.R.....	7,936	1,693
Jamaica.....	18,820	2,940	Spain.....	1,674,054	1,466,383
Dominican Republic.....	151,885	30,383	Portugal.....	3,619	576
Barbados.....	1,872	912	Italy.....	2,529,657	911,119
Colombia.....	2,839,201	450,925	Greece.....	149,795	50,213
Venezuela.....	767	262	Turkey.....	1,985	945
Chile.....	22,027	6,972	Lebanon.....	7,757	2,639
Argentina.....	1,070,537	213,881	Iran.....	49,942	28,277
Sweden.....	5,174,415	1,140,015	Israel.....	636,920	158,543
Norway.....	21,301	12,427	India.....	88,181	14,325
Finland.....	2,091,999	536,337	Philippine Republic.....	2,732	638
Denmark.....	3,424,618	923,908	Korean Republic.....	37,230	18,993
United Kingdom.....	30,299,298	7,743,009	Hong Kong.....	1,782,042	625,525
United Kingdom.....	17,226	5,795	China Taiwan.....	2,400	1,020
Ireland.....	325,628	74,408	Japan.....	562,292	267,754
Netherlands.....	7,196,828	1,953,200	Australia.....	30,066	12,409
Belgium.....	2,200,864	531,865	New Zealand.....	47,333	12,613
France.....	1,198,774	513,500	Republic of South Africa.....	31,680	4,710
West Germany.....	1,477,342	531,429			
Austria.....	1,531,385	408,467	Total.....	75,580,488	21,363,220
Czechoslovakia.....	1,059,314	211,329			

## 157.40 CANDY AND OTHER CONFECTIONERY NOT SPECIALLY PROVIDED FOR CONTAINING COCOA OR CHOCOLATE

Countries	Pounds	Value	Countries	Pounds	Value
Canada.....	7,716,551	\$4,715,273	Austria.....	320,719	\$176,534
Canada.....	288	347	Czechoslovakia.....	35,470	8,783
Mexico.....	310,698	94,595	Hungary.....	12,327	4,104
Dominican Republic.....	2,604	486	Switzerland.....	508,133	380,539
Colombia.....	193,001	36,414	Poland.....	204,136	38,614
Venezuela.....	11,152	7,540	U.S.S.R.....	2,204	913
Argentina.....	63,628	13,450	Spain.....	113,781	108,174
Sweden.....	411,205	139,461	Italy.....	780,504	815,254
Norway.....	62,101	42,310	Greece.....	11,503	9,171
Finland.....	1,110,862	335,382	Iran.....	26,176	11,998
Denmark.....	238,024	117,137	Israel.....	371,789	139,811
United Kingdom.....	10,253,229	4,256,667	Korean Republic.....	2,150	675
United Kingdom.....	3,024	1,018	Hong Kong.....	6,612	3,542
Ireland.....	857,400	327,287	Japan.....	53,275	28,533
Netherlands.....	717,725	441,329	Australia.....	4,678	2,834
Belgium.....	96,414	52,847	New Zealand.....	25,460	7,255
France.....	27,899	19,943			
West Germany.....	4,052,407	1,765,235	Total.....	28,607,809	14,103,455

Senator BENNETT. Mr. Chairman, that is all I have.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Is it not true that all countries permit sugar selling for world export reentry?

Mr. BLEKE. Yes; I think that is true.

Senator CURTIS. Now, is it also true that some countries give that same treatment to sugar coming in that is manufactured into confectionery for export?

Mr. BLEKE. Yes.

Senator CURTIS. Do you know whether that is true or not?

Mr. BLEKE. I think that is true, yes.

Senator BENNETT. That is why I wanted the list of countries. We can check to see whether it is true, whether it is applied to each country.

Senator CURTIS. Sugar is the principal ingredient in all things that come under the term "confection?"

Mr. BLEKE. It is one of the primary ingredients, yes.

Senator CURTIS. What sort of definition does our Customs Service give to confection, do you know?

Mr. BLEKE. Sugar contained in part. Maybe Mr. Mack could help me on more specific things.

Mr. MACK. There are several tariff paragraphs under which various types of confectionery are included. One is solid chocolate, another is confections not containing chocolate. A third one is confectionery containing chocolate. It is the three categories that we are talking about combined.

Senator BENNETT. It does not include biscuits?

Mr. BLEKE. No; not by U.S. definition.

Senator CURTIS. Well, I concur with the position taken by the House Agriculture Committee in the first instance. As a matter of fact, I have introduced your amendment but it has not been printed yet and has not arrived.

Mr. BLEKE. We are very appreciative of that.

The CHAIRMAN. Thank you very much, gentlemen. We are pleased to have you here.

The next witness will be Mr. Wesley E. McDonald, Sr., attorney for Felix Benitez Rexach.

We are pleased to see you are accompanied by Mr. Harold Cooley, who was formerly chairman of the House Agriculture Committee.

**STATEMENT OF WESLEY E. McDONALD, SR., ACCOMPANIED BY  
HAROLD D. COOLEY, ATTORNEYS FOR FELIX BENITEZ REXACH**

Mr. McDONALD. Mr. Chairman, as you have announced, by way of introduction, my name is Wesley E. McDonald and my associate in this proceeding is Mr. Harold Cooley. I know most of you are familiar with him. I have been engaged in the practice of law in trial work in the District of Columbia since January, 1944, and have also been a member of the bar of the State of Virginia since 1938.

We are here today to talk about sugar, but not in the sense of trying to get a quota of sugar for anyone but to try to ask you gentlemen of the committee to see that the provisions of a statute that is now on the statute books is enforced so as to give some relief to our client, Mr. F. Benitez Rexach, who is an American citizen now living in the Dominican Republic. We appeared before the House Agriculture Committee asking them to see that the provision of that act with respect to withholding sugar quotas from countries who have expropriated and seized American citizens' property, that it is withheld or reduced until such time as they make restitution as a result of arbitration and conciliation. Unfortunately, and totally without any understanding, the committee practically wrote into H.R. 8866 all the provisions of the Sugar Act with respect to this section we are talking about, 408(c), and even strengthened it by providing for setting up of a collection agency and the establishment of a fund to pay to the people who lost their property by seizure and expropriation. But unfortunately for Mr. Rexach they put into 8866 what amounts to a statute of limitations that really, in effect, as far as he is concerned, is ex post facto in nature, because they say that these provisions of this new bill, H.R. 8866, shall only be retroactive to January 1, 1969.

Now, you will see from reading my brief, and I will try to, by way of summary, give you the highlights of this unfortunate situation, this man, all of his property in the Dominican Republic on January 30, 1962, was seized by the Dominican Government. It was seized under a statute, a spurious claim against the man, was seized with no bond posted, and was held until the statute was held unconstitutional by the proper courts of Santo Domingo in 1966.

The State Department even demanded bond in the matter to secure and protect damages, which bond was never placed by the Dominican Government.

Now, they seized the largest dredge in the Indies at that time, they operated it for 5 years, they seized the man's shipyard, his graving dock, his private yacht, they even seized his home and his bank accounts and practically took everything but his bed. From that time on, Mr. Benitez, through counsel in the Dominican Republic and through my efforts, which have proved totally a failure, acting through the State Department—and I say this with all due respect to the gentleman down there. They have been courteous, they have been kind and tolerant of my attempt to help this man, but in the ultimate, no good has come from it.



Now, this statute that I referred to, which is known as the Belcher amendment, which was incorporated and made a part of the Sugar Act of 1965, provides for the withholding of this sugar quota and reducing it from these people and it provides that they must arbitrate and conciliate and go through conciliation in an effort to iron out the differences. And it went on to say that on failure to do that, the President shall do these things I spoke about.

Now, three Presidents of the Dominican Republic Government have recommended arbitration in these cases. The present President, Mr. Balaguer, has recommended on two or three times and appointed commissions to do something. Nothing ever has happened. I have interceded time and time again. The last time I tried to do something for this man was about 2 months ago. I begged the head of the, the Director of Caribbean Affairs to please contact the ambassador down there and tell him it was the opinion of the Department of State that the time had now come to let these people know that they felt this case should be disposed of.

The State Department has had one theme in this whole proposition; that is that the man must exhaust his judicial remedy. Let me tell you about that, if I may, gentlemen.

In 1967, he filed a suit in the courts in the Dominican Republic. That suit is there now today just as dormant as useless as it was before it was ever introduced.

Now, the judicial remedy is out down there. My brief will show you that during some of these proceedings from the time the property was seized and until it was released and given back to him, completely wrecked, without any income from the time it was seized, the man was denied the use of his property. It will show you that nothing was done and that during this time, a judge, one of the so-called judicial system, sued my man for \$100,000 while he had on his desk and before him for disposition the case that he was involved in, in which he was seeking relief down there.

Gentlemen, just picture, this whole background of this case pictures a bad background of what has been done. It would appear to me that the only way that equity can be served and justice can be done is to restore the provisions of the old act, make no statute of limitations, amend this provision in 8866 which we are talking about that appears on page 24 of the House bill, where they limit it and says that no payment of any claims arising subsequent to January 1, 1969—we ask you in the greatest sincerity to amend that and make it January 1, 1962, or some date whereby this man's claim could be reinstated.

All we ask, gentlemen, is that the matter be arbitrated. I do not know what arbitration will do down there. I do not know what will happen. But all this man wants is to have his case arbitrated, some form of conciliation.

On three occasions, this man appointed an arbitrator, sent a colonel in the U.S. Army Engineers, retired, to Santo Domingo. The whole process of arbitration was put in motion. Nothing ever happened. The Dominican Government did nothing.

On another occasion, he appointed a Dominican as his arbitrator; same old thing, nothing, purely abortive. Nothing has been done. We are in your hands, gentlemen, in this committee. If you in your wisdom do not see fit to amend that provision of this bill 8866 and strike down

that statute of limitations and this barring by this bill, this man who is 81 years of age, gentlemen, there is no hope for him unless something is done. We feel if you do that, we can go back to the State Department with a mandate from this Congress which will make them see that the Dominican Government does sit down and arbitrate this man's claims. That is all we are begging you for, gentlemen of this committee, to see that this man's case is arbitrated.

We thank you for the courtesy and privilege of appearing before you, gentlemen.

Senator Long, we hope you will read the brief. There were people here yesterday begging and pleading to help them down with Peru. Well, Peru has done something that these people have not done. Peru at least, as I understand the record, has made some gestures and made some offers to pay for the property that the Grace Co. said was expropriated. In this case, we cannot even get a hearing. And I beg of you, gentlemen, give us a chance.

Thank you very much.

(Complete statement follows:)

**SUMMARY OF BRIEF AND ARGUMENT BY COUNSEL IN SUPPORT OF BRIEF FILED FOR AND IN BEHALF OF FELIX BENITEZ REXACH**

Counsel for the claimant appears for the sole purpose of requesting this Honorable Committee to amend H.R. 8866 now pending before your Committee by striking out that part of the Bill which is found on page 24 wherein Section 408(c) is amended so as to give relief only for any claim arising out of seizure or expropriation of any American citizen's property subsequent to January 1, 1969. We are seeking an amendment which will make the law applicable to claims that are now pending prior to January 1, 1969.

All of the claimant's property was seized by the Dominican Government on January 30, 1962, without due process of law, and was used constantly without compensation or even reasonable maintenance until it was given back on December 22, 1966, during which time he had been denied the use and income from the same in the approximate amount of \$5,000,000. Counsel had endeavored in every way possible to obtain relief for his client, all without success whatsoever. Three different presidents have ordered arbitration of the matter and in every instance arbitrators were made available by Mr. Rexach, but each effort proved abortive.

We are asking that the statute now in existence be enforced. The so-called Belcher amendment should be just as good now as it was when it was incorporated into the Sugar Act of 1965. Unless the Senate, in its wisdom, strikes down this *ex post facto* provision, Mr. Rexach will be totally unable to proceed in any manner to obtain justice at the hands of the Dominican Government. If the Dominican Government would only arbitrate the matter I am confident beyond question it would be settled and disposed of in a manner that would serve equity and justice.

You, gentlemen of the Congress, are the only ones who can help our client, who is now eighty-one years of age.

WESLEY E. McDONALD, Sr.,  
HAROLD D. COOLEY,  
*Attorneys for Felix Benitez Rexach.*

**BRIEF**

**In Re:**

**FELIX BENITEZ REXACH**

*vs.*

**DOMINICAN REPUBLIC**

**STATEMENT OF QUESTION PRESENTED**

This claim is made on behalf of Felix Benitez Rexach, a citizen of the United States now residing in the Dominican Republic, arising out of an expropriation on January 30, 1962, of all of his property located in Santo Domingo, Dominican Republic.

Relief was sought of the House Committee on Agriculture under the provisions of 7 U.S.C., Section 1158(c) (4), which embraces and spells out the intent of the Congress of the United States in dealing with foreign governments in matters where they have expropriated property belonging to American citizens without compensation and which governments come before the appropriate committees of the Congress seeking certain sugar quotas as provided under certain legislation passed by the Congress dealing with the allotment of sugar quotas to foreign countries.

The specific language of the statute relied on for relief in cases of seizure or expropriation reads in part as follows :

“\* \* \* or to arrange with the agreement of the parties concerned for submitting the question in dispute to arbitration or conciliation in accordance with procedures under which final and binding decision or settlement will be reached and full payment or arrangements with the owners for such payment made within twelve months following such submission, the President *shall* suspend any quota, proration of quota, or authorization to import sugar under this Act.”

Your claimant now seeks an amendment to H.R. 8866 which would strike down the limiting of relief for expropriated property subsequent to January 1, 1969, and which would afford the same relief as now proposed but would make the target date to cover all claims of this character valid subsequent to January 1, 1962.

#### STATEMENT OF THE CASE

Your claimant, Feliz Benitez Rexach, is an American citizen, born and reared in Puerto Rico, where he has resided all of his life. He is by education and training an outstanding marine engineer and has engaged through the years in a great deal of engineering work in Puerto Rico. In 1935 Mr. Rexach undertook certain marine engineering and harbor installations in the Dominican Republic and continued until 1962 to perform work for the Dominican Government; in connection therewith he constructed many breakwaters and harbors for the Dominican Government.

Subsequent to the assassination of Generalissimo Trujillo in May, 1961, Mr. Rexach was unable to obtain further employment in the Dominican Republic. Mr. Rexach, through the years, had constructed a large shipyard and a graving dock which he owned and operated for a number of years in connection with channel dredging with a large, hydraulic dredge, which had been purchased in the United States of America at approximate value of \$2,000,000. Mr. Rexach's relations with Generalissimo Trujillo through the years had been on a friendly but entirely business basis. Attached hereto and asked to be made an exhibit to this brief is a copy of a letter addressed to Mr. Kennedy Crockett, Caribbean Affairs Office, State Department, by Honorable William T. Pfeiffer, former Ambassador to the Dominican Republic, which attests to the character of the claimant.

Subsequent to the assassination of Generalissimo Trujillo, the country was thrown into turmoil and Joaquin Balaguer was elevated to the office of President of the Republic. Several months later he was overthrown by a coup d'etat; the "consejo de estado" then took over the country.

On January 30, 1962, without warning, all of the claimant's properties were seized, including the dredge, San Cristobal, certain ships including his own private yacht, Moineau, the graving dock, shipyard, all his funds in the banks, his own personal residence, and all assets of every kind and nature. At the time of the seizure the American flag was flying on the dredge, San Cristobal; the flag was taken down and was never flown again during this seizure. The registry was even changed from American to Dominican, which brought about the immediate cancellation of all insurance. The American Captain and most of his crew, which were Americans, were put off the ship. The property seized in question approximated the sum of \$20,000,000. The seizure was made as the result of a spurious suit brought against the claimant in the sum of \$8,900,000 claiming the work performed on the Santo Domingo harbor had been done improperly and as the result the country had suffered loss of tourism; this suit was filed years after the work had been completed and accepted by the Government, and the Government had paid in full for the work performed. It is interesting to note that on March 15, 1962, a Committee of Puerto Rican engineers appointed by the Board of Governors of their organization went to San Domingo to investigate the claim against Mr. Rexach by the Dominican Government in the matter of unsatisfactory work

that had been performed on the Santo Domingo Harbor. The Committee not only inspected the harbor but had available to them by Mr. Rexach sounding plans, cross sections of the breakwater and other details covering the construction. The Committee found the hurricane described as "Ella" which struck the coast in 1959 created waves which pounded the installation and rose to six meters above the level of the platform, as was confirmed by photos and newspaper reports of damages, caused by an act of God. The Committee, in its final evaluation, concluded an amount between \$250,000 and \$300,000 was a reasonable estimate for the reconstruction of that particular section of the breakwater. The Committee's report, signed by the President of the Committee, Raimundo M. Pagan, Jr., stated:

"The Committee believes and wants to state that it is firmly convinced that the College has a duty and more than a duty, an obligation to take such steps as will have for its goal the protection of its members and very especially in cases such as this which amount to confiscation and spoliation."

The seizure was made contrary to Dominican law that clearly states that an attachment before judgment cannot be made unless the amount sought is fixed and liquidated, and further that a receiver must be appointed who must furnish bond to protect the property so seized. It is interesting to note from the record that a Judge Antonio Tellado refused to grant the attachment initially for the reason there was no legal ground to justify an attachment under Dominican law. However, four months later a certain de facto lawyer, Luis Peguero Moscoso, with armed forces, compelled the said Judge Tellado to sign the order granting the seizure or "secuetro." No bond whatsoever was posted and no insurance was provided for the properties so taken. The record shows further the "secuestario" was an ex-convict who had been sentenced by a court martial to five years in prison for robbing the Dominican Government. A subsequent appointed receiver, Antonio Casals Pinevio, was arrested, allegedly for robbery of materials under his receivership, and was discharged from his duties along with the aforementioned attorney, Luis Peguero Moscoso. At that time one Juan Bosch had taken over the Presidency and the former President Balaguer had fled in exile to San Juan, Puerto Rico.

During the ensuing four years, Mr. Rexach tried in every way humanly possible, through diplomatic sources, legal sources in the Dominican Republic, personal contact with those in the Republic who had some degree of authority to intercede in his behalf in an effort to have his property returned to him, along with continuing efforts of counsel in Washington, D.C. Every effort failed, although on at least three occasions arbitration was suggested and even reached the point on two occasions where Mr. Rexach sent his own arbitrator, a retired United States Army Officer, Colonel Walter J. Truss, of the United States Army Engineer Corps, to Santo Domingo, but no arbitration meeting was ever held although President Bosch had recommended it strongly.

A review of the history of the Dominican Republic subsequent to the assassination of Generalissimo Trujillo discloses a period of turmoil, blood-shed, thievery, and violation of citizens' rights in every way possible, without any regard to any established law as we know it in this country. A number of presidents ascended to the head of government in the Dominican Republic with the same results, the list consisting of Rafael Bonnelly, Juan Bosch, Martin Reid Cabral, Garcia Godoy, military rule by the United States and finally restoration of the former President Balaguer, who is now serving as President of the Dominican Republic.

During this period of turmoil which existed in the government of the Dominican Republic, the claimant never ceased endeavoring, as best he could, through every known avenue of approach, to have his property returned. However, at every turn counsel here was met by the appropriate heads of the State Department with the theme song "Nothing can be done until Mr. Rexach exhausts his judicial remedy." There was no judicial remedy to be exhausted. The judiciary in the Dominican Republic during this period had deteriorated as badly as the government itself. The judiciary were replaced from time to time at the will and whim of those in power. During one stage of the legal proceedings a certain judge who had the claimant's case before him and who was to pass on the merits sued the claimant for \$100,000 and still maintained jurisdiction of the case, until he was displaced.

On December 22, 1966, after almost five years, the Dominican Government finally turned back to Mr. Rexach his properties which had been taken from him without any valid authority of law as spelled out in Dominican jurisprudence.

The dredge in question had been used for almost five years, and had been operated day and night, engaged in various dredging operations for the government. The facilities of the graving dock and shipyard had also been used. Very little, if any maintenance or repairs had been made on the dredge when it was returned, and a conservative estimate of the costs to restore the property to its condition at the time of the taking would be approximately \$2,000,000. Further, during this entire period of operation of all of the claimant's facilities, the government had not paid him one cent by way of compensation for the use thereof, and further has not paid anything up to this very day. Claimant estimates his loss of income during the period of seizure amounted to approximately \$5,000,000.

Since late December, 1966, Mr. Rexach has proceeded through all known diplomatic channels to have the matter of his claims, as well as any claims of the Dominican Republic against him resolved through arbitration; again, there have been three efforts of arbitration and on one occasion a Dominican was named as Mr. Rexach's arbitrator and the Dominican Government named an arbitrator, but still no meeting was held and nothing came from the abortive attempts at arbitration.

Counsel for claimant has pursued the matter of his claims diligently and continuously through the years with the several head of the Caribbean Affairs Office at the State Department, and even with those in the higher echelon in the State Department, all without success and always met with the same answer, "He must exhaust his judicial remedy." Counsel was further told by one of the aforementioned heads of the Caribbean Office that the State Department could possibly aid Mr. Rexach if the matter was heard by the courts and if it was decided against the claimant, then the United States Government could intercede in his behalf; this amounted to a most gross inconsistency after having been told our government could not interfere with the workings of the courts of a sovereign nation. Recent conferences in the State Department developed a hope that the Embassy was going to make a formal diplomatic claim on behalf of Mr. Rexach due to the long period elapsing and no disposition having been made by the Dominican Government. However, a few days ago the same answer as stated above was received. The situation today is the same as it was when the property was returned to Mr. Rexach. No compensation has been paid for its usage, nothing by way of reimbursement for damage inflicted on same and nothing by way of compensation for the loss of income from not having the use of his property. Still today, no arbitration or conciliation talks. Nothing. What can this be other than expropriation and spoliation?

It is very difficult to understand the attitude of the Dominican Government toward the claimant, especially on the part of President Joaquin Balaguer, who, while in exile in San Juan, stated;

"What is being done to engineer Felix Benitez Rexach is illegal since these contracts were executed according to law and the works accepted by authorized officers of the legally constituted government."

"It is indeed strange that after so many years, blame is placed on a contractor, as is happening in the case of Benitez Rexach, because if this action is pursued further we would have to review all contracts awarded during the entire regime of Trujillo."

"What is happening in Santo Domingo in the case of engineer Benitez is fruit of the spirit of revenge that presently exists in the Dominican Republic and it is only logical to hope that this spirit of vengeance will be overcome and the case be given a just and democratic solution."

The above are extracts of a press conference held by President Balaguer on March 30, 1962, while he was in Puerto Rico after his departure from Santo Domingo.

#### ARGUMENT

The Claimant sincerely requests this Committee to invoke the provisions of the law set out in 7 U.S.C., Section 1158(c)(4), entitled "Seizure of Property of United States Citizens."

It is crystal clear that it was the definite intention of the Congress of the United States in 1965 when they amended the Sugar Act of 1948, with certain amendments, to protect those American citizens abroad whose property was expropriated by any foreign government, to see that just compensation was awarded to the American citizen for such taking, after arbitration or

conciliation in accordance with procedures under which final and binding decision or settlement would be reached in full payment or arrangements with the owner for such payments made within twelve months following such submission; and failure to do so, the President is directed to suspend any quota or pro-ration of quota or authorization to import sugar under this Act until the President was satisfied that appropriate steps are being taken.

The provisions of H.R. 8866 indicate the House of Representatives, even today, desires to protect American citizens whose property is seized or expropriated, but why have they restricted the relief provided in 1965 and proposed again in 1971, but limiting it to only claims arising subsequent to January 1, 1969?

The claimant relies on the provision of the Act quote hereinabove suspend any quota of sugar to the Dominican Republic until there has been some determination of Mr. Rexach's claim by arbitration or conciliation. The record in this case is complete and replete with untiring efforts on his behalf personally and through counsel to bring about arbitration which would quickly dispose of all claims. All attempts to do this have been futile and are futile as of this date. Counsel can see nothing in this section with respect to expropriation or seizure of the property of an American citizen that says his remedy lies in the hands of a court in the foreign country which has seized his property. To require such steps to be taken by the American who had lost his property would be an absurdity and repugnant to any judicial processes know to this country.

In conclusion, counsel for the claimant beseeches this Committee to carefully consider this brief and background of this case that has drawn on for years and years, and to write an amendment in the Sugar Act of 1971 that will prevent discrimination and the barring of the relief that the present law gives to this American citizen.

WESLEY E. McDONALD, SR.,  
HAROLD D. COOLEY,  
*Attorneys for Felix Benitez Rexach.*

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NEW YORK, N.Y., *March 29, 1963.*

KENNEDY McCAMPBELL CROCKETT, Esquire,  
*Officer in charge of Caribbean Affairs, Bureau of Inter-American Affairs, U.S.  
Department of State, Washington, D.C.*

DEAR MR. CROCKETT: During my tenure of four years (1953-1957) as our country's ambassador to the Dominican Republic one of my most loyal and helpful friends was Senator Felix Benitez Rexach, a United States citizen now residing in San Juan, Puerto Rico. He was ever ready to extend his utmost cooperation to our Embassy, and to visiting missions of one Government, and his advice and assistance frequently stood us in good stead. Two of my predecessors as Chief of Mission at Embassy Ciudad Trujillo voiced to me their commendations of Sr. Benitez on these scores.

I was therefore deeply disturbed to learn from Sr. Benitez's letter of March 15, 1963 to you (a copy of which he sent me) that at a recent conference in the Department, attended by yourself, other officers of the Department and the Dominican Ambassador to the United States, you supposedly manifested antipathy toward Sr. Benitez and that you averred, inter alia, that "the Department of State has no sympathy" for Sr. Benitez. It is incredible that the statements attributed to you, as quoted in the aforementioned letter, could have been uttered by you, or any other responsible official of our Government, with respect to any U.S. citizen and certainly not in the case of a man who, down through the years, has stood shoulder to shoulder with the United States and has worked unstintingly to further the interests of our country in the Caribbean area. Surely you must have been misquoted in the memorandum which the Dominican Ambassador sent to his Government in the wake of the conference alluded to above.

It is my understanding that the detractors of Sr. Benitez maintain that he was a sycophant of Generalissimo Trujillo. Obviously, as the designer and builder of the Republic's harbor facilities, and other vital public works, it was necessary for Sr. Benitez to work in conjunction with Trujillo, but I speak advisedly in saying that he did not wear Trujillo's collar. He was, on the contrary, not infrequently in violent disagreement with Trujillo, with attendant grave personal risk. Sr. Benitez has always been a rugged individualist and I never found him lacking in honor and integrity. Moreover, his contribution to the betterment and

economic progress of the Republic, in the form of the indispensable public works which he created, makes it appropriate to dub him "the General Goethals of the Dominican Republic."

I am entirely uninformed as to the nature of the issues involved in the Benitez case which is of interest to the Department. However, I would be remiss if I did not espouse the cause of a man of good deeds and high personal attributes who is being unjustly maligned. It is my earnest hope that, in evaluating the case, the Department will take an objective look at both sides of the coin.

Trusting that you will read this letter in the cooperative spirit in which it is being written, I remain.

Sincerely,

WILLIAM T. PHEIFFER,

*Former U.S. Ambassador and former Member of U.S. Congress.*

Senator CURTIS. What was the date of the act that took away your relief?

Mr. McDONALD. They had a statute down there, Senator Curtis. I do not know what the date of it was.

Senator CURTIS. No, no; the date of the statute here in this country.

Mr. McDONALD. Oh, no; we were all right under the Sugar Act of 1965. But this bill—

Senator CURTIS. No; you referred to a cutoff date of 1969.

Mr. McDONALD. That is in this bill that is before you now that has been passed by the House of Representatives which practically rewrites the same thing as the statute of 1965, but they put a cutoff date of January 1, 1969, in it, which would exclude our claim completely, Senator Curtis.

Senator CURTIS. Well, if that provision in the House bill is stricken, then you have existing law.

Mr. McDONALD. We have existing law, Senator Curtis.

Senator CURTIS. Under which you have not been able to do anything?

Mr. McDONALD. That is why we went before them in the House committee, Congressman Cooley and I did, and all we said was, gentlemen, help us to enforce this statute. We asked for relief under the existing law. Instead of helping us, we get a statute of limitations and a complete bar.

Senator CURTIS. My point is if that is stricken out, it does not solve your problem?

Mr. McDONALD. If that is stricken out we are helpless—oh, if that is stricken out, yes, we feel we are back in the ball game in the vernacular, Senator, because then we feel that we then have a new prong to go with and that maybe they will arbitrate and conciliate. Or if they do not, they fall within the provisions for the withholding of this Dominican quota, which is really substantial, or a certain amount, to pay it after it is arbitrated.

Senator CURTIS. Then you are for the other portion of the provision?

Mr. McDONALD. Oh, nothing wrong with it. It is the Belcher Act written all over again except it puts the exclusion provision in it.

Senator CURTIS. Now I understand.

Thank you.

Mr. COOLEY. Mr. Chairman, I would just like to make one observation. This committee might wonder what happened in the House committee. Mr. Belcher, who is now the ranking Republican on that House committee, this was called the Belcher amendment in the House, written

into the bill which I handled in 1965. I was for the bill. Like the chairman here said yesterday, he was for doing something about this stealing and expropriation, robbery. But as Mr. McDonald pointed out, in the Peruvian situation, they have negotiated a settlement with ITT, with the Chase Manhattan Bank, with the Chemical Bank of New York, they have settled all their claims except one, Grace, and they are negotiating that now. But here we cannot even get a hearing and they come along and instead of the House bill going through as it was, Mr. Belcher turned on his own amendment and went against it and put the statute of limitations in there and precluded us from hereafter having anything to do. If we strike 1969 and put it back to 1962, I think we can convince the State Department that this committee is in favor of what we were trying to do; that is, negotiate and try to get a settlement.

The CHAIRMAN. Was this man an American citizen at the time his property was taken?

Mr. McDONALD. Your Honor, he was an American citizen at the time the property was taken. So far as the record speaks, there was a renunciation which was held to be totally involuntary. We took it before the Nationality Branch of the Department of State and it was proven beyond question or we would never have gotten him reinstated, it was totally involuntary and, the record will disclose. Senator. was done at gunpoint.

The CHAIRMAN. Well, I believe Mr. Cooley knows that I think I was even more strongly against permitting any expropriations of American property than you were, yourself, Mr. Cooley, I think, the last time we considered the Sugar Act. I was determined that the provision should be mandatory with regard to the right of the President to terminate a sugar quota to somebody engaged in appropriating American property. I did not think it should even be discretionary with the President.

Mr. COOLEY. I did not think so, either.

Mr. McDONALD. Senator, further on your question, I might add that at the time the seizure was made, the old Stars and Stripes, that some of us still love, was flying on that dredge and it was taken down at the time of seizure.

Senator FANNIN. Mr. Chairman.

Mr. Cooley, I am not as familiar as you are with the Sugar Act. I was just wondering what the reasoning was for the January 1, 1969 cutoff?

Mr. COOLEY. Before the Rules Committee, that question was brought up and the answer was from the chairman, very, very feeble. He said he could not explain why it was 1969 and he still left it in there, 1969.

Senator FANNIN. Thank you. You do not have any knowledge of specifics involved in it other than your statement, that they wanted a cutoff date?

Mr. McDONALD. They wanted a statute of limitations. I do not know why they would do it. The record speaks for itself the way we have been treated.

Senator FANNIN. I am not questioning your particular case, I am just questioning why the date was adopted.

Mr. COOLEY. We do not know.

Senator FANNIN. Thank you, Mr. Chairman.



The CHAIRMAN. The next witness is Mr. Joseph A. Page of the Georgetown Law Center.

**STATEMENT OF JOSEPH A. PAGE, ASSOCIATE PROFESSOR,  
GEORGETOWN UNIVERSITY LAW CENTER**

Mr. PAGE. Mr. Chairman, my name is Joseph H. Page. I am an associate professor at the Georgetown University Law Center in Washington. I am appearing before this committee in my capacity as a private citizen of the United States. I have supplied the committee with a copy of my statement for the record and I would like to summarize it and elaborate upon it for you.

For the past 8 years, I have traveled to Latin America and to Brazil and Northeast Brazil on six different occasions as a freelance writer and author. I have written a number of articles on the subject of northeast Brazil for newspapers and magazines and I have just completed writing a book about northeast Brazil.

When I read in the newspapers about the Sugar Act and its passage through the House, I became interested in the subject and I went back and looked at the hearings and became very interested in statements that were made by the distinguished Senators on the committee, including the chairman, the present chairman, concerning the concern of the committee for the effects of the sugar quota upon the sugar workers in the various foreign countries which were benefitting from the quotas. Also I was interested in the statement in the press release announcement of these hearings, which said that it was the intention of the committee to examine how the benefits of participation in the U.S. sugar program flow to the working man and serve to improve the standard of living in the nations involved.

When I looked at the hearings in 1962 and 1965 and before the House this year, the only statements that I saw with regard to the area that I know about, northeast Brazil, were made by the registered agent for the Brazilian sugar industry and I found them, in my judgment, to be grossly misleading. Therefore, I asked to appear before you and I thank you very much for giving me this opportunity.

One out of every nine Latin Americans lives in northeast Brazil. Northeast Brazil is the largest, most extensive concentration of poverty in the Western Hemisphere and the sugar industry is one of the primary causes of this poverty. Recently, in the Congressional Quarterly, I noticed that the Sugar and Alcohol Institute, which represents the Brazilian sugar industry, is paying \$180,000 for its representation before Congress this year and that is pertaining to the Sugar Act. This seems to be a very large figure, but it is not when you consider the enormity of the poverty in northeast Brazil, the enormity of the mess, the enormity or the horrendous lack of any progress made by the sugar industry. If they are able to sweep that under the table, then this money certainly from their point of view was well spent.

The conditions in northeast Brazil of the sugar workers, in the times that I have been able to observe it beginning in 1963, and most recently in 1971, in some sense defy description; the poverty, hunger, disease, and the ignorance. But I think the thing that is really most depressing is the fact that it is not getting any better; in some ways, it is getting worse.

In 1968, a study was done in a small town of 17,000 people in the sugar zone and it was discovered that all the infants that were born between the months of June and December in 1968 have died, which is 100 percent infant mortality rate. A few studies that have been made of the caloric intake of sugar workers are extremely startling. One in particular, in 1967, that was made in a small town in the sugar zone in northeast Brazil came to the conclusion that the peasants, sugar workers, were consuming only 1,299 calories daily. What makes this amazing is that to stay alive and do nothing, you are supposed to get 1,440 to 1,412 calories every day. But these peasants were out working in the sugarcane fields.

The infant malnutrition there in northeast Brazil continues to be horrible and the studies that have been done on that subject suggest that mental retardation may be the result of all this.

I would suggest if the committee is interested in pursuing this further, one of the things that I found most startling was a series of color slides that was prepared by the Peace Corps with trained volunteers who were going out to work in the sugar zone 2 years ago and a tape describing a day in the life of one of these sugar workers. To what extent is the sugar industry responsible for all this? They are greatly responsible for it and I might add and underline the fact that the great bulk of the sugar which comes into this country under the quota from Brazil comes from northeast Brazil and the subsidy that is received by the Brazilian sugar industry goes to propping up the sugar industry in the northeast.

My basic point about the sugar industry is that for many years, for decades, it has been backward. People who own—the few families who own the sugar industry have not put any money back into the sugar industry to modernize, to expand their productivity, and in Brazil itself, they have been overtaken by the sugar industry in the south. As of a few years ago, the per acre yield in northeast Brazil was 16.2 tons and in southern Brazil it was 24.3 tons. If you want another comparative figure, in Hawaii it is 93.3 tons.

Instead of trying to improve the situation, instead of trying to modernize their means of production, the Brazilian sugar industry fights politically in the northeast to maintain artificially high prices for their sugar through the Sugar and Alcohol Institute and to protect itself from competition from their own south. The southern sugar producers could sell sugar in northeast Brazil at a cheaper price than the northeastern producers can sell it. The peasants who live in these circumstances, who work in these circumstances, are in a horribly exploited situation. Sometimes they are paid in paper chits redeemable at the company store. Oftentimes, there is no food in the company store. Sometimes they have to sell them back at 20 percent of their value to employees in the sugar mill office and then they, of course, resell the chits for up to 40 percent of their value.

I would like to zero in on one thing that was said in testimony on behalf of the Brazilian sugar industry before the House Agriculture Committee concerning the increase in the legal minimum wage. Figures were given showing percentage increases in the legal minimum wage. These figures are a joke; mainly because the legal minimum wage is not, simply is not paid. I have heard statements of anywhere from 50 to 60 percent of the time, the legal minimum wage is paid

and more often than not, less is paid. The peasant sugar worker, there is not much that he can do about it.

Now, what has been happening down there in terms of progress? In 1965, in hearings before the House and the Senate, the representative of the Brazilian sugar industry spoke about plans that were drawn up by AID, the Agency for International Development, to modernize, rationalize agriculture and sugar production in the northeast and bring about some kind of reform. Hawaiian Agronomics did a study for AID explaining in great detail what had to be done or what should be done in the northeast from two points of view— from the point of view of sugar production to rationalize it, to increase productivity, and second, what to do for the people there.

Senator BENNETT (presiding). Mr. Page, assuming that all these things are true, it seems to me that we in the American Government have no power or right to go down in Brazil and tell the Brazilian Government what they must do with respect to their own problem. We can cut the quota off and then two things happen: either the sugar industry stops in northern Brazil or they have to sell their output at the world market, which is roughly half our present market. And much as I sympathize with the point of view you represent, do you really believe that by cutting the quota off, we solve the problem for the individual worker?

Mr. PAGE. What I am urging, Senator, is that the committee give serious thought to what should be done, and there are more alternatives than just cutting off the quota. The quota can be reduced, it can be cut temporarily, the quota can be maintained for 1 year or for 2 years with an option on the committee's part to look at it again.

Senator BENNETT. Assuming we do any one of those things, how does that help the individual worker in the field?

Mr. PAGE. It will help him in the long run by encouraging—by our policy here encouraging the Brazilian sugar industry to do something; encouraging, for example, them to go ahead with this project, which they say they are going ahead with.

Senator BENNETT. Well, we have no legal right to tell a citizen of Brazil or the Government of Brazil what they must do in order to earn the sugar quota. That is beyond our jurisdiction. All we can do is say, "We will—or will not—give you a sugar quota."

Mr. PAGE. Well, all I am doing, Senator, is taking at literal and face value statements made by members of the committee and also in the House report. One of the five criteria set down for establishing the sugar quota is the extent to which benefits under the sugar quota reach the individual workers and peasants in the field. What I am suggesting is that if the Congress is serious about this, they should look and see whether or not, what is the situation in Northeast Brazil, which is what I am talking about.

Senator BENNETT. So we say they are not getting the benefits, so we will cut off the sugar quota?

Mr. PAGE. Yes.

Senator BENNETT. What good does that do for the man who now suddenly has no job?

Mr. PAGE. It can't be any worse than it is now. They are starving up there now. One month ago they were sacking stores in the small

towns in the sugar area. There has to be basic change there one way or another. If we continue to give them the sugar quota, if we continue to buy—in 1967, it amounted to foreign aid of \$44.4 million, according to the GAO report. We are propping that up.

The sugar, as I have attempted to say, the sugar that we get from Northeast Brazil has blood on it. When I buy sugar, when I put two scoops in a cup of coffee, I hate to think I am propping up these sugar barons of Northeast Brazil, who absolutely refuse to do anything.

Senator BENNETT. All right. Then we will cut them off and the sugar barons will go out of business.

Mr. PAGE. Not all of them, sir.

Senator BENNETT. And the workers will have no jobs or no income, or else the sugar barons will continue to operate and have to sell their sugar at the world market, which is half as much and therefore will have half as much to share with their workers.

Mr. PAGE. They are not sharing anything now.

Senator BENNETT. Okay. I will be glad to hear you out, but it seems to me you have made your point perfectly clear and I felt that I should have to represent the fact that it is not as easy and simple a thing to solve as you seem to imply.

Mr. PAGE. Well, I did not intend to imply that there was any simple solution to the problem. What I was suggesting is that what is happening now and has been happening since 1965 is no solution to the problem. Now, when you state that we cannot force the Brazilians to make any changes in their sugar industry, that is perfectly true, although we have spent quite a bit of money under the Alliance for Progress in Northeast Brazil attempting to encourage the sort of change that I think would come about if we either cut back or eliminated the sugar quota permanently or temporarily. We can always go back to it.

There are sugar producers in the Northeast who would be able to compete. I do not want to give the impression that I am condemning every single one of them. There are some who are entrepreneurs. The majority of them are not entrepreneurs.

Senator BENNETT. Have you had your 10 minutes?

Mr. PAGE. Yes.

Senator BENNETT. In other words, I think we have reached the point where we are just going over again the testimony that you intended to offer and I do not think there is anything gained by continuing repetition of your point of view.

Mr. PAGE. I quite agree with you. Thank you very much for allowing me to appear, Senator.

(The prepared statement of Mr. Page follows:)

PREPARED STATEMENT PRESENTED BY PROF. JOSEPH A. PAGE OF THE GEORGETOWN UNIVERSITY LAW CENTER

#### SUMMARY

1. The peasants who work in the sugar industry of Northeast Brazil live in conditions of extreme poverty, hunger, disease and ignorance—conditions that are attributable to the sugar industry and that have not materially improved in the decade during which Northeast Brazilian sugar has been exported to the United States at preferential prices under the sugar quota.

2. Though the Northeastern sugar industry has talked about "rationalizing" its methods of production and helping to bring about a land reform that would benefit peasants, virtually nothing has been accomplished in the five years during which these "rationalization" plans have been in effect.

3. The Sugar Act helps support a sugar industry in Northeast Brazil that has consistently demonstrated its incapacity and/or unwillingness to modernize and reform itself.

4. The Brazilian sugar quota should be eliminated or drastically reduced, so that the American consumer no longer subsidizes this backward industry and its imposition of a subhuman way of life upon millions of peasants.

My name is Joseph A. Page, Associate Professor at the Georgetown University Law Center, Washington, D.C. I appear before this Committee as a private citizen, and not as the agent of any foreign government or interest group.

During Hearings on Amendments to the Sugar Act held in 1962 and again in 1965, several distinguished members of this Committee, including its present Chairman, voiced their concern for the social and economic welfare of sugar workers in countries that sell sugar to the United States under quotas set by the Sugar Act. The press release for this Hearing announced the Chairman's intention to examine how "the benefits of participation in the United States sugar program flow through to the working man and serve to improve the standard of living in the nation involved." The extent to which peasants and workers in foreign sugar industries share in these benefits is thus one of the standards used by the Congress to set quotas.

I am testifying before this Committee to suggest how the Sugar Act may actually be hurting the peasants and workers in the so-called sugar zone of Northeast Brazil; to express my anguish at the fact that the American consumer has been subsidizing the backward Northeast Brazilian sugar industry, which produces virtually all the sugar exported to the United States from Brazil under the quota system; to counter grossly misleading statements made by the registered agent for the Brazilian sugar industry in testimony before this Committee and the House Committee on Agriculture; and to urge that this Committee seriously consider the reduction or elimination of the Brazilian quota from the Sugar Act.

At the outset, let me state for the record my qualifications for speaking on this subject. For the past 8 years I have written articles on a freelance basis, often about Brazil, for magazines and newspapers such as the Atlantic, Commonweal, the Nation, the New Republic, the New York Times Magazine, the Reporter, the Boston Globe, the Denver Post and the National Observer. I am now in the process of completing a book entitled *The Revolution That Never Was: Northeast Brazil, 1955-1964*.

During these past 8 years I have made 6 trips to Northeast Brazil (in 1963, 1964, 1965, 1967, 1969, and 1971), where I have had the opportunity to observe at first hand the Northeastern sugar industry and its impact on the millions of peasants living and working in the sugar zone.

It has been a sobering experience to visit with many of these peasants, to talk with them, to walk through their huts—and to see the same sickening sights and hear the same pitiful stories, year after year after year.

Poverty, hunger, disease, ignorance—these are the hallmarks of the sugar zone. Infant mortality during the first year of life has been estimated at 60%. An article in the May 4, 1971, issue of the respected French monthly newspaper, *Le Monde Diplomatique*, reports that in one small town in the sugar zone "under 'normal' conditions all the infants born between the months of June and December 1968 have died."

A 1957 survey by the United Nations Food and Agricultural Organization concluded that the average daily food consumption in the Northeast amounted to only 1,990 calories, considerably below the recommended minimum need of 2,500. A 1967 sampling in the sugar zone revealed peasants in a certain area consuming only 1,299 calories daily. What makes this remarkable is that a person doing absolutely nothing for 24 hours supposedly needs from 1,440 to 1,512 calories to maintain basic metabolism. But these peasants were working in the cane fields.

A team of nutritionists from a university in Northeast Brazil has warned that the undernourishment of children in their first year can produce mental debility. Their study of infants in the sugar zone disclosed that only 4.4% received milk from their mothers after they passed the age of 6 months. Once deprived of their mother's milk, these infants assumed a diet that was seriously lacking in vitamins and proteins. Among the legacies of childhood malnutrition are fatigue, nervousness, a limited attention span and inadequate muscular development.

The professor who directed the study has charged that lack of proper nourishment during these early years is producing a legion of mentally retarded human beings in the Northeast.

To what extent is the sugar industry responsible for all this misery which pervades the Northeastern sugar zone? Ownership of the sugar mills is concentrated in the hands of a few family groups which control economic power in the region. These owners have developed a tradition of not ploughing any of their profits back into sugar operations. They prefer instead to indulge in conspicuous consumption—trips abroad, expensive apartments in the city, etc.—and to invest in other enterprises, some of which are not even located in the Northeast. Displaying a remarkable lack of business initiative, they failed to modernize their mills. They also fought bitterly against every attempt at land reform in the Northeast.

By the 1950's and 1960's the sugar industry was beginning to show the results of the owners' attitudes. Machinery was old and run-down. The growing and cutting of cane was barely mechanized. Land that could have been used for other cash crops or subsistence crops was allowed to lie fallow. Only 32% of the area under cane cultivation was fertilized, and 35% of this land was on slopes which had inclines of 20 degrees or more, and hence had to be worked by hand.

Meanwhile, an emerging sugar industry in southern Brazil began to overtake the Northeastern producers. The southerners were soon growing and refining sugar at a lower cost than their competition in the Northeast. Between 1946 and 1961, when the overall demand for sugar was greatly expanding, the Northeast doubled its sugar production. Over the same period the southerners showed a tenfold increase. As of 6 years ago, the per acre yield in the South was 24.3 tons of sugar, as compared to 16.2 tons in the Northeast. In a free market the mill owners of the Northeast would have been driven out of business. (In his 1965 testimony before the House Agriculture and Senate Finance Committees, the registered agent for the Brazilian sugar industry stated that "The Northeast has lost its former outlet for sugar for domestic consumption in the center and South." He failed to add that the blame for this market loss lies squarely with the Northeastern producers, and that without a subsidy they would lose their market in the Northeast as well!)

Therefore, the Northeastern sugar producers have used every political resource at their disposal to force the Brazilian government to help them. Through the Sugar and Alcohol Institute, the government buys sugar from the mills of the Northeast at artificially high prices to protect the Northeast from competition from the South. Whenever hard times come, the Northeastern owners insist it is the government's duty to bail them out with bank loans and outright subsidies. In addition, they take advantage of the overpopulation of the sugar zone to indulge in an argument that amounts to the crudest sort of blackmail; the government has to keep the sugar industry of the Northeast afloat to prevent all these half-starved people from starving all the way to death.

The peasants in the Northeastern sugar zone find themselves trapped in an incredibly exploitative process. Their wages remain quite low and have not kept pace with rising food prices. The price of food in the plantation stores is generally from 30% to 50% higher than in the towns, and the store owners cheat their customers as a matter of course. In slack periods the owners extend credit to the peasant. The mill then pays the peasant's salary directly to the store owner, who deducts what he claims is owed and returns the rest to the peasant. The latter, who is usually illiterate, has no way of checking on the store owner, who can withhold almost anything and get away with it.

One variant is for the mill to pay its workers in paper chits redeemable for food at the nearby mill or plantation store (a common practice which, by the way, is illegal). Often there is no food in these stores for weeks at a time. Peasants have been known to trade in these chits to office employees of the mill and receive 20% of their value in cash. The office employees then sell the chits back to the mill for up to 40% of their value.

The most common type of worker in the sugar zone is the so-called *morador*, who is given the use of a small hut on the property of the mill or plantation. There he lives with his wife and numerous children, crowded into a room or two, without light, water or sanitation facilities. Occasionally he is permitted to clear off some unused land at the top of a hill where he might grow some food, but more often than not the next year the landowner reclaims the land and puts it under cane cultivation. Of course no payment is ever made for the worker's efforts in clearing the land.

In his testimony before the House Committee on Agriculture this year, the registered agent for the Brazilian sugar industry included data showing percentage increases in the legal minimum wage for the Northeastern sugar zone between 1965 and 1969. These figures are a joke. What they hide is the fact that the laws setting minimum wages in the sugar zone are honored only in the breach. Many mill and plantation owners simply do not pay it, and there is no effective recourse for the aggrieved worker. Furthermore, the owners have many ways to get around the law. For example, the legal wage is calculated on the basis of a 7-day week. To earn it, a field worker must perform 6 full days of work. His daily task is assigned as piecework (so many square meters hoed, so many bundles of cane cut, or so many meters ploughed). So the avoid paying the legal minimum, the owner merely assigns to the peasant a one-day work load that is impossible to do in a day. When the peasant cannot finish it, he loses his right to the full legal minimum wage for the week, and receives only 5 days' pay for 6 days' work.

In this same testimony, the Brazilian sugar industry's registered agent proudly points to the existence of 4 hospitals with 872 beds as evidence of social progress in the Northeast. When put in its proper perspective, this is sheer tokenism. The registered agent does not mention that there are more than 500,000 peasants working in the Northeastern sugar industry; that they must pay for their own transportation to and from the hospitals and for most of their medicine; and that they lose a day's pay when they visit the hospital. A peasant who earns a legal minimum wage of \$5.25 a week (and often less) has no available money for these expenses. Even though he is sick and disabled, he would prefer to keep working, and often does.

To understand the hopelessness of the sugar industry in Northeast Brazil, it is necessary to examine the "progress" it has made between 1965 and 1971. At the 1965 Hearings before this Committee, the registered agent for the Brazilian sugar industry spoke of a plan to revive the industry: "AID (the United States Agency for International Development) has been studying agricultural development and adjustment in the area to establish agrarian reform with a view to acting jointly with the Brazilian Government to rehabilitate the area, stressing improvement in social conditions, raising per capita income and nutritional standards, including increasing the efficiency of the utilization of land and other resources of the area."

What has actually been done? In 1966 the Brazilian Government did indeed launch an ambitious project to "rationalize" sugar production in the Northeast. Five years have passed. In his testimony this year before the House Committee on Agriculture, the registered agent for the Brazilian sugar industry was still talking about a "rationalization" plan.

This plan calls for the extension of credit to mill owners to enable them to modernize machinery, so that they will be able to maintain production levels on half as much land as they are now using. This would free the remaining land for distribution to peasants in a land reform, and for use in food production. In theory it is an interesting plan—with one big flaw. There is no way to force mill owners to modernize. The most recent information I have is that only one mill in the key northeastern state of Pernambuco has presented a modernization plan that has been approved by the government agency in charge of "rationalization," and they are still talking about it.

The Committee should not be taken in by paper laws and paper projects. To give an example, for many years there has been a law on the books that each peasant working in the sugar industry shall be given about 5 acres of land for his own use near his house. This law has never been enforced. Since the early 1960's there has been an endless proliferation of government agencies created to carry out land reform: SUPRA (Superintendency for Agrarian Reform), IBRA (Brazilian Institute for Agrarian Reform), INDA (National Institute for Agrarian Development), INCRA (National Institute for Colonization and Agrarian Reform), GERAN (Executive Group for the Rationalization of Northeastern Sugar), and most recently GERA (Executive Group for Agrarian Reform). The bureaucracy multiplies, but nothing ever seems to get done.

According to a General Accounting Office report entitled "Foreign Aid Provided Through the Operations of the United States Sugar Act and the International Coffee Agreement" (October 23, 1969), in 1967 Brazil received \$44.4 million in United States assistance as a result of the sugar quota. The assistance Brazil has obtained under the Sugar Act over the past decade enables the sugar industry of the Northeast to survive in its present form, and to continue to

sentence millions of human beings to a subhuman existence. The Sugar Act preserves the economic power of a few mill owners, most of whom don't know the meaning of business initiative. They may not be making profits now on their sugar mills, but the sad fact is that they don't particularly care about making profits. They care more about the economic and political power that derives from owning sugar land and sugar mills in Northeast Brazil. And they have plenty of investments in other businesses and properties.

The subsidy they receive under the Sugar Act makes it worth their while to produce sugar inefficiently, and at great human cost. Without the subsidy, all but a few mills would go out of business.

It is certainly true that an elimination of the subsidy would cause a short-term dislocation in the region, and that some sort of emergency assistance might be necessary. But in the long term it would make possible the production of food to feed the Northeast. (Today, The Northeast must import most of its food from the south!) It would lower the price of land, which is now artificially high because of the subsidy, and make possible genuine land reform.

Yes, there would be some short-term hardship, but it couldn't be too much worse than the current situation. Just one month ago hungry peasants sacked the marketplace of Agua Preta, a town in the sugar zone.

If the Committee should feel that what I am urging is extreme, then consider a more gradual cut-back in the quota. The important point to keep in mind is that an elimination or reduction in the quota is the only way to provide genuine help for the peasants and workers in the sugar zone of Northeast Brazil. The sugar industry, through their registered agent, will talk forever about plans and promises, hopes and intentions, but nothing has happened in the past decade to suggest that these words can be taken seriously.

There is blood on the sugar we are now importing from Northeast Brazil. The time has come to recognize this and do something about it.

Senator BENNETT. We have statements from Senator Frank E. Moss, of Utah, and Senator Milton R. Young, of North Dakota, which they ask to have inserted in the record and without objection, they will be so inserted.

(The statements referred to follow:)

#### STATEMENT OF FRANK E. MOSS, A U.S. SENATOR FROM THE STATE OF UTAH

Mr. Moss. Mr. Chairman, I wish to express my support for H.R. 8866, which amends and extends the Sugar Act of 1948.

The provisions for the allocation of the domestic beet sugar area's acreage are satisfactory to the beet sugar industry of my State—they are little changed from the present law, except they provide for an allocation of acreage for localities where new processing facilities are under construction or existing facilities are to be expanded. This is both necessary and fair.

The beet sugar industry has been important to Utah for many decades. In fact, it was at Lehi, Utah, in 1891, that the first successful beet sugar manufacturing plant in the Mountain West was established. From this beginning, the industry spread to neighboring States, and now the mountain States of the West have become some of the Nation's prime producers of sugar.

The growing of sugar beets usually is closely associated with irrigation agriculture, and this combination also has been important in Utah. The beet sugar industry is a good example of the type of resource highly desired by an area. Rather than being worn out and depleted with the passage of time, the beet sugar industry is renewable annually. Water and soil and sunshine are the basic ingredients of the agricultural formula, and in the annual miracle of sugar beet growth they



combine to provide a good source of income to farms and communities throughout the West and Midwest.

It is estimated by the U.S. Department of Agriculture that money received by sugar beet growers of the Nation from the purchase of their 1969 crop amounted to about \$417,063,000. And this money is spent mostly in small communities.

The dollars provided by the industry spread outward from the community in which they are received and touch upon neighboring areas. The same is true of the sale of the sugar and byproducts in our areas. Studies by University of Utah show the effect of local buying to be truly significant. The studies estimated that when products produced within a State are purchased locally the return to the State's residents is 12 times as great as the return to residents from products manufactured outside of the State.

Of course, by no means is all beet sugar consumed in the area where it is produced. Much of it enters interstate commerce, often as one of the few exports a Western State may have.

Not only does the sale of sugarbeets and sugar mean a great deal to farm communities, but the presence of a beet sugar factory in a rural area is of considerable economic value. Beet sugar processing takes place during fall and winter months, a period when farming, construction and other outside activities are at a seasonal low. Thus, the beet sugar factory provides jobs at a time when they are most needed.

The beet sugar industry in the United States celebrated its centennial in 1970. During the past 100 years a great many changes have been made both in sugar beet fields and in beet sugar factories to keep up with the changing times. And there is little question but that this very necessary ability to adapt will become even more important in the future. Mechanization and modernization of all aspects of the industry need to be undertaken on a continuing basis. The Sugar Act is vital in this respect in that it helps provide stability for continued investment in improvements.

Some of the changes that have taken place in the fairly recent past have indeed been dramatic. Department of Agriculture statistics show that in the base period of 1947 to 1949 an average of slightly more than 41 man-hours of labor were needed to produce a ton of sugar in the beet sugar industry. In the period 1967 to 1969 this manpower requirement had been cut by 55 percent, down to 18.65 man-hours per ton of sugar.

The beet sugar industry is modern and progressive. Extension of the Sugar Act will allow it to continue further the service it has rendered to our Nation.

I am aware that an effort has been made to delete from this bill the 60,003 short tons of sugar allocated to South Africa, on the basis that the government of South Africa practices an apartheid racial policy.

Were the sugar payments going to the South African Government, I, too, would oppose this allocation, because I find the practice of apartheid thoroughly abominable.

However, I would point out that the payments go not to the government but to individual growers, of which there are 8,486 in South Africa. Some 4,398 of these are black, and 2,194 are white, with 1,877 of Indian heritage. This means that two-thirds of those receiving payments are either black or Indian.

In addition, I would point out that those who harvest and process the sugar beets are black overwhelmingly. Of the workers in the fields, 124,000 are black, 4,000 are Indians, and 500 are white. The millers total 11,000 black, 4,200 Indians, and 4,000 white.

These figures were supplied in the House hearings by those favoring the South African quotas, and they were challenged on the House floor, but not substantially disproved. However, even allowing for some errors in computation, it is clear that the sugar beet quota allocated to South Africa helps to provide incomes and make jobs for thousands of blacks in South Africa in the country's extensive sugar industry.

Therefore, Mr. Chairman, I support the House-passed bill in general, and hope that the committee will report a measure to the floor promptly.

#### **STATEMENT OF MILTON R. YOUNG, A U.S. SENATOR FROM THE STATE OF NORTH DAKOTA**

Mr. Young. Mr. Chairman, I would like to express my appreciation to you and the other members of the Senate Finance Committee for the prompt action you have taken in scheduling hearings on legislation to extend the Sugar Act of 1948.

The United States has had a sugar policy or program for almost 150 years. The first governmental action in this area was a tariff measure adopted in 1789, primarily for the purpose of raising revenue. From this first program has evolved the Jones-Costigan Act in 1934 and finally the Sugar Act of 1948.

The program that has developed over the years has been designed to serve several purposes. The major aim has been to assure the U.S. consumer adequate and dependable supplies of sugar at reasonable price levels. I do not feel there is any question but what this has been accomplished. Not only has the price of sugar in this country fluctuated less than sugar prices in the world market, but the domestic price of sugar has risen less during the last 30 years than other foods. Comparing sugar prices to the prices for all foods and the level of disposable income, sugar is actually cheaper today than it was in 1937 when the sugar quota program was first started.

Sugar is big business in the United States. In no place is this more clearly indicated than in the areas of the country where sugar beets and sugar cane are grown. About 28,000 American farmers utilize land and equipment valued at more than \$1.25 billion to produce the domestic portion of our sugar consumption. This production generates jobs for thousands of people in the processing and distribution industries as well as expanding other local payrolls because of the increased economic activity.

Mr. Chairman, I could go into great detail about the success of the Sugar Act. I do not feel this is necessary, however, since you and the other members of this committee have played such a great role in developing this legislation over the years.

I would like to take a few minutes, however, to comment on several features of H.R. 8866 as approved by the House Agriculture Committee and passed recently by the House of Representatives.

Twenty-four States now produce sugar beets. This crop has offered

producers a high value crop with stable prices. Because of this, many farmers, particularly in several North Dakota areas, have found sugar beet production highly desirable as a part of their farm operations. This is another of the goals of the Sugar Act that has been quite successful—that of encouraging and maintaining a domestic sugar industry.

I am pleased to note that the legislation recently approved by the House of Representatives recognizes the need to permit expansion of the domestic industry. The U.S. consumption of sugar is growing and it is only logical that American agriculture and the associated processing and distribution industry be permitted to share in this growth. I commend the action embodied in H.R. 8866 in designating for expansion of the domestic beet sugar industry 100,000 short tons of sugar for each of the 3 years of the act for areas that will be served by new or enlarged sugar beet processing facilities. I cannot urge too strongly that this provision of the House be retained. This would make possible a much needed expansion of the sugar beet industry in the United States.

This expanded capacity for the beet sugar industry will enable many additional American farmers to contribute to the meeting of our sugar needs. It will accomplish much more than this, however. It will mean additional outlays by these producers for equipment, production, supplies, and labor. It will mean new jobs in the processing plants located in rural areas. It will mean an expanded economic base in a number of rural communities. In short, Mr. Chairman, this is rural development such as we have heard so much about in recent months.

An additional advantage to permitting expansion of the domestic sugar beet production is the fact that it will permit farmers to shift from the production of other crops. We still face a problem of surplus grain producing capacity in this country. In areas such as the Red River Valley of North Dakota and Minnesota the common practice is for sugar beets to be raised on land that was fallowed the prior year. Thus, each acre of sugar beets produced actually means that 2 acres are removed from the production of other crops. This not only means improved income possibilities for the farmer, but can be of tremendous assistance in relieving the pressure of overproduction on the prices of other crops.

The bill before the committee directs the allocation of the expanded beet sugar requirements on the basis of the production of an adequate amount of sugar beet production to produce a maximum of 50,000 short tons of sugar. I realize that historically this is the measure that has been used to make allocations to new production facilities. Improved technology and the increased costs of plant and equipment have raised questions concerning the adequacy of this, however.

In the last year, two beet sugar processing plants have been closed. It is my understanding that a major reason for the decision to cease operations at Chaska, Minn., and Hardin, Mont., was the fact that both of these plants were old and rather obsolete. To maintain operations at these points would have required substantial investment in new equipment and renovation. With the small allocation available, it was determined that such action simply would not be economical. The expansion envisioned in this legislation would continue the 50,000

short ton allocation and could, I am afraid, create severe economic problems for new processors entering the field as a result.

I would urge the committee to give careful consideration to raising the maximum level of the allocation so that it more nearly meets the needs of new processors who are undertaking this investment at a time when money costs are high and the cost of equipment and construction are at alltime highs.

I would like to take this opportunity to mention briefly the tremendous potential for expanded sugar beet production which exists in the Red River Valley area of North Dakota and Minnesota. This region has a proven capacity for sugar beet production. Four processing plants now serve the area and several groups of farmers and interested businessmen have organized in an effort to establish additional processing capacity in the region.

I personally feel that no area in the country is more ideally suited to sugar beet production than this region. Its combination of highly productive soils, favorable weather plus the availability of production know-how and desire on the part of farmers makes this ideal for the expansion of sugar beet production.

I realize the decision regarding allocations for the expanded production will be made by those administering the act, but I cannot urge too strongly that the committee insist that these allocations be made to areas where production success and interest can be assured. I know you are aware that this has not always been done in the granting of these allocations. When this happens, many people suffer. Those who invest in or finance new processing facilities lose, farmers who purchase expensive and specialized equipment lose, and the consumer who depends on such an operation to contribute to the total sugar needs of the country loses.

Some have argued that the Sugar Act unfairly raises the price of sugar to consumers in this country. To support this contention, they cite the current differences between the so-called "world price" for sugar and domestic prices. There are several fallacies in this argument and adoption would prove disastrous for both the consumer and the American sugar industry.

In this first place, the term "world sugar market" is a misnomer. Only about 12 percent of the sugar production of the world is presently available in this market. This is sugar that either cannot find a market in the country where it is produced or is not exported into another preferential sugar market. This is marginal production and its availability fluctuates greatly.

During the last year the "world sugar price" at New York has been in the area of 5 cents per pound. In 1963 and 1964, however, when short crops in major producing nations reduced the supplies available on this market, the "world price" rose to over 12 cents per pound, raw value.

Sugar is so important as a basic food that its ready availability at reasonable cost must be assured. The price stability provided under the Sugar Act assures the housewife that sugar will be readily available on her grocer's shelf when she needs it. It also assures the industrial user of sugar that supplies will be readily available. This relieves him of having to carry large inventories to guard against shortages of sudden price fluctuations which could adversely affect his

operations. This, in turn, lends stability to the pricing of his finished product—an additional benefit to the consumer.

I appreciate the opportunity to appear before your committee in support of an extension of the Sugar Act. I would like to once again express my strong support for this extension. This is a program that has served us well in the past and can continue to contribute to the welfare and economic well-being of all our people.

Senator BENNETT. We will meet at 10 o'clock Monday morning to hear foreign witnesses.

(Whereupon, at 12:10 p.m., the committee was adjourned until Monday, June 21, 1971, at 10 a.m.)

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# THE SUGAR ACT OF 1971

MONDAY, JUNE 21, 1971

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Wallace F. Bennett presiding.

Present: Senators Bennett, Long (chairman), Anderson, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

Senator BENNETT. Ladies and gentlemen, Senator Long is apparently delayed by a breakdown in his automobile and because we have so long a list of witnesses I will start the hearings.

Senator Kennedy was to have been the first witness but he is not here either so I will call the second name on the list, Mr. David Houlihan on behalf of the Cocoa, Chocolate & Confectionery Alliance of Great Britain.

All witnesses, I am reminded, are under a 5-minute time limitation, and I come equipped with a stopwatch, so I will use it. Every potential witness should know that his entire statement will be included in the record. And with that warning, Mr. Houlihan, we will be glad to hear from you.

## **STATEMENT OF DAVID P. HOULIHAN, ON BEHALF OF THE COCOA, CHOCOLATE & CONFECTIONERY ALLIANCE OF GREAT BRITAIN**

Mr. HOULIHAN. Thank you, Senator. The name of my clients takes up about half of my 5-minute testimony.

My name is David Houlihan of the law firm of Daniels & Houlihan, and I am speaking on behalf of the British confectionery industry. We welcome the opportunity to orally summarize our opposition to the proposed amendment to limit confectionery imports and to answer any questions that the committee may have.

Authority already exists in the Sugar Act to impose quotas on imports of sugar-containing products, such as candy, if such imports substantially interfere with the objectives of the Sugar Act.

The failure to obtain special protection in the past despite repeated predictions of imminent injury, is not the result of callousness or indifference on the part of those in the administration or the Congress to whom the pleas have been directed by the confectioners. It is rather that these firms are part of a healthy and growing industry.

The industry has enjoyed 15 consecutive years of growth in its value of sales, greater than average growth in employment and higher than average profits. Imports in the meantime have remained a small and

steady element in the market, ranging between 2 and 4 percent of consumption.

The Confectioners Association appears to have founded its request for special treatment on a disparity in ingredient costs between foreign suppliers and U.S. producers. A detailed examination of costs of labor, ingredients and distribution demonstrates that the U.S. confectionery industry is not at a competitive disadvantage.

Senator, in our full statement we explain in full the methodology and cite the sources used in the extremely difficult task of obtaining current comprehensive and comparable data.

The analysis shows that U.S. confectionery manufacturers do have an ingredient cost disadvantage relative to the United Kingdom industry of approximately 10 percent in terms of manufacturers sales value.

I should emphasize especially to this committee that these calculations have taken into account drawbacks, rebates, and any other advantage that the foreign exporter may have.

In terms of labor we have a classic example of the Americans ability to offset higher wages with greater efficiency.

With the confectionery output of the American worker more than four times greater than that of the British worker, the U.S. industry has a total labor cost advantage, again on the same terms, of approximately 9 percent.

With the 9 percent labor cost advantage and the 10 percent ingredient cost disadvantage, virtually offsetting each other, the cost incurred in bringing the item from the foreign suppliers factory to a dockside warehouse in the United States burdens the imported confectionery with a net variable cost disadvantage in the range of 15 to 29 percent.

The analysis indicating that imported confectionery is at a distinct cost disadvantage by the time it reaches this country is borne out by an examination of retail prices. The selling price per pound of imported confectionery is generally as high or higher than that of U.S. confectionery.

Let me touch on just two other points.

Foreign confectionery manufacturers are large purchasers of U.S. agricultural products such as corn, peanuts, almonds, fruit, and sundry other products.

Finally, there is already a built-in ceiling in terms of confectionery imports. The advantages of local production, some of which are evident in the cost figures I have given you are such that once an imported confectionery item reaches a level of sales that justifies mass production then the production of that item is transferred to the United States, and we have several current examples of this in our brief.

In short, this is a healthy industry which enjoys a distinct competitive advantage over the small and generally higher priced imports and, therefore, we see no need for any artificial restrictions.

Thank you.

Senator BENNETT. Thank you very much, Mr. Houlihan. Are there any questions? Senator Jordan.

Senator JORDAN. No questions.

Senator BENNETT. Senator Hansen.



Senator HANSEN. No questions.

Senator BENNETT. As you know Senator Curtis has introduced the confectionery industry's amendment and it is before the committee. I have no questions. I appreciate your appearance here and you can be sure your entire statement will be carefully studied.

Mr. HOULIHAN. Thank you, Senator.

Senator BENNETT. Now, at this point, Senator Curtis would like to take a little time to question Mr. Houlihan.

So Senator Curtis I will leave it to you.

Senator CURTIS. Mr. Houlihan, I am sorry I was not here when you testified but I will be brief. You made reference to the confectioner's testimony before this committee back in 1962 in which they predicted that unless they had some relief the imports would increase. My information is that the imports in 1962 of these items under these sections were 68 million pounds and that for 1970 they were 156 million pounds, is that about correct?

Mr. HOULIHAN. Yes; Senator, the figures generally are correct, but what the confectioners have testified to before the various committees and the Department of Agriculture and the Tariff Commission is that they were going to be injured as a result of vastly increasing imports. Now what has happened instead is that the imports have stayed at a stable portion of the market, and the whole market has gone up.

Senator CURTIS. Well, now, that comes with my next question, you state in the last 15 years, that confectionery industry sales have increased 48 percent, is that correct? If you assume by that 14 percent, the years 1955 to 1970, isn't it also true that confectionery imports have increased 500 percent.

Mr. HOULIHAN. That may well be but that is like going from one to five and going from a million to a million and a half.

Senator CURTIS. I am just taking your statement.

Mr. HOULIHAN. But the figures I gave, for example, in table 1, Senator, the 48 percent is just from 1962, the growth in domestic production in table 1—

Senator CURTIS. But you do make a reference to the 15 years.

Mr. HOULIHAN. Well, their sales have grown consecutively in 15 years. By how much—

Senator CURTIS. So have the imports.

Mr. HOULIHAN. Yes.

Senator CURTIS. My figures show by 500 percent.

I think we are agreed that the ingredients cost per hundred pounds in the United States for confectionery is \$14.69, and that for the United Kingdom it is \$11.73, is that correct?

Mr. HOULIHAN. Yes, Senator.

Senator CURTIS. You also mentioned the fact that this industry had not availed themselves of the escape clause. Well, I think it is pretty well conceded that the 1962 act virtually destroyed the escape clause provision.

Mr. HOULIHAN. That was true, Senator, up until about 2 years ago when the Commission started to change its interpretation of the law and since that time there have been a great many affirmative decisions.

Senator CURTIS. But the law has not been changed.

Mr. HOULIHAN. The law has not been changed but the interpretation has so it is much easier to get help under that law today than it was the years prior to that.

Senator CURTIS. Now, one other thing I would like to point out in the record. It is true that the U.S. confectionery manufacturers are entitled to buy world price sugar for confectionery export but we have practically no confectionery exports.

Mr. HOULIHAN. Well this, Senator, is, I think, because just as with the British which are really the biggest worldwide confectionery industry when an industry gets a given line to a certain point which justifies local production they switch that production to the local country rather than export it.

Senator CURTIS. But that has not been switched to the United States.

Mr. HOULIHAN. To the contrary, the British have switched production to the United States and in terms of the United States we have the three biggest companies, for example, Hersey, Nestles, and Mars. Herseys has a taste which apparently is quite distinctive to the American palate, and they have tried it abroad without a great deal of success. Nestles is a foreign company to begin with that has come and invested here. Mars has turned the other way around and they have invested in the United Kingdom.

So that it is to the advantage of these people not to export greatly but rather to invest in the local countries once their exports reach a level that justifies mass production.

Senator CURTIS. Well, that bears out my point that confectionery manufactured in this country is not being exported because of the various disadvantages, because most of the other countries have a much higher import duty than the United States, do they not.

Mr. HOULIHAN. The specific import duties on confectionery I don't know. But I do know, if I may—

Senator CURTIS. Yes.

Mr. HOULIHAN (continuing). Without knowing that exact duty I do know that in the United Kingdom, which again is the world's leading confectionery industry, they have an import penetration ratio of 7 or 8 percent. That is to say other countries are exporting to the United Kingdom quite successfully.

Senator CURTIS. I will try to be brief here.

Now you made reference to agricultural, other agricultural, imports in this connection, and quoted Canadian manufacturers paying 21 cents a pound for peanuts.

Mr. HOULIHAN. Yes.

Senator CURTIS. Well now, actually my information, which is derived from the Department of Agriculture, is that from 1957 to 1971 the export price on peanuts was from 8 to 17 cents with the exception of one short period in 1969.

Mr. HOULIHAN. Senator, this is under the export surplus program. If we have surplus we then put it in a program and sell it at whatever price we can get. But there are also peanuts that are sold on the present market.

Senator CURTIS. I understand.

Mr. HOULIHAN. And I have invoices and will have further to supply

to the committee. These are purchases in 1971.

Senator CURTIS. Some purchases are at the regular commercial price.

Mr. HOULIHAN. Yes.

Senator CURTIS. There have been some of those purchases.

Do I understand your paper correctly that the labor, the wage rate in the United Kingdom, was about one-half what it is in this country?

Mr. HOULIHAN. Approximately, yes; it is on table 12 exactly, sir.

Senator CURTIS. That is all, Mr. Chairman.

Senator BENNETT. Thank you.

(Mr. Houlihan's prepared statement follows:)

SUMMARY OF BRIEF PRESENTED BY DAVID P. HOULIHAN  
TO THE SENATE FINANCE COMMITTEE  
ON BEHALF OF THE COCOA, CHOCOLATE,  
AND CONFECTIONERY ALLIANCE OF GREAT BRITAIN

June 21, 1971

The National Confectioners Association has requested inclusion of a quota on imports of confectionery in the Sugar Act now being considered by the Senate Finance Committee (H.R.8866). The quota, in effect, would limit imports of the familiar range of chocolate and sugar candy to 5 percent of domestic consumption.

Failed to Qualify Under Regular Procedures

For more than a decade before several legislative and administrative forums, the NCA has been holding out the imminent threat of injury from confectionery imports. Nonetheless, it has failed to invoke the escape clause provisions and admits the inability to qualify under standards of the Sugar Act which authorize restrictions on imports that interfere with the sugar program.

Specific exemption from restrictions were recommended and accepted for confectionery by the Department of Agriculture, Tariff Commission, and President Johnson in a 1968 Section 22 matter, and even proposed dairy quota legislation contains such explicit exemption.

Bad Precedent

To allow this request to bypass normal procedures and to ride through as an obscure part of a major piece of legislation would create a pernicious precedent. If an import penetration ratio of 2 - 4 percent or an alleged disadvantage in sugar cost justifies quotas for the confectionery industry (which utilizes 11 percent of U.S. sugar deliveries), then the same can be claimed for other major users of sugar, or indeed for any industry disadvantaged in ingredient cost or subject to a higher import penetration ratio. Furthermore, such action would undercut the Administration's position that certain U.S. exports, e.g., canned fruits, should not be subject to special inhibitions simply because they are sugar-bearing products.

Similarly, an examination of the merits negates any justification for this special request.

### Industry Performance

The latest official information shows the industry has enjoyed 15 consecutive years of growth in value of sales, with the 1970 level of \$1.9 billion 50 percent above that in 1962 (when the NCA predicted dire consequences from the Trade Expansion Act). The quantity of shipments has similarly increased, with a pause experienced in the last two years as a result of the transition to a higher-priced and/or lower-weight retail product.

Employment in the confectionery industry has increased 14 percent since 1962, considerably above the increase for the allied Food Products or overall Non-Durable Goods industries.

Statistics indicated that imports in the 1962-1969 period supplied a mere 2.3- 4.0 percent of confectionery consumption, with the latest figure at 3.4 percent. Even these are overstated because they include intermediate products used by the domestic producers for their own confectionery output.

Taking advantage of the U.S. consumers' desire for the different taste characteristics of imported candy, the domestic producers have supplemented their own lines, and are estimated by the trade to account for as much as one-half of the imports.

Information from leading foreign suppliers indicates they have little advantage (some are disadvantaged) in ingredient costs, that such advantage is quite small in relation to the total cost of the product, and that it is completely offset by the cost of exporting. Indeed, the selling price per pound of imported confectionery is generally as high or higher than the U.S. producers.

The overriding factor that has kept imports at a stable, low share of the market is that confectionery is a capital intensive industry with clear advantages to local production. Past and current examples, as well as planning by specific companies, demonstrate that once an imported confectionery item reaches a level of sales that justifies mass production, that production is transferred to the United States, through imitation by a U.S. producer, direct investment by the foreign supplier, or a joint venture.

In short, confectionery imports are making a substantial contribution to the growth and health of the U.S. confectionery industry.

BRIEF  
on behalf of  
THE COCOA, CHOCOLATE AND CONFECTIONERY  
ALLIANCE OF GREAT BRITAIN  
in connection with  
HEARINGS ON THE SUGAR ACT  
to the  
COMMITTEE ON FINANCE  
UNITED STATES SENATE

DANIELS & HOULIHAN  
1819 H Street, N.W.  
Washington, D. C. 20006

David P. Houlihan  
Of Counsel

Thomas D. Emrich  
Economic Consultant

June 21, 1971

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Tables 1 - 13 (immediately following text)

This brief is presented on behalf of The Cocoa, Chocolate and Confectionery Alliance of Great Britain. The members of the Alliance are engaged in the production and distribution in the United Kingdom and on a worldwide basis of cocoa and confectionery items.

This firm's foreign agents registration statement has been presented to the Committee in conjunction with this brief.

On June 17, the National Confectioners Association requested inclusion of a quota on imports of confectionery in the Sugar Act being considered by this Committee. The proposal is for a quota which would be set on an average of the imports of the last three years or 5 percent of domestic production, whichever was higher. In actual operation, with the quota becoming effective at the end of this year, the average of the last three years would be somewhat less than 5 percent and therefore the 5 percent figure would, in fact, become the quota ceiling.

The items which the quota seeks to restrict are the familiar range of sugar and chocolate confectionery classified under TSUS items 156.30 and 157.10. The members of the



Alliance account for about 35 percent of such imports. Nonetheless, we recognize that the Committee must consider total imports and we will be speaking in that context in the absence of a specific qualification.

In this statement we will indicate why the NCA was unsuccessful in the past in achieving restrictions, and why there is no basis for Congress or the Administration to give any preferential treatment to this industry with respect to import competition.

#### Past Claims

The confectionery industry has been using virtually the same arguments and pressing virtually the same claims that it is here for over a decade in various congressional and administrative forums. In 1960 at "peril point" hearings before the U. S. Tariff Commission, the confectioners stated that foreign competition had an unfair advantage in the production of confectionery and this advantage would soon work against the domestic manufacturers. In 1962, in testimony before the Ways and Means Committee, the NCA stated that:

"...we are sure that confectionery imports will continue to occur at an increased rate without any further tariff reductions. Increased imports of confectionery at a greater rate would be clearly injurious to the confectionery industry. Enactment of H.R. 9900 [the bill then pending] if followed by tariff cuts in confectionery would cause such increased imports with widespread resulting injury. ...Our foreign competition already has more than a tremendous advantage and undoubtedly further injury will be caused to American industry even without further tariff reduction."

The report accompanying the 1965 Sugar Act extension indicated that the House Agriculture Committee was prevailed upon to believe, apparently in the absence of opposition, "...a most serious competitive situation is presented to the domestic confectionery industry..." and that action was needed "...before imports increased further so as to avoid a contention by foreign suppliers of confectionery into the U. S. market that they have acquired a vested interest in the market."

In testimony in 1968, again before the Ways and Means Committee, the industry said that reduction in import duties had created its current problem. It then went on to comment about two important areas to which we will later turn our attention: "...import duties should be only sufficient to compensate for the higher prices for raw materials which our manufacturers must pay and the higher prices which our manufacturers must pay for labor..."

In 1970 before the Ways and Means Committee the imminent threat of invasion was held out again: "If action is not taken, confectionery imports which now represent a quantity approximately equivalent to 4 percent of domestic industry production quickly can become 10 percent, 20 percent or more."

Failed to Qualify for Special Assistance

Thus, before the Tariff Commission, the Ways and Means Committee, and the Administration the industry not only failed to obtain special import restrictions, it was even unable to establish that it was not healthy enough to withstand the maximum reduction in import duties.

Quite specifically, in its June 17 appearance before this Committee the NCA made no attempt to establish that the imports of confectionery interfered with the attainment of the basic objectives of the Sugar Act. Indeed, the sugar content of imported confectionery is equivalent to less than one-fourth of one percent of U. S. sugar deliveries. (Table 11). This estimate is based on responses by firms engaged in the import of confectionery from major country suppliers and was obtained from the official documents for Internal Revenue Service sugar levy

purposes or from the foreign suppliers' actual factory formulations. Within this sample, there is obviously quite a range depending on the type of confectionery and its particular formulation.

The NCA in its testimony even admits that it does not qualify under the standards of Section 206 of the Sugar Act. Section 206 authorizes the government to impose quantitative limitations on imports of sugar-bearing products if such imports substantially interfere with the attainment of the objectives of the Sugar Act. The standards set by this Committee in Section 206 (c) are not unrealistic; they have provided an adequate basis for the government to impose restrictions on certain imports which genuinely pose a threat to the sugar program.

It is interesting to note that the confectionery industry has never availed itself of the escape clause provisions of the Trade Expansion Act. This provision authorizes the imposition of import restrictions if a domestic industry can establish after a thorough investigation by the Commission's staff that imports have caused or threaten to cause serious injury. The interpretation of this provision has been modified in the last few years, providing a much greater opportunity to obtain special relief, if injury can be established.

It is also interesting to note that a specific exemption from import restrictions was recommended and accepted for confectionery by the Department of Agriculture, the Tariff Commission, and President Johnson in a 1968 investigation under Section 22 of the Agricultural Adjustment Act.

#### Industry Performance

The failure to obtain special protection in the past despite repeated predictions of imminent injury is not the result of callousness or indifference on the part of those in the Administration and the Congress to whom the pleas have been directed by the confectioners. It is rather that these firms are part of a healthy and growing industry.

#### Sales

The industry has enjoyed 14 consecutive years of growth in value of sales, with the 1969 level of \$1.8 billion approximately 48 percent above that in 1962 (when the NCA predicted dire consequences resulting from implementation of the Trade Expansion Act). (Table 1.) Preliminary information for 1970 and estimates for 1971 by the U. S. Department of

Commerce indicate a continuation of the unbroken upward trend in value of sales.

Quantity of shipments similarly increased from 3.1 billion pounds in 1962 to 3.9 billion pounds in 1968 before declining slightly in 1969-70. This pause in the growth of the quantity of shipments the last two years is a result of the transition to a higher-priced and/or lower-weight retail product. In response to rising costs--a worldwide phenomenon in the confectionery industry--many U.S. manufacturers cut back production of chocolate items, reduced candy bar sizes, and moved from a five- to ten-cent price point for chocolate bars.

Furthermore, according to the Department of Commerce's Industrial Outlook publication, this pause is expected to be only temporary and the value of sales is projected to continue to climb to an estimated \$2.7 billion by the end of this decade.

#### Profits

The profit performance of this industry has been remarkably stable. Furthermore, the profits as a percent of

sales and as a percent of net worth have consistently been above those for the broader allied group of food and kindred products <sup>1</sup>(Table 2.)

#### Employment

Since 1962, employment in the confectionery industry has increased by 14 percent, considerably more than the increase for the allied Food Product or overall Non-Durable Goods industries. (Table 3.)

#### Imports

##### Share of Market

Imports classified under the confectionery items in the tariff schedules (TSUS 156.30 and 157.10) have supplied between 2 and 4 percent of domestic consumption in the last decade. The latest official data indicates a 3.4 percent share of the market for these imports. (Table 4.)

Even these low figures, however, are overstated because they include intermediate products used by the domestic producers for their confectionery output. With the exclusion of these products, the ratio of consumer confectionery imports to domestic production has remained under 3 percent for the last decade. (Table 5.) The Tariff Commission's analysis of consumer

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<sup>1</sup>/ Based on corporate tax returns as reported to the Internal Revenue Service.

confectionery focuses on Item 157.10, which includes the types of products comprising approximately 90 percent of domestic confectionery production. By this measure, the share of the market supplied by imports has remained stationary under 3 percent for the duration of the time series. (Table 6.)

It can be seen, therefore, that even the minimal increase in the share of the market for overall imports was accounted for solely by imports of the intermediate products and not consumer confectionery. It should be noted that the intermediate products themselves are now under quantitative restriction pursuant to actions taken under Section 22 of the Agricultural Adjustment Act.

#### Channels of Trade

The major foreign suppliers of consumer confectionery and their share of the quantity of imports in 1970 is as follows: United Kingdom, 35 percent; Canada, 12 percent; and Netherlands 7 percent. (Table 7.)

One of the most interesting aspects in the chain of distribution is that the domestic producers are supplementing their own lines with imports and are estimated by the trade to account for as much as one-half of confectionery imports. This is not self-defeating or an action taken in competitive



desperation. It is the result of a very rational process contributing to the health of the domestic industry and will be explained in full subsequently in the discussion of the advantages of mass production.

#### Ingredient Cost

The National Confectioners Association appears to have founded its request for special treatment on a disparity in ingredient cost between foreign suppliers and U. S. producers. A detailed examination of cost of ingredients, of labor, and of distribution demonstrates that the U. S. confectionery manufacturers are not at a competitive disadvantage in international trade; quite the contrary.

#### Total Ingredient Cost

In Table 8, we have taken individual basic items accounting for 96 percent of the ingredients used by the United Kingdom confectionery industry in 1970 and applied against them the February, 1971 prices for these basic ingredients in the United Kingdom and the United States. The United Kingdom figures were utilized for weighting purposes because they are delineated in terms of basic ingredients, whereas the U. S. Department of Commerce ingredients tabulation is composed

of elements which often combine basic ingredients, e.g., milk chocolate coatings which have sugar, milk, chocolate liquor, and cocoa butter. The United Kingdom is not only the major supplier of confectionery, its ingredient costs are lower and its efficiency greater than most other foreign suppliers. Therefore, any cost disadvantage borne by U. S. manufacturers relative to those in the United Kingdom would tend to shrink in terms of other significant suppliers to the United States. In short, we have attempted to take the fairest example possible for comparison purposes.

The result of this analysis shows the U. S. industry with a total ingredient cost per hundred pounds of \$14.69 and the United Kingdom industry with a cost of \$11.73, conferring an ingredient cost disadvantage on the United States of approximately 25 percent. Ingredient costs for U. S. confectionery manufacturers account for approximately 40 percent of their manufacturers' sales value, according to annual publications of the Department of Commerce. The ingredient cost disadvantage of \$2.96 per 100 pounds for the U. S. manufacturer is therefore equivalent to a little more than 10 percent in terms of sales value.

Following a discussion of ingredient costs by country and by major type of ingredient, we will show that this 10 percent cost disadvantage is more than offset by other competitive cost considerations.

Table 9, which shows confectionery manufacturers' costs for major selected ingredients, indicates that the cost disadvantage to the United States begins to narrow in comparison with producers in Canada and continental Europe. It should be re-emphasized that in all instances we have attempted to show the cost of ingredients to manufacturers for use in export trade, i.e., home market prices minus drawbacks, rebates, restitution, etc.

#### Sugar

The sugar content by weight and value of imported confectionery varies over a tremendous range depending on the type of product involved. Some cautious generalizations, however, can be ventured with respect to the sugar content of total imports, based on the large sample provided to us by importers and foreign suppliers.

On this basis, it is estimated that the sugar content of imported consumer confectionery was approximately 40 percent by weight, or 49.4 million pounds in 1969. (Table 10.)

We have been unable to sort out all the conflicting information on sugar policy in various countries as it applies to export of sugar-bearing products. In general, however, the relative spread in cost of sugar to confectionery manufacturers shipping to an export market cannot be based on the simple comparison between U.S. raw sugar prices and the world price. The confectioner's costs are in terms of refined sugar prices and even if he obtains a full rebate to compensate for home market increments to the raw world sugar price, the resulting relevant spread between refined sugar cost in the U. S. and abroad appears to be narrower than that based on raw sugar. Secondly, some governmental monopolies do not rebate to the confectionery exporter the full difference between home and world sugar prices.

The result of these modifications is that sugar for use in export is generally cheaper to a foreign confectionery supplier than his U.S. competitors, but not by nearly the margin indicated by unqualified reference to the world price. (Table 9).

The finance Committee has been especially alert to discriminatory policies or trading rules as they affect U.S. imports and exports. It is appropriate, therefore, to point out that the U.S. confectionery manufacturer is entitled to both a rebate and drawback on the imported sugar content of his confectionery exports.

Cocoa

Cocoa beans are available to all confectionery manufacturers in the United States, Canada and Europe at world prices. In general, the Europeans tend to obtain the somewhat higher quality and higher priced cocoa beans from Africa, whereas U. S. and Canadian imports are slightly lower priced because of the South American component of the imports. Nonetheless, we have assumed that cocoa beans are available to all manufacturers at the same price.

Milk

Very significant changes have occurred or are about to with respect to milk prices that will drastically reduce the advantage that foreign confectionery suppliers have enjoyed with respect to this ingredient. Last summer the Canadian government instituted a new system of protection for its dairy industry, without any mitigating rebates for milk contained in Canadian exports, with the result that manufacturing grade milk prices in Canada are now quite close to those in the United States. (Table 9.) Confectionery exporters in the EEC have faced the same result as a consequence of recent market changes and modifications in restitution on milk products according to the Department of Agriculture.

In anticipation of accession to the Common Market, the United Kingdom nonfat dry milk price is expected to increase by approximately 20 percent and the now relatively low priced whole dry milk price by more than 50 percent.

#### U. S. Agricultural Exports

It may be appropriate at this point to discuss by way of example some of the U. S. agricultural exports involved in this trade. It has been said that most U.S. produced agricultural items are virtually absent from foreign confections. However, approximately fifty percent of the U.K. imports of corn, from which the essential confectionery ingredient of glucose is made, is supplied from the United States. Furthermore, in addition to directly importing some U.S. produced glucose or corn syrup, a significant processor of this product in the United Kingdom is a subsidiary of a U.S. company. In addition, the U.K. confectionery industry imports from the United States over 9 million pounds of almonds and other nut meats, as well as raisins and other dried fruits, citrus flavors and sundry other U. S. agricultural products. It should also be noted that virtually all chocolate candy produced around the world contains lethicin, a derivative of U.S. soybeans.

Peanuts

The Canadian confectionery manufacturers are also large purchasers of United States agricultural products. For example, in 1970 the United States exported 95 million pounds of peanuts to Canada accounting for 88 percent of Canadian imports of this item and approximately 68 percent of total U.S. exports of peanuts. A Canadian manufacturer's commercial invoice available to the Committee shows purchases of peanuts from the United States in 1971 at 21 cents a pound, which was also the price to the U.S. confectionery industry according to the NCA testimony to the House Agriculture Committee.

The peanuts cannot be re-exported back to the United States if they have been purchased at the low-peanut program export price. (The regulation prescribing this is unique to peanuts and does not apply to the other agricultural items involved in this matter, according to the Department of Agriculture). Peanuts which are purchased at the prevailing U.S. domestic price are eligible for inclusion in confectionery exported to this country.

If there is any connection at all between the request of the National Confectioners Association and the Sugar Act,

it is the hindrance to a goal set forth in the third objective of the Act, i.e., promoting exports of American products.

Labor

Returning now to cost advantages and disadvantages, we have a classic example of the American's ability to offset higher wage rates with greater efficiency. In this case, the average wage rate for production workers in the U. K. confectionery industry is less than half that of the American counterparts. On the other hand, the confectionery output of the American worker is more than four times greater than that of the British worker. (Table 12.) Another way of saying this is that the labor cost per 100 pounds of confectionery output is \$11.33 in the United Kingdom but only \$7.03 in the United States, giving the U. S. manufacturers a 61 percent advantage in total labor cost.

Based on official employment statistics of both countries, the total labor cost is equivalent to 29 percent of the U. K. manufacturers' sales value, whereas it is only 15 percent of the U. S. manufacturers' sales value. Therefore, the U. S. industry enjoys a labor cost advantage relative to total manufacturers' sales value of approximately 9 percent. (Table 12.) This in itself almost completely offsets the 10 percent disadvantage incurred by the U. S. manufacturers for ingredients costs.



Cost of Exporting

Chairman Long has often raised the F.O.B.-C.I.F. issue in terms of comparing a country's aggregate imports and exports. He has also maintained that the real cost, in competitive terms, for a product which has been exported, whether from the U.S. or abroad is at least on a C.I.F. basis. We would suggest in this context that you have to go one step further. That is to say, the first really appropriate place to make direct comparisons of product costs between domestic products and imports is the manufacturers' sales value and the landed, duty-paid cost in a dockside warehouse for the imports. The imports quite obviously must bear the burden of considerable cost in moving from the foreign producer's factory to the warehouse in this country. On the basis of official documents presented to the U.S. Bureau of Customs, distributors of imported confectionery have estimated this cost to be in the range of 15 to 29 percent of the F.O.B. value of the imports.

With costs of labor and ingredients offsetting each other and putting the U. S. manufacturers and the foreign suppliers on an equal footing, this additional cost of exporting burdens the imported confectionery with a net variable cost disadvantage in the range of 15 to 29 percent.

Retail Prices

The analysis indicating that imported confectionery is at a distinct cost disadvantage by the time it reaches this country is borne out by an examination of retail prices in the market place. To understate the case, it can be said that selling price per pound of imported confectionery is generally as high or higher than the U. S. producers. In a significant number of cases the imports are considerably higher priced than domestic confectionery.

For example, in assorted box chocolates, the domestic output appears to sell at about \$2.00 - \$2.40 per pound, whereas it is hard to find imported European boxed chocolates that are priced that low. The imports are commonly in the \$3 - \$5 per pound range. In basic hard sugar candy, the best distributed domestic brand, Brach's, usually retails at 49 cents a pound, whereas a similar type of candy from the United Kingdom retails for the equivalent of \$1.10 a pound. Other domestic center-filled hard candies retail at higher prices but still sell at well under \$1 a pound, whereas the average price for such U. K. imports is well over \$1 a pound.

In solid chocolate bars the popular British brand Cadbury sells here at a price equivalent to or higher than the price for an equivalent quantity of the famous Hershey bars.

Advantages of Local Mass Production

This last point may be the easiest to make but is perhaps the most significant. Confectionery production in the United States, Canada, and United Kingdom is a capital intensive industry with very distinct advantages accruing to local production. Once an imported confectionery item reaches a level of sales that justifies mass production here, that production is transferred to the United States through imitation by a U. S. producer, direct investment by the foreign supplier, or a joint venture.

Years ago, a U. S. producer adapted and popularized the idea of imported lentils in the form of M & M's, creating a highly successful market for domestically produced confectionery and pushing the imports into a commercially insignificant position.

In the last three to five years domestic producers entered the mass production market for solid chocolate Easter eggs and other such items, which previously had been a very large market for imports. Similarly, in just the last

two years or so the foiled hollow novelties market was taken away from the importers by larger domestic manufacturers who entered the business.

The experience of one Canadian exporter is illustrative of these developments. That firm distributed foil-wrapped solid Easter eggs to a division of Schraffts Company in the United States. After the market reached a sufficient volume for this product, Schraffts invested in the production machinery and is now probably the largest producer in the United States of these items. Imports were then in turn distributed through two other U. S. manufacturers who similarly transferred production to their own facilities once the market justified the investment.

Other domestic producers who are now importing have candidly informed their agents that they would cease importation and construct facilities for production in the United States if their ultimate plans are successful.

Nestles is probably the most outstanding example of direct investment by a foreign supplier. There are others, however, who have carried their plans to the point of choosing sites for entirely new construction or existing plants for adaptation to their method of production.

There are other specific cases where foreign suppliers have agreed to sell their products in the United States through the distribution system of a U. S. confectionery manufacturer, with the understanding that successful marketing to a sufficient volume level will result in production being taken over by the U. S. firm and royalties paid to the foreign manufacturer for know-how. Transfers of production to the United States through such joint ventures already have occurred and others are under way.

There is, of course, the last situation where a domestic producer supplements his own line with imports for purposes of prestige, quality, etc. In this situation the domestic producer gains a profitable addition to his business without any expectation that the volume will reach a level justifying investment in production facilities here.

In short, without any risk of investment capital the domestic producers are utilizing imports either directly or indirectly to test the market. If the item fails, there is no loss for the domestic producer. If it is successful, the domestic industry has proven time and again the ability to adapt the imported confection to its own advantage. In this

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light, confectionery imports are making a substantial contribution to the growth and health of the U. S. confectionery industry.

### Conclusion

On the merits of its request, the National Confectioners Association has failed in the past to obtain special protection from import competition. There has been no change to justify special consideration from this Committee now.

The U. S. confectionery industry has enjoyed increasing sales and employment and higher-than-average profits.

Imports have remained a small and steady element in the market.

The total ingredient cost disadvantage incurred by the domestic producers is more than offset by higher total labor costs and exporting expenses to this market borne by the foreign suppliers. The result is that confectionery imports are more costly and retail at a price generally higher than U. S. confectionery.

Past and current examples, as well as present planning of specific companies, demonstrate that once an imported confectionery item reaches a level of sales that justifies

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local mass production, that production is transferred to the United States.

There is nothing, therefore, which suggests that the continued presence of confectionery imports in the U. S. market, unhindered by arbitrary restrictions, will adversely affect the operations of the domestic industry or the U. S. sugar program. Restrictions, on the other hand, would work to the direct detriment of U. S. agricultural exports.

Table 1

CHOCOLATE AND SUGAR CONFECTIONERY INDUSTRY:  
GROWTH IN PRODUCTION AND SALES 1962-1969

(In Millions)

	<u>1962</u>	<u>1969</u>	<u>% Change</u>
Total Production	3,121.0	3,888.5	+24.6%
Total Mfg.'s Sales Value	\$1,251.0	\$1,847.6	+47.7%

SOURCE: U. S. Department of Commerce, Confectionery  
Manufacturers Sales and Distribution



Table 2

CONFECTIONERY AND RELATED PRODUCTS INDUSTRY(SIC207)  
 AND FOOD AND KINDRED PRODUCTS INDUSTRY (SIC20):  
 PROFIT RATIO COMPARISONS,<sup>1/</sup> 1962-1967

<u>Year</u>	<u>Confectionery &amp; Related Products</u>		<u>Food &amp; Kindred Products</u>	
	<u>Return on Sales</u>	<u>Return on Net Worth</u>	<u>Return on Sales</u>	<u>Return on Net Worth</u>
1967	4.7%	12.3%	2.2%	9.0%
1966	4.6%	13.4%	2.0%	8.4%
1965	4.9%	11.8%	2.2%	8.8%
1964	4.4%	11.1%	2.1%	8.3%
1963	4.4%	11.8%	2.1%	8.1%
1962	4.4%	NA	1.6%	NA

<sup>1/</sup> All ratios are based on after tax returns. All ratios based on total returns with and without net income.

SOURCE: Statistics of Income, Corporation Income Tax Returns,  
 Internal Revenue Service

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TABLE 5

CHOCOLATE AND SUGAR CONFECTIONERY  
(NOT INCLUDING INTERMEDIATE PRODUCTS)

(In Millions of Pounds)

<u>Year</u>	<u>Production</u>	<u>Imports</u> <sup>1/</sup>	<u>Exports</u>	<u>Apparent Consumption</u>	<u>Ratio of Imports to Consumption</u>
1969	3,888.5	117.4	16.4	3,989.5	2.9%
1968	3,907.2	118.2	15.5	4,009.9	2.9%
1967	3,769.0	99.6	16.0	3,852.6	2.6%
1966	3,668.0	93.8	15.4	3,746.4	2.5%
1965	3,474.0	85.3	17.0	3,542.3	2.4%
1964	3,403.0	100.8	15.4	3,488.4	2.9%
1963	3,269.0	96.2	13.2	3,352.0	2.9%
1962	3,175.0	76.0	11.0	3,240.0	2.3%

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<sup>1/</sup> Import totals do not include imports of intermediate products.

SOURCE: Official Statistics, U. S. Department of Commerce and U. S. Tariff Commission

Table 6

CANDY AND OTHER CONFECTIONERY NES (TSUS ITEM 157.10)  
(Millions of Pounds)

	<u>Production</u>	<u>Imports</u>	<u>Exports</u>	<u>Apparent Consumption</u>	<u>Ratio of Imports to Consumption</u>
1969	3,534.6	95.6	14.1 <sup>1/</sup>	3,616.1	2.6%
1968	3,528.2	98.5	13.4 <sup>1/</sup>	3,613.3	2.7%
1967	3,396.2	84.8	13.7	3,467.3	2.4%
1966	3,296.4	79.9	13.6	3,362.7	2.4%
1965	3,146.4	72.4	14.8	3,204.0	2.3%
1964	3,079.4	87.4	13.0	3,153.8	2.8%
1963	2,931.6	80.8	11.0	3,001.4	2.7%

<sup>1/</sup> Estimated.

SOURCE: U.S. Tariff Commission, Summary of Tariff and Trade  
Information

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Ingredient Cost as a % of Total Manufacturer's sales value <sup>9/</sup>	40%
Ingredient Cost Disadvantage as a % of total manufacturer's sales value	10.08%

- 1/ Raw materials prices were taken from official government and industry publications or were derived from estimates by the Department of Agriculture specialists. All price quotations reflect the approximate raw materials costs as of February, 1971.
- 2/ The raw materials used and their relative weights were taken from the 1969-1970 annual report of the Cocoa, Chocolate and Confectionery Alliance of Great Britain.
- 3/ U. S. Department of Agriculture, Sugar Reports, ASCS.
- 4/ Estimate by the U. S. Department of Agriculture.
- 5/ Quoted from the February, 1971, issue of The Alliance Journal, published by the Cocoa, Chocolate and Confectionery Alliance of Great Britain.
- 6/ Estimate by the U. S. Tariff Commission.
- 7/ U. S. Department of Agriculture, Dairy Situation, ERS.
- 8/ Based on London market quotations.
- 9/ U. S. Department of Commerce, Confectionery Manufacturers Sales and Distribution.
- 10/ Estimated average cost to the domestic confectionery manufacturers.



Table 9

**BASIC RAW MATERIAL COSTS TO MANUFACTURERS  
FOR CONFECTIONERY SOLD IN THE U.S.<sup>1/</sup>  
(In U.S. cents per pound/ February, 1971)**

<u>Ingredient</u>	<u>United States</u>	<u>United Kingdom</u>	<u>Canada</u>	<u>Netherlands</u>
Sugar-Mfg's.				
Refined	11.80 <sup>2/</sup>	7.9 <sup>5/</sup>	8.5-9.6 <sup>7/</sup>	11 <sup>1/</sup>
Glucose	7.26 <sup>2/</sup>	6.5 <sup>5/</sup>	8.65 <sup>7/</sup>	NA
Milk:				
Whole	4.86 <sup>3/</sup>	4.90 <sup>6/</sup>	3.95 <sup>8/</sup>	4.94 <sup>4/</sup>
Whole Dry	52.0 <sup>4/</sup>	24.1 <sup>5/</sup>	47.0 <sup>9/</sup>	39.0 <sup>4/</sup>
Whole Skim	27.8 <sup>3/</sup>	16.0 <sup>6/</sup>	24.5 <sup>9/</sup>	21.32 <sup>4/</sup>
Peanuts	22.0 <sup>4/</sup>	17.9 <sup>5/</sup>	17.0 <sup>10/</sup>	NA

<sup>1/</sup> These prices are net of deductions for rebates, drawbacks, etc.

<sup>2/</sup> Estimated average cost to domestic confectionery manufacturers.  
U. S. Department of Agriculture Sugar Reports, ASCS.

<sup>3/</sup> U. S. Department of Agriculture Dairy Situation, ERS.

<sup>4/</sup> Estimated by the Department of Agriculture.

<sup>5/</sup> Quoted in The Alliance Journal published by The Cocoa, Chocolate and Confectionery Alliance of Great Britain.

<sup>6/</sup> Based on London Market Quotations.

<sup>7/</sup> Price quoted to Canadian Manufacturers. Spread resulting from rebate based on Commonwealth or non-Commonwealth sugar supplies.

<sup>8/</sup> Price quoted by Canadian Embassy. Price may fluctuate slightly from Province to Province.

<sup>9/</sup> Embassy of Canada.

<sup>10/</sup> Estimated by U.S. Dept. of Agriculture. Canadian manufacturers invoices currently show they are paying as much as \$.21 per pound.

<sup>11/</sup> Refiners' price minus restitution based on current world market price for sugar.

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Table 12

	<u>United States</u>	<u>United Kingdom</u>
Total production workers	58,100	90,500
Total man-hours worked	109.3 million	183.6 million
Average hourly wage	\$ 2.50	\$ .94
Total Production Poundage Value	3,888.5 million \$ 1,847.6 million	1,515.8 million \$ 672.3 million
Output per man-hour	\$ 16.90 35.6 pounds	\$ 3.66 8.3 pounds
Total Labor Cost <sup>1/</sup> (per 100 pounds)	\$7.03	\$11.33
Labor cost advantage for the U.S.	61.2%	
Total labor cost as a percentage of total mfg's. sales value	14.8%	
Total labor advantage as a percentage of total mfg's. sales value	9.1%	

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<sup>1/</sup> Derived by taking man-hours per 100 lbs. of output times average hourly wages.

SOURCE: Department of Labor, Bureau of Labor Statistics, Employment & Earnings; Department of Commerce, Confectionery Mfg's Sales and Distribution, The Cocoa, Chocolate and Confectionery Alliance of Great Britain, and The Ministry of Employment, Employment and Productivity Gazette.

Table 13

UNITED STATES TRADE SURPLUS IN TRADE  
WITH THE UNITED KINGDOM

(In Millions of U.S. Dollars)

	<u>1968</u>	<u>1969</u>	<u>1970</u>
<b>Total Trade</b>			
United States Surplus	\$ 1,299	\$ 1,936	\$ 3,263
 <b>Total Agricultural Trade</b>			
United States Surplus	1,170	981	1,508

SOURCE: Official Foreign Trade Statistics, United Kingdom  
Board of Trade

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a nation like South Africa—whose counsel admits its sugar exports to the United States are of minimal importance, is intolerable.

So I say for the second reason of the criteria established under the sugar act in terms of developing countries, that the sugar quota to South Africa violates the tenets of this policy.

The third violation concerns the extent to which sugar workers in South Africa share in the payments made through the sugar subsidy. I think this is a very worthy and desirable stated policy. But South African sugar workers do not reap the benefits to which they are entitled.

Factories and large landowners of quota countries are required to share the benefits from participation in the premium priced U.S. sugar market with farmers and workers. Yet, the average South African field worker's daily wage, including housing is only 86 cents. Typically, white workers receive up to 20 times more than blacks for the same labor. Working conditions are pitiful. Opportunities to escape this indentured service simply don't exist, because the 4,500 black South African sugar workers have no human or property rights. Under my proposal to terminate the South African sugar subsidy, it is not these workers who would be denied—but rather it is the 16 corporations that employ these workers under inhuman conditions that would cease to gain from this sweetened windfall.

I feel it is unconscionable to continue South Africa's sugar quota because that nation violates three of the six criteria which have been established under the Sugar Act. The fact that, one, the workers themselves fail to participate in a meaningful way in the bounties that are provided South Africa with this windfall. Second, that South Africa is not a developing country and doesn't need help from the United States to bolster its economy; and third, that their discriminatory policies are continued in effect against U.S. citizens. They discriminate not only against individuals but also against American servicemen who are called upon to serve their country in the Armed Forces.

Finally, Mr. Chairman, I think that if we are ever to expect any of the private companies and corporations to begin to exercise some kind of leadership in this area, I think it is imperative that we in the Congress begin, as responsible public officials, to show the way, and I don't think that we can expect private companies, although we would like to see them take more direct action, if we are unprepared to make some hard and difficult decisions.

I think for these reasons, I would certainly hope that South Africa or the amendment which I had introduced, which would ban the participation in South Africa, would be accepted.

I believe that continuation of South Africa's sugar quota is not in our national interest. For far too long, we have waited and watched and hoped that South Africa might somehow modify its detestable doctrine of apartheid. While we have waited, we have seen no perceptible beneficial change in that doctrine.

Indeed, if anything, we have seen the hated doctrine grow stronger and more repressive with the passage of time.



The tragedy of apartheid in South Africa was clearly brought home to Robert Kennedy on his visit to that nation in 1966. He was impressed with the warmth and vitality of all the people of South Africa, of whatever political persuasion or race. As he told the students of the University of Capetown:

In the world we would like to build, South Africa could play an outstanding role . . . This is without question a preeminent repository of the wealth and knowledge and skill of the continent. Here are the greater part of Africa's research scientists and steel production, most of its reservoirs and coal and electric power. Many South Africans have made major contributions to African technical development and world science the names of some are known wherever men seek to eliminate the ravages of tropical diseases and pestilence. In your faculties and councils, here in this very audience, are hundreds and thousands of men who could transform the lives of millions for all time to come.

But the help and the leadership of South Africa or the United States cannot be accepted if we—within our own countries or in our relations with others—deny individual integrity, human dignity, and the common humanity of man. If we would lead outside our borders; if we would help those who need our assistance, if we would meet our responsibilities to mankind, we must first, all of us, demolish the barriers which history has erected between man within our own nations—barriers of race and religion, social class, and ignorance."

Now is the time for America to help bring an end to the heritage of fear that is the plight not only of young black men in South Africa, but of oppressed peoples everywhere.

Mr. Chairman, I know that my amendment to the sugar amendments of 1971 will not substantially alter South Africa's policies of apartheid or have much impact on its economy. The policy is too deeply entrenched and the value of the subsidy is too small.

However, I feel the termination of the sugar quota would have at least three important benefits.

First, the action would be a significant moral gesture from the United States to the world community as well as to our citizens here at home.

Second, it would lend support to the increasing clamor for private business enterprise to disengage from South Africa.

Third, by terminating the South African quota, we can provide substantial economic assistance to other, more deserving sugar producing nations in Africa and elsewhere, at no cost to the current operation of our sugar system.

In sum, my proposal for ending the South African sugar quota can be a significant first step toward greater wisdom in our South Africa policy. It is an important sanction against a regime that opposes all that we in this country stand for.

Senator BENNETT. Thank you very much, Senator.

Senator Anderson, do you have any questions? Senator Curtis?

No questions.

We appreciate your contribution. We recognize the seriousness of the problem and I am sure we will give it very careful consideration when we meet.

Senator KENNEDY. I want to thank the members of the committee again for letting me testify.

(Senator Kennedy's prepared statement follows. A statement relative to the preceding testimony concerning the South African situation appears at page 1076. Hearing continues on p. 206.)

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Next to Great Britain, the United States is the world's largest investor in the South African economy. Americans deposited \$945 million in investments in that country in 1968.

And the average rate of return on American investments in South Africa are almost double those for investments in other countries of the world. In other words, it pays American corporations twice as much to invest in South Africa. Thus, the white South African finds comfort in the naked fact encouraging his belief that the United States pays more attention to economic factors than to moral or political ones.

"We are not Marxists in the United States. We don't believe that economic man is the only man that exists. We believe in freedom, liberty and justice." Those words, from the former Ambassador to Upper Volta, Elliott Skinner, sadly make our official pronouncements against apartheid sound merely like a public relations jingle.

Around the world, the young and the oppressed are seriously questioning our present commitment to the ideals upon which our Nation was founded.

If we can impose economic sanctions, including termination of the sugar quota, upon Cuba, because we disagree with that country's communistic affiliation; and if we can suspend the sugar quota granted to Rhodesia in response to that country's unilateral declaration of independence from Great Britain, then it is logical to seek to deprive South Africa of its bountiful benefits. The time is now ripe to reassess our trade with South Africa and to determine whether we shall enforce the very rules we adopted to guard our sugar quota policy.

It is especially deplorable that we continue to provide the current sugar subsidy to South Africa when we know that country violates three of the six rules set forth by the House Agriculture Committee in its "Criteria Applicable to Foreign Quotas."

We know well the cruel and insensitive treatment Americans have suffered at the hands of that racist regime. That abhorrent policy places South Africa in violation of the first rule—which requires quota countries to maintain a policy of nondiscrimination against U.S. citizens.

The second violation is just as flagrant. Factories and large landowners in quota countries are required to share the benefits from participation in the premium-priced U.S. sugar market with farmers and workers. Yet, the average South African fieldworker's daily wage, including housing, is only 86¢. Typically, white workers receive up to 20 times more than blacks for the same labor. Working conditions are pitiful. Opportunities to escape this indentured service simply don't exist, because the 4,500 black South African sugar workers have no human or property rights. Under my proposal to terminate the South African sugar subsidy, it is not these workers who would be denied—but rather it is the 16 corporations that employ these workers under inhuman conditions that would cease to gain from this sweetened windfall.

Realizing that the sugar quota serves not only to stabilize the supply of sugar for American consumers, we must also recognize that the Sugar Act is foreign aid, not foreign trade. Thus, South Africa fails to meet a third criterion of the Agriculture Committee, for its is impossible to establish that country's need for a premium-priced market in the United States as a means of bolstering its strides to achieve economic development. South Africa is not a developing nation.

In terms of transportation, communication, electric power, and general living standards, South Africa is on the wrong continent. It resembles a durable European economy rather than a developing African nation. With a gross national product of over \$20 billion, South Africa's 20 million people make up only 6 percent of the total population on the African continent. Yet, South Africa contributes nearly 33 percent of the GNP for all of Africa.

The Congress has consistently held that the sugar quota should "adequately assist the economies of developing countries". If the United States were dependent upon the South African sugar output as a principal source, that would be one thing. Or if there were not 38 other needy nations competing for fractions of the total quota, that would be another. But it is intolerable to continue a program of foreign aid to a nation like South Africa—whose counsel admits its sugar exports to the United States are of minimal importance.

Under the present Sugar Act, domestic sugar growers are guaranteed about 60 percent of the total annual sugar requirement of the United States. The statute assigns the remainder of the annual requirement to 31 foreign countries. Many foreign sugar-producing nations are anxious to participate in the program since the current protected sugar price in the United States is about 7 cents per pound, or 3 cents per pound higher than the world market price of 4 cents. The United States provides a premium worth from \$290 million to \$342 million each year to all foreign sugar suppliers.

South Africa's statutory share was set at 1.06 percent in 1965. The 1971 Sugar Amendments would raise that to 1.44 percent. Based on current estimates sugar consumption in the United States for 1971 will be 10.9 million tons. South Africa's quota, after adjustments for deficits in other nations, would amount to 57,406 tons.

Under the 1971 Sugar Amendments passed by the House, 12 foreign nations would have larger quotas than South Africa. In 1961 there were 14 nations with quotas greater than South Africa. And now there would be 20 nations with quotas smaller than South Africa.

I believe that continuation of South Africa's sugar quota is not in our national interest. For far too long, we have waited and watched and hoped that South Africa might somehow modify its detestable doctrine of apartheid. While we have waited, we have seen no perceptible beneficial change in that doctrine. Indeed, if anything, we have seen the hated doctrine grow stronger and more repressive with the passage of time.

The tragedy of apartheid in South Africa was clearly brought home to Robert Kennedy on his visit to that nation in 1966. He was impressed with the warmth and vitality of all the people of South Africa, of whatever political persuasion or race. As he told the students of the University of Capetown:

In the world we would like to build, South Africa could play an outstanding role. . . . This is without question a pre-eminent repository of the wealth and knowledge and skill of the continent. Here are the greater part of Africa's research scientists and steel production, most of its reservoirs of coal and electric power. Many South Africans have made major contributions to African technical development and world science; the names of some are known wherever men seek to eliminate the ravages of tropical diseases and pestilence. In your faculties and councils, here in this very audience, are hundreds and thousands of men who could transform the lives of millions for all time to come.

But the help and the leadership of South Africa or the United States cannot be accepted if we—within our own countries or in our relations with others—

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Senator BENNETT. Thank you. In your last paragraph you suggest that we, the members of the committee, prepare an amendment to give you appropriate relief. I would think that if you have a good lawyer, as you do, that he might want to suggest something to the committee which would be appropriate to its jurisdiction, and to be included in the Sugar Act.

It would seem to me that the relief amendment belongs in the jurisdiction of another committee and I can't conceive of language in the act which could be used to extend the use of this committee which can take in that kind of privilege. But I would suggest, the committee will be happy to receive a proposed text of an amendment from your attorney, and we will give it careful consideration.

Mr. MORAN. We will certainly do that, Mr. Chairman. The amendment of course that, other than equitable relief that, this committee might seem to extend such as perhaps withholding the sugar quota, amending the act to delete Bolivia—

Senator BENNETT. We can punish Bolivia but that won't get you any relief.

Mr. MORAN. Well, the only other amendment we could suggest, and we will furnish it to the committee in written form, is changing the date presently in the House version of the bill from January 1, 1969 to January 1, 1961.

Senator BENNETT. Yes, we already have the Grace amendment which covers that.

Mr. MORAN. Well, it covers it only to 1969, Mr. Chairman, to be able to afford relief.

Senator BENNETT. We have an amendment to take care of the problem of the Grace Company which goes back to 1961.

Mr. MORAN. I didn't realize it went back that far, Mr. Chairman.

Senator BENNETT. Didn't we have somebody the other day who proposed an amendment to go back? My memory was we had a witness before us last week who proposed an amendment to go back to 61 or 62, so you prepare the text of yours and we will have it so we will be sure it fits your needs.

Mr. MORAN. Very good, Mr. Chairman. I will furnish it to the committee.

Senator BENNETT. Are there any other questions?

Senator HANSEN. Mr. Chairman, excuse me, I don't have a question, but I would like to ask unanimous consent that there may be inserted in the record at this point, I mean in the hearings record at this point, a story in the Washington Evening Star of June 18, 1971 under the finance section which speaks about foreign oil firms awaiting—I beg your pardon I was mixed up in that.

I withdraw that.

Senator BENNETT. Do you wish the entire text of this statement inserted in the record?

Mr. MORAN. We do, Mr. Chairman, along with the summary.

Senator BENNETT. In addition to Mr. Youngquist's personal testimony.

Mr. MORAN. Yes, Mr. Chairman, if you please.

Senator BENNETT. It will be so inserted and if there are no further questions thank you very much.

Mr. MORAN. Thank you, gentlemen.

(The prepared statement follows:)



STATEMENT OF REX V. YOUNGQUIST AND DONALD V. APPLGATE, UNITED STATES CITIZEN  
CLAIMANTS AGAINST THE BOLIVIAN GOVERNMENT FOR THEIR EXPROPRIATED PROPERTY BEFORE  
THE SENATE FINANCE COMMITTEE, JUNE 21, 1971

Mr. Chairman, my name is Rex Youngquist of Miami, Florida. I am accompanied by Mr. Donald Applegate of Ferriday, Louisiana, and our legal counsel, J. Anthony Moran of Washington, D.C. Mr. Applegate and I are claimants in a claim that we have pursued against the Government of Bolivia for a period of nine years. We claim compensation for our land expropriated in 1961 by the Bolivian Government. The facts are these:

In 1949, I met Mr. Applegate, who had spent considerable time in South America. We formed a partnership to find, acquire, and develop agricultural property in South America. In this respect, we began a search for suitable land, which lasted almost two years. We purchased a Jeep for about \$3,000.00 and hired a driver-guide and a helper, which cost about \$40.00 per week, to assist us in scouting the wild countryside for good farming land. When we would locate what appeared to be suitable land, we would have to hire 20 to 40 men to check its soil quality. This was accomplished by traveling on horseback throughout the potential property and cutting trails 1/4 mile across the width of the surveyed area to withdraw soil samples. Finally we located the land in question. It encompassed an area 7 by 17 miles and it took us and 40 men approximately four months to withdraw the samples necessary to determine the soil quality of the land. We sent these samples back to the United States for chemical analysis to further assure ourselves that the land was good for farming purposes.

We jointly purchased the land - the farms Las Gamas, Olarra, and La Florida, which we integrated into an estate called Rincon de Saucos - in March, 1951, for, in total, 2,094,578.08 Bolivianos. My own recollection is that we spent considerably more than the facts indicate, but the official exchange rate for the first quarter of 1951 (60.60 Bolivianos to the dollar) places the value contained in the deed at \$34,580.00 (U.S.). In addition to this sum, in accordance with the customs of the country, we paid a considerable amount "under the table". The vendor was a judge and "to assure ourselves of good title" we had to pay the judge a fee as a legal advisor

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Nevertheless, we agreed to submit such a claim in accordance with State Department procedures. In this respect, we have had to spend an additional \$10,000.00 (U.S.) or more perfecting this claim. First we have had to retain several acceptable lawyers in Bolivia to pursue this matter in the Bolivian courts and administrative departments. We paid engineers, surveyors, aerial photographers, and scribes to survey our land and make photo maps in order to establish its acreage. Naturally we had the additional expense of traveling to and from Bolivia. We each made six trips to that country to obtain the information necessary to perfect our Diplomatic Claim in accordance with State Department requirements.

It is interesting to note that 5,725 hectares (15,457 acres) of our land taken by the Bolivians were given to a colony of Okinawans. These Okinawans were resettled in Bolivia under the auspices and expense of the United States Government. It is my understanding that it cost our Government over \$2,000,000.00 to transport, resettle, and subsidize these colonists. Although there was no formal agreement between the Bolivian and United States governments, the Bolivians have always taken the position that they accommodated the Okinawans to ingratiate themselves to the United States Government, and their motives were apparent when they used our land for this purpose. Of course, the United States State Department denies any liability or responsibility to us.

In addition to the acreage given to the colony of Okinawa by the Bolivians, the Okinawans have occupied and appropriated to their own use an additional 3,000 hectares (8,100 acres) of our land unaffected by any decree. These farmers cut down trees and literally stripped the area of every piece of lumber that had any value. Ironically, the Okinawan farmers are using a considerable amount of the property expropriated from us for growing sugar cane. This cane is then sold to the Bolivians and no doubt a part of this crop benefits the Bolivians under the Sugar Act.

We urge you to examine the facts stated here. Everything we have stated for your consideration is properly documented. Such documentation has not been

included herewith because it is voluminous in nature. However, upon request our counsel, present here today, will make the entire file available to this Committee.

Mr. Applegate and myself respectfully urge this Committee to consider our unfortunate experience in connection with this claim. It appears to be a classic example of where a foreign country expropriates property legally belonging to American citizens without paying any or just compensation, while said foreign country in the meantime continues to benefit financially and otherwise from United States Government assistance at the taxpayer's expense. We urge this Committee to further amend this proposed legislation so as to afford us the relief that it deems appropriate and proper.

Senator BENNETT. The next witness is Justice M. Chambers, on behalf of the Sugar Industry of Swaziland.

#### STATEMENT OF JUSTICE M. CHAMBERS ON BEHALF OF THE SUGAR INDUSTRY OF SWAZILAND

Mr. CHAMBERS. Mr. Chairman, I am Justice M. Chambers, and I am appearing today in behalf of the 30,000-ton quota given to Swaziland in the House-passed bill. I would ask that my full statement be included in the record, sir, and I have a summary which I will try to follow as I comply with the 5-minute rule.

I know Senator Anderson just asked the question as to where Swaziland is located and that is why I am taking your time to tell you a little bit about Swaziland. It is a former British High Commission territory and received its independence in September 1968. It is a relatively small country, only about 97 by 100 miles at its extremities, contains some 6,700 square miles, and has some 100,000 population, of whom all but about 13,000 are Africans, and these are basically from one nation—the Swazi nation.

Both in its laws and in its practices it is truly a nonracial country. It lies on the doorstep of the Republic of South Africa, and is economically very close to the Republic. It is in a common customs union with South Africa, Botswana, and Lesotho and uses the South African rand as its currency.

At the same time, it is a member of the Organization of African Unity. As a result, it is already referred to as the bridge between South Africa and the other African nations.

It is economically viable, but is faced with many difficult problems as it moves from a subsistence economy into the family of modern nations.

Literally all aspects of its government must come forward simultaneously, education, transportation, agriculture, employment for its people, all these things must move forward at the same time and, of course, this requires financial support.

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STATEMENT BY J. M. CHAMBERS TO THE SENATE COMMITTEE ON FINANCE  
IN SUPPORT OF THE INCREASED SUGAR QUOTA FOR SWAZILAND  
AS CONTAINED IN H. R. 8866

Mr. Chairman and Members of the Committee: I am Justice M. Chambers, and I appear today on behalf of Swaziland and in support of the quota for Swaziland in the House-passed bill H. R. 8866. For the record, I am duly registered as representing the Swaziland Sugar Association as required by the Foreign Agents Registration Act of 1938, as amended, and have submitted to your Committee a copy of my latest registration statement to the Department of Justice.

We appreciate the opportunity of presenting our support to the House action in granting our request for an increased share of the United States sugar market. The increase in Swaziland's quota as passed by the House of Representatives to 30,000 tons is small in relation to the overall sugar program, but it is of vital importance to the newly independent nation of Swaziland. We believe that it will be of benefit to the United States for it will assist in maintaining an economically viable and non-racial nation in a part of the world which is of increasing importance strategically, politically, and commercially to the United States and to the rest of the world.

SWAZILAND, THE NATION

Because so little is known about Swaziland, probably it would be helpful to tell you a little about the country.

Swaziland is one of the three former British High Commission Territories in southern Africa. On April 25, 1967, it was granted internal self-government under a new constitution introduced on that date and gained full independence in September 1968. The nation is a relatively small, land-locked country lying between the Republic of South Africa and Mozambique. It is roughly 90 miles by 120 miles at its extremities and is some 6,700 square miles in area.

Its population is about 400,000, of whom approximately 387,000 are Africans. The Africans come almost entirely from the Swazi Nation, over whom His Majesty King Sobhuza II (the present King) has ruled since 1921.

The Parliament of Swaziland consists of two houses--a House of Assembly of 31 members and a Senate of 12 members. There are Europeans in both



houses although the substantial majority are African Swazis. The Cabinet consists of a Prime Minister and 10 other ministers holding separate portfolios, with the Ministry of Finance headed by the only European in the Cabinet. The political climate is peaceful with a stable Government and with the whole nation having a deep-rooted traditional loyalty to the King.

The country is a member of the United Nations, the Organization of African Unity, and the British Commonwealth. It is politically and ideologically independent of the Republic of South Africa, but has developed economic ties with the Republic because of its geographical situation in southern Africa. It uses the South African "rand" as its currency and is in a customs union with the Republic of South Africa, Botswana, and Lesotho.

From its inception, the country has in law and in practice been completely nonracial. Indeed, the opening paragraph of its Constitution reads, in part:

"Whereas every person in Swaziland is entitled to the fundamental rights and freedoms of the individual, that is to say, the right, whatever his race, tribe, place of origin, political opinions, colour, creed, or sex, but subject to respect for the rights and freedoms of others and for the public interest to each and all of the following, namely:

- (a) life, liberty, security of the person and the protection of the law; and
- (b) freedom of conscience, of expression, and of assembly and association; and
- (c) protection for the privacy of his home and other property."

From my own observation over the past several years, I am confident that within Swaziland all colors will continue to live and work together in peace and harmony and thereby set an example for the other nations in Africa, which must be affected by what they see occurring in Swaziland. In fact, Swaziland is already recognized as a bridge between the Republic of South Africa and other African nations.

Economically, the nation is sound, but it is faced with many difficult problems as it moves forward from a subsistence economy into the family of modern nations. Literally, all aspects of government must move forward at the same time; education, transportation systems, health, agriculture, employment for its people, and all other problems require continuing effort and, of course, financial support. It is a member of the World Bank, the

International Monetary Fund, and the International Development Association. If it can increase its earning power, its economic future is assured. At present it is operating within a balanced budget, but this provides no surplus for development, and the progress of the country will depend upon finding additional sources of revenue.

#### RELATIONS WITH THE UNITED STATES

Since it achieved its independence, Swaziland has evolved as a staunch supporter of the United States. In the United Nations it has supported our country's position on such matters as the question of Red China, the Mid-East, Vietnam, and the question of withdrawal of U. N. troops from Korea. It is actively endeavoring to increase its trade relations with the United States. For example, one large U. S. company has recently taken over its pineapple canning industry, and there are active negotiations under way with a U. S. firm to produce cotton textiles from Swazi and U. S. cotton for sale in that part of the world.

It is difficult to state definitely the volume of Swaziland purchases from the United States because of the nature of its buying. While it has always used much American equipment, this is normally purchased through South Africa, and the United States trade statistics do not differentiate U. S. sales to Swaziland from those to South Africa. With the expansion of Swaziland's trade, it is reasonable to assume that the volume of U. S. imports into Swaziland is increasing proportionately; but until Swaziland starts buying directly from the United States, it is difficult to measure. Growing commercial relationships, plus the need for continued harmony in that part of Africa, underscore the United States' interest in the success of the country.

That the United States has a strong interest in this part of Africa and the nations developing therein is clearly shown by the strong new policy statement on Africa approved by President Nixon on March 20, 1970. Such statements appear as:

"It is in our national interest to cooperate with African countries in their endeavors to improve their conditions of life, and to help in their efforts to build an equitable and economic order in which all can effectively share."

"They look to trade as a more equitable relationship than aid."

"An American economic assistance program is in the United States' interest."

"The smaller independent states south of Zambesi also deserve attention. (Swaziland, Botswana, Lesotho.) They are seeking to create multiracial societies free of the predominant influence of the minority-dominated states adjoining and surrounding them."

More recently President Nixon in his message to Congress stating the U. S. foreign policy for the '70's stated:

"We have sought to provide assistance and encouragement to Botswana, Lesotho and Swaziland in their efforts to prove the viability of multiracial societies in the heart of Southern Africa."

As further evidence of the Administration's position on an increased quota for Swaziland, the attached letter addressed to Congressman Bradford Morse is germane. He had inquired of the Secretary of State as to whether or not a 30,000-ton quota for Swaziland was in accordance with the President's program for Southern Africa. Among other things, the attached reply to Congressman Morse says: "A further increase for Swaziland to 30,000 tons or even higher would be desirable for many reasons, and fully in keeping with the President's program for Southern Africa. However, the Administration has not recommended such an increase as it might arouse hopes for widespread revision in other quotas."

The Government of Swaziland fully subscribes to the view that trade is a more equitable relationship than aid. It is confident that, given fair opportunities, its people can earn the money with which to finance their further progress and development. Swaziland has the natural resources (good soils, ample water supplies, and favorable climate) which, combined with the aptitudes and skills of its people, can lead to a successful expansion of its sugar industry. It seeks only a market where it can sell more of its sugar at a reasonable price. This the United States can provide, and the bill before your Committee assures this opportunity.

#### THE ORGANIZATION OF THE SUGAR INDUSTRY

In 1967 the Legislature of Swaziland enacted the Sugar Law to control the sugar industry. This Act wrote into law an Agreement which had been

reached among the members of the industry as to how the industry should function. It also included the Constitution of the Swaziland Sugar Association, which is the body established by the law to regulate the sugar industry under the terms of the Agreement.

The Association, a nonprofit organization, is administered by a Council, which consists of an equal number of representatives from the millers and growers and has an independent chairman. The Association regulates, promotes, and fosters the industry; promotes agreement and cooperation between millers and growers, and examines into and adjusts major grievances; collects and disseminates statistics and information among its members; maintains experimental and research facilities to improve technical knowledge; supervises the quotas set by the Quota Board; and, importantly, purchases and sells all sugar.

At present the quotas in force amount to 201,400 tons of sucrose, of which 107,270 tons are allocated to the two milling companies, which also grow cane, and the balance of 94,130 tons to the independent growers. There are at present 157 independent growers, of which 140 are Swazis in the Vuvulane experiment, which will be discussed later. The government has plans for a large-scale expansion of sugar-cane production to be undertaken mainly through Swazi agriculturists. This is one reason why our request for a larger quota is of such importance to the nation.

The role of the Sugar Association in the purchase and sale of all sugar produced in Swaziland and in the distribution of the net proceeds to the two sides of the industry insures the widest possible distribution of the profits. This is accomplished in the following manner: The miller receives a price per ton for sugar which is determined by dividing total sugar proceeds, less certain costs, by the total tonnage of sugar sold by the millers to the Association each year. A major proportion of this price (66-2/3%) is then paid by the millers to the growers supplying cane to the mills. This proportion is rigidly determined by the cane price formula laid down in the Law. In this way, all the benefits from sugar sales are passed by the Association to the millers and cane growers. The effects on employment and wages are set out below, and the Government, of course, benefits from taxation levied on the industry and on the individual workers.

There is one sugar-milling company in the northern area and one in the southern area. Each is a large grower of cane, and each processes cane produced by independent growers. There are 157 independent growers, of whom 140 are Swazis in the Vuvulane project.

The northern mill commenced production in 1960 and is owned by Mhlume (Swaziland) Sugar Company Limited, which was originally established by the British Commonwealth Development Corporation and a leading South African sugar company but is now a wholly owned subsidiary of the Commonwealth Development Corporation. The C. D. C. draws its finance mainly on loan terms from the British Government and is engaged in financing and developing numerous projects in the developing countries of the British Commonwealth. It owns one of the independent grower farms in the north and, in addition, has established and currently provides administrative, financial, and technical guidance and support to the Swazi smallholders on the Vuvulane Irrigated Farms Project.

The southern mill was established in 1960 by Ubombo Ranches Limited, a company originally formed from British and South African capital sources but now a subsidiary of Lonrho Ltd., a British company. This mill incorporates a refinery for the production of refined sugar for the local and export markets.

The 17 independent growers are mainly financed from either South African or British sources. Their expatriate owners or managers all have residential status granted to them by the Swaziland Government, and some are citizens of Swaziland. They occupy an important position in the development of the rural areas in which they operate, and their contribution to the economy of the territory is significant.

Of necessity, the industry, in both its growing and milling operations, was originally established by expatriate finance and expertise, but there is a concerted effort to build up and consolidate local participation as rapidly as funds and trained manpower become available. The Vuvulane project, which consists of 140 Swazi cane growers, is an outstanding example of developing native participation.

#### IMPORTANCE OF IRRIGATION

Because of inadequate rainfall, amounting only to about 22 inches a year in the areas where the industry is located, cane must be grown under

constant irrigation, which augments the natural rainfall to the level of about 60 inches a year required for satisfactory cane growth. The sugar requirement for irrigation has resulted in many other agricultural crops receiving the water without which these crops could not be grown.

In the north, an extensive irrigation system was constructed by the Commonwealth Development Corporation as part of its Swaziland Irrigation Scheme. The main irrigation canal, about 42 miles long, was completed in 1957 and enabled the sugar industry in the north to become established. Later, in 1965, a major storage reservoir of 33,000 acre feet was added, which not only secures the water supplies needed for existing agricultural production but provides the essential basis for future irrigation development. The total investment in this system is about \$5,600,000.

In the south, a group of the independent cane growers financed the construction of a canal 33 miles long, which was completed in 1955. Most of the cane in the area is irrigated from this canal and its subsidiaries, in which about \$1,400,000 has been invested.

#### THE SUGAR INDUSTRY AS AN EMPLOYER

The sugar industry is the largest single employer in Swaziland. The Swaziland Annual Statistical Bulletin for 1970 shows a total of 48,641 wage earners in the country, including those in the public sector. Of this total, over 10,000 are employed in the sugar industry. The next largest group of wage earners is in public administration, education, and medical and veterinary services, which employ 6,966 persons. There are 6,731 persons employed in personal and household services; 5,987 in the distributive, wholesale, and retail trades; 5,199 in general manufacturing; and 4,882 in forestry and the manufacture of wood and wood products. The balance is divided among mining, construction, transport, and other activities.

From these statistics, it can be seen that the sugar industry employs about 20 percent of all wage earners in Swaziland. Allowing for their dependents and for those persons who support the industry through services, supply, and in other related areas, together with their dependents, approximately 60,000 persons, or about 15 percent of the total population, look to the sugar industry for their livelihood.

In addition to the wage earners employed by the industry, the Vuvulane project has enabled some 140 Swazis to move from subsistence agriculture or wage employment to the status of independent farmers. This project was established by the Commonwealth Development Corporation to promote the settlement of Swazis on leased irrigated smallholdings in an area of fertile soils at Vuvulane. The Swazis were at first skeptical about the benefits of working the farms, and it was difficult to secure volunteers for the project, but there is now a long waiting list of applicants. The success of the project has been phenomenal, and its continuing growth is assured. A similar scheme is also being planned for the southern sugar area. The Swazi farms, with five exceptions, are of 8, 12, or 16 acres in size. The social and economic significance of this activity cannot be overstated.

The sugar industry provides good wages and material benefits. In sugar manufacture, for example, the wages paid by the industry are substantially higher than the minimum wages set by law. On the cane-growing side, good wages are also paid, even though there is, at present, no minimum wage structure laid down by law for agricultural workers. It is, however, known that the agricultural wages paid by the industry are very much higher than the wages paid in the rest of the agricultural sector. In both the industrial and agricultural sector, in addition to the cash wages, rations are provided free of charge, and the industry provides, among other things, schooling, free housing, and medical services. It is estimated that the total value of such free services increases the real worth of wages by well over 50 percent. In the Vuvulane project the net earnings of the smallholders range from \$840 to \$1,680 per annum.

It is the industry's policy to upgrade the Swazi's participation in the industry. At both the milling companies, full-time qualified training officers are employed, while training schemes are in operation and are being extended. At one of the companies, 96 percent of the daily-paid labor force and up to 50 percent of both the hourly-paid and salaried staff are Swazis. Similar circumstances apply at the other company. As they acquire the necessary skills, the level of the jobs held by Swazis has advanced. Furthermore, the Swazi participation in the cane-growing side of the industry is continuing to expand through the development of additional smallholdings.

THE SUGAR INDUSTRY AS AN EXCHANGE EARNER AND TAXPAYER

The sugar industry is vital to the economy of the nation not only in terms of direct employment, family support, and standard of living, but as a money earner for, and taxpayer to, the country. It has, for a number of years, been the largest provider of foreign exchange, earning in excess of \$14,000,000 per annum. In the calendar year 1969, sugar and molasses exports were the largest at \$15,311,660; then came iron ore, followed by wood pulp, citrus fruit, and meat and meat products.

While the sugar-industry employees are all on tax rolls, the industry has not yet been the source of tax revenue that it will become. It is still little more than ten years since the industry was established, and, in some cases, development allowances are still being written off while there were also operating losses in recent years when the world price of sugar was very low. Furthermore, since 1968, when production and sales should have returned much to the Government, the net income of the industry has been drastically reduced by the devaluation of the pound sterling which was not followed by any change in the value of the South African rand. This has cost the industry \$1,680,000 per annum and has hurt the Government proportionately.

SUGAR PRODUCTION, PROCEEDS, AND RETURNS

Sugar production in Swaziland amounted to 172,637 short tons in the 1969/70 season and 183,000 short tons in the 1970/71 season.

Sales in the 1969/70 season totalled 174,550 short tons, of which local market sales within Swaziland for domestic consumption and industrial use (mainly for the manufacture of confectionery and the canning industry) amounted to 13,140 tons (7.5%), and 161,410 tons (92.5%) were sold as exports.

The following table shows sugar sales for the 1969/70 season by volume and approximate value (f.o.b. or f.o.r. Lourenco Marques). There is an annual carryover of some 20,000 tons.



SUGAR SALES 1969/70

	<u>Volume</u>	<u>%</u>	<u>Value (approx.) (1)</u>		<u>%</u>
	<u>sh. tons</u>		<u>R('000)</u>	<u>\$('000)</u>	
<u>Export sales</u>					
United Kingdom	100,528	62.3	7,621	10,671	65.6
Canada <sup>(2)</sup>	34,332	21.2	1,958	2,741	16.9
Zambia <sup>(3)</sup>	16,500	10.2	1,121	1,569	9.7
United States	6,944	4.3	666	932	5.7
Malawi <sup>(2)</sup>	2,049	1.3	151	211	1.3
Botswana	<u>1,157</u>	<u>0.7</u>	<u>92</u>	<u>129</u>	<u>0.8</u>
Total	161,410	100.0	11,609	16,253	100.0
<hr/>					
<u>Local sales</u>	<u>13,140</u>		<u>1,386</u>	<u>1,940</u>	
<u>Total sales</u>	<u>174,550</u>		<u>12,995</u>	<u>18,193</u>	

Note: (1) Local sales were 10.7% and export sales 89.3% of total sales by value.  
(2) Prices world market - 1 cent per pound duty reduction.  
(3) Temporary market.

It is not possible to establish actual figures for capital investment and production costs for the industry as a whole. However, the independent Cane Prices Review Committee established under the Sugar Industry Agreement has developed estimated figures based on a detailed survey of the audited accounts of the two milling companies and the great majority of independent cane growers. These figures represent what, in the Committee's view, are reasonable costs based on the accounts examined.

Figures established by the Committee applicable for the 1969/70 season were \$303.07 as the estimated capital employed to produce one short ton of 96° polarization sugar and \$67.15 as the estimated production cost of one short ton of 96° polarization sugar.

After providing for the cost of distribution and administration, including financing charges and research, a final sales price for the 1969/70 season of \$90.32 per short ton of sugar was distributed to the industry. If the estimated cost of production of \$67.15 is offset against the actual sales price of \$90.32, there is a gross profit of \$23.17 plus molasses proceeds of about \$2.94 per short ton of sugar, making a total gross profit of \$26.11 per ton. This equals a return of 8.6% before taxes on the estimated capital employed per ton of sugar and from this must come the industry's tax liability, amortized equity costs, and interest.

Despite this modest return in 1969/70, this was the best year financially which the industry has had since 1966/67 and followed an extremely poor year in 1968/69 when the return before taxes was only 4.2%.

IMPORTANCE OF UNITED STATES QUOTA TO SWAZILAND

Prior to 1965, Swaziland's exports were incorporated with South African exports, and its sugar entered the United States as a part of the South African quota. This arrangement was terminated by mutual consent in late 1964. In 1965, Swaziland was administratively allocated a United States quota of 9,307 short tons (raw value). The Sugar Act of 1965, however, rejected the quotas which had been administratively established and gave Swaziland 0.13 percent of the total amount allocated to countries outside the Western Hemisphere, representing a basic quota which is now about 3,800 tons. To this are added a proration of quotas which have been withheld and, from time to time, temporary portions of deficit quotas so that Swaziland can currently ship into the United States a little over 7,000 tons per annum.

Mr. Chairman, Swaziland hopes that this Committee will agree with the House action which assigns it a quota which will permit it to sell about 30,000 tons of sugar a year into the U. S. market. This level of sales will permit a sugar industry to plan its operations and development with a certain knowledge of its degree of participation in the U. S. market. It goes without saying that Swaziland will in the future continue as in the past to meet its quotas and will be prepared to furnish additional sugar to the U. S. in time of need to the fullest extent of its resources.

The sugar industry in Swaziland is forced to rely on exports for its existence because the local market within the country's borders is too small to provide an effective base for its economy. With a small population and a relatively high per-capita consumption, there is little scope for expansion. Although Swaziland is in a customs union with the Republic of South Africa, it is not permitted to export sugar to that market by agreement between the two Governments.

The free world market is a residual market where prices are notoriously volatile and seldom cover even the costs of production, although, through the efforts of the International Sugar Organization, of which Swaziland is

a member, world prices have now improved. The world market, nevertheless, remains totally inadequate as a basis for the industry's economic survival.

Swaziland has been fortunate, over the past few years, in obtaining world market outlets for white sugar in Malawi and Zambia at reasonable prices, but the quantities have been small. Malawi is now believed to be virtually self-sufficient in sugar. In Zambia, sugar production is steadily increasing so that, at an early date, supplies from outside that territory will no longer be required.

Swaziland, therefore, has only two long-term markets where reasonable prices are assured--namely, Britain and the United States. The British market under the Commonwealth Sugar Agreement is important in terms of quantity and of price, but, as I have mentioned, Swaziland has lost about \$1.68 million per annum on its sales to this market since 1968 because of sterling devaluation. Furthermore, there is doubt about the future of this market due to Britain's application to join the European Economic Community. While Swaziland sincerely hopes that the main provisions of the CSA as to access, quantity, and price will be preserved in the event of Britain's entry into the European Economic Community, there is no prospect of any expansion in this market. The best that Swaziland can hope for is to maintain its present position, which is, of course, very doubtful.

The United States market is, therefore, of increasing importance to Swaziland. If the industry is granted a quota of 30,000 tons, it will permit three full cargoes to be shipped. This will eliminate difficulties in chartering which are met with in respect of the industry's present quota, which is less than the normal full shipload of about 10,000 tons. This amount will permit an orderly and efficient handling of the annual crop, which, when averaged with other sales, will give a reasonable return and assist in the continuation of the industry. As I have stated, the income from these sales, after meeting distribution, administrative, and financing charges, is passed down in full by the nonprofit-making Swaziland Sugar Association to the millers and cane growers. The proportion of proceeds paid to the growers is set in law by the provisions of the Sugar Act of 1967. There is, therefore, the widest possible distribution of the benefits amongst

the millers and growers and their employees. The Government, as I have also mentioned, benefits proportionately through the taxation of company profits and personal incomes.

It is recognized that, in allocating quotas, first consideration must be given to domestic producers and second preference to countries in the Western Hemisphere. This is as it should be from the standpoint of the domestic economy and the strategic location of nearby supplies in time of war. It is, however, axiomatic that, for peacetime application, the Sugar Act is designed to ensure an adequate supply of sugar to the American consumer at a stable level of prices. To meet these objectives, it has helped the American sugar industry but looks to the rest of the world for the balance of its sugar requirements.

From this standpoint it seems evident that the foreign supply should be built on the broadest possible production base. Good sugar, from any free world source, may prove to be vital, as the supply from some sources may be denied to the United States even in peacetime. Since the enactment of the present Sugar Act, changes have already occurred, and others may occur in the future, which have denied the United States getting sugar from Cuba and raise questions concerning some other supplying countries. This, in conjunction with the always possible adverse crop conditions, dictates the need for the widest possible sugar supply base if the peacetime supply objectives are to be met. Swaziland fits into this pattern.

While it is recognized that Swaziland can never be a major U. S. supplier, it can add a measure of assurance of stability to the United States sugar market. Furthermore, there is a more persuasive reason why Swaziland should receive the larger quota. The United States, having provided for its domestic producers and the major foreign suppliers, can properly afford to use a small part of its foreign quotas to carry out another principal purpose of the Sugar Act, which is to stimulate foreign commerce and foster the friendly relations which are necessary to such commerce.

There is no place where a small tonnage can do more to advance such an objective than in Swaziland. The United States, by increasing the quota to

Swaziland, can make effective its statements concerning friendship and assistance to an African nation. Particularly, it can help a country with a free and stable government and a real will to solve its own problems. Mr. Chairman, the larger quota for Swaziland as approved by the House of Representatives, would clearly seem to fall within this stated purpose of the Sugar Act.

#### CONCLUSION

May I, in conclusion, Mr. Chairman, summarize very briefly our request: It is that the House-approved quota for Swaziland be agreed to by this Committee. This will give an assured market for three full cargoes a year and will help the sugar industry of Swaziland continue in existence and provide for its normal growth. This, in turn, will help Swaziland to remain a strong, friendly, nonracial member of the family of nations. It will help create markets for American exports and continue the presence of another sugar supplier for the United States' consumer. Even though the request is small in relation to your total sugar quotas, its approval will be of the greatest possible value to Swaziland and will bring beneficial results to both countries.

Thank you.

**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**

May 5, 1971

Honorable William P. Rogers  
Secretary  
Department of State  
Washington, D. C.

Dear Mr. Secretary:

I have long been convinced that one of the most effective things that we in the United States could do to assist the cause of Black Africans is to make a special effort in the three South African states in closest proximity to the Republic of South Africa; Botswana, Lesotho and Swaziland.

The President demonstrated his interest in these countries in a recent message to the Congress when he said, "We have sought to provide assistance and encouragement to Botswana, Lesotho and Swaziland in their efforts to prove the viability of multi-racial societies in the heart of Southern Africa." I am sure that the President's statement has prompted an intensified interest in the Department of State to assist in the development of these nations.

As you know, the House Committee on Agriculture is presently considering the extension of the Sugar Act of 1948 as amended. Although I understand that of the three countries mentioned by the President, only Swaziland has a major interest in participating in the U.S. sugar program. The subject is of vital concern to that nation, and Swaziland has asked that the Congress increase its present quota to 30,000 tons per year. This increase would be of enormous assistance to the country and would seem to be a meaningful way of giving effect to the President's statement.

It would be helpful if you could advise me as to whether the requested increase falls within the kind of assistance contemplated by the President's program.

With high regard, I am

Sincerely,

Member of Congress



## DEPARTMENT OF STATE

Washington, D.C. 20520

May 25, 1971

Honorable Bradford Morse  
House of Representatives  
Washington, D. C. 20515

Dear Mr. Morse:

The Secretary has asked me to reply to your letter of May 5, 1971, in which you ask whether the requested increase in Swaziland's sugar quota to 30,000 tons per year falls within the kind of assistance contemplated by the President's program for the small states of Southern Africa. Of course the main purpose of the Sugar Act is to attain an assured supply of sugar for the United States at stable prices, not to provide financial assistance to foreign countries. Still, the fact cannot be ignored that the higher U.S. sugar price results in an effective subsidy to suppliers who would otherwise have to sell on the world market.

The Department's general view of the foreign relations aspects of the Sugar Act is set forth in Assistant Secretary Katz' statement before the House Committee on Agriculture on May 6, 1971, a copy of which is enclosed. In brief, it is that any quota changes made at this time should be minimal and that the new Act should be of relatively short duration--perhaps two or three years. A number of arrangements governing world sugar trade are scheduled to be terminated or reviewed in the interim, and they may be altered substantially. However, the Department has suggested certain minor changes to be made now. One of them is the establishment of a minimum quota of 15,000 tons a year, and this would permit Swaziland to double its annual shipments to the United States.

A further increase in Swaziland's quota, to 30,000 tons or even higher, would be desirable for many reasons, and fully in keeping with the President's program for Southern Africa. However, the Administration has not recommended such an increase as it might arouse hopes for widespread revisions in other quotas. As you may know, some three

dozen countries have requested substantial quota increases, totalling well over a million tons. Widespread revisions would not be consistent with the Administration's basic position calling for minimal changes.

Some have suggested that the Act should be changed to provide for reallocation of suspended African quotas to developing countries on that continent. At present suspended African quotas are reallocated to Western Hemisphere countries, and suspended quotas of Western Hemisphere countries are also reallocated to the Western Hemisphere. This is a source of resentment in Africa. The suggested change would provide more even-handed treatment, and at the same time tend to increase Swaziland's quota, among others, although at present the practical impact would be small. Such an amendment might fall within the framework of minimal changes that we could favor.

I hope you will find this information helpful. If you have any further questions, please do not hesitate to call on me.

Sincerely yours,



David M. Abshire  
Assistant Secretary for  
Congressional Relations

Enclosure:  
Statement of  
Julius L. Katz



Senator BENNETT. The next witness is Mr. William R. Joyce in behalf of the Argentine Sugar Industry.

Mr. Joyce, I remember that in 1965 the Argentine Government had no lobbyist, and they suffered.

Now that gives you a double responsibility today.

### STATEMENT OF WILLIAM R. JOYCE, ARGENTINE SUGAR INDUSTRY

Mr. JOYCE. Thank you, Mr. Chairman. Actually I prefer the Irish lawyer terminology of "parliamentary agent."

Senator BENNETT. Okay.

Mr. JOYCE. Mr. Chairman, and members of the committee, my name is William Joyce. I am a member of the bars of the State of New York and the District of Columbia, and I appreciate the opportunity to appear before this committee on behalf of the Argentine Sugar Industry. Accompanying me here is Dr. Alejandro Orfila who also represents the Argentine Sugar Council.

We both have filed our registration statements with the Department of Justice and with the Secretary of the Senate and the Clerk of the House of Representatives.

Following the recommendation of the committee, I will summarize my oral presentation covering the two points that you refer to in your press release of June 10, 1971.

1. The extent to which the benefits of the participation in the U.S. sugar program flow through to the working man; and

2. The U.S. trade with Argentina.

Argentina has experienced a negative balance of trade with the United States over the past decade and is attempting to solve this chronic situation through an increase in the exports of her agricultural, industrial, and manufactured products.

During the last 10 years, Argentina has had an imbalance of trade with the United States of over \$1.5 billion. The projection for 1971 will be a deficit of about \$300 million. Argentina imports tool machinery, industrial products, and other items of highly technical nature, and exports beef, wool, and some industrial products. In 1969 Argentina's imports from the United States were \$377 million. In 1970 they increased to \$440 million or approximately 24 percent of the total imports. Argentina's exports were respectively \$156 and \$172 million or approximately 9 percent of the total exports.

Argentina is a steadfast proponent of self-help and believes in trade and not aid. This belief is reflected in the fact that over the past 5 years Argentina has received only \$2.2 million in AID funds. Argentina takes the stand that equitable trade will help her to help herself, thereby reducing the necessity for external assistance.

Based on these facts Argentina is requesting an increase in the U.S. sugar quota granted previously to her, in order to improve her trade position through one of the few export commodities which are not competitive with the production of this country.

Argentina, with approximately 110,000 sugar workers, has one of the most advanced social benefit systems in the Latin American sugar industry. Wages for sugar workers of all categories are the highest of all agricultural trades, while the benefits established by government

decree and by the sugar industry itself provide the widest range of financial compensation. The basic wage of the sugar worker, farmer, and laborer as of March 1970 was the equivalent to \$3.23 per day (the dollar doubles its purchasing power in Argentina). Since all work is done on an assignment basis this generally results in a higher daily wage. Harvesters are paid on the basis of \$2.13 per ton, plus \$0.37 per day. Since the normal individual output is 1½ tons per day, a daily wage of \$3.56 is the rule, with many workers making more than this amount. Laborers with specialized skills earn wages considerably above the average.

By federal law the Argentine sugar worker receives additional benefits, known as the "aguinaldo" consisting of 1 month's salary per year; paid vacation; wages continued in case of sickness; retirement at 60 years with a pension of 70 percent of the average of the 3 best years; family subsidies in addition.

The industry alone has voluntarily added milk distribution for children; 65 to 100 percent of the cost of medicines; free medical assistance; round trip passage and food subsidy for harvesters; free basic education and recreational areas. To maintain and expand all these benefits which demonstrate the widespread distribution of the price differential obtained from the preferential price market of the United States, Argentina urgently needs to expand its present sugar exports to this country.

Before finishing my presentation, Mr. Chairman, I would like to refer to the fact that Argentina has been a dependable supplier of sugar to the United States during critical periods, as proved with the 228,000 tons delivered in 1963 when her quota was only 20,000 tons; has been friendly to the United States and has welcomed U.S. investments respecting their rights and privileges. Also she is probably one of the few sugar producing countries that restrict by law the yearly sugar production inspite of its idle installed industrial capacity.

Mr. Chairman, and members of the committee, I have been requested by the Argentine Sugar Council and its associates to express on their behalf their appreciation for this opportunity to present to you the Argentine Sugar case. They realize that the granting of import sugar quotas is not a privilege or a right that they have as a friendly nation, but an advantage that the U.S. Government offers and they are grateful for it. Argentina is fully confident that this committee in reaching its decision, will give the Argentine sugar industry an opportunity to continue its participation in the U.S. sugar program and to increase the percentage of such participation in the Sugar Act amendment of 1971. In doing so, Argentina will be able to improve its chronic deficit in her balance of trade with the United States and to continue its present policy of sharing with sugar cane producers and sugar industry workers, the benefits of the U.S. price differential.

May I conclude my statement, Mr. Chairman and members of the committee by thanking you for the opportunity to state the Argentine sugar case.

Senator BENNETT. Thank you.

Senator Anderson, any questions.

Any questions on this side of the table.

Thank you very much.

Mr. JOYCE. Mr. Chairman, could I have included in the files of this hearing the statement I made before the House Agriculture Committee as well as the statement, the brochure, that has been distributed by the Argentine Embassy here entitled "Sugar: The Argentine Case" for the information of the members.

Senator BENNETT. We will be very happy to have it made a part of the committee's files. \*

Mr. JOYCE. Thank you very much.

Senator BENNETT. Thank you.

(Mr. Joyce's prepared statement follows:)

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\* The documents referred to were made a part of the official files of the Committee.

S T A T E M E N T

o f

WILLIAM R. JOYCE, JR.

on Behalf of the

ARGENTINE SUGAR INDUSTRY

April 26, 1971

Mr. Chairman and members of the Committee, my name is William Joyce. I appreciate the opportunity to appear before this Committee on behalf of the Argentine sugar industry. Accompanying me here today is Dr. Alejandro Orfila, who also represents the Argentine Sugar Council. I would also like to advise you, Mr. Chairman, that the Argentine Ambassador to the United States, Dr. Pedro Real, is attending this hearing. Despite the fact that my presentation is strictly on behalf of the Argentine sugar industry, the presence of Ambassador Real indicates the interest that the Argentine government gives to it and the importance that these hearings and the decisions of the Committee have for the Argentine Republic.

Mr. Chairman, I appreciate the opportunity that you gave us to state the Argentine sugar case in your letter of March 4, 1971. I would be grateful if you permit the reply of Dr. Alejandro Orfila to you on March 25, 1971 to be part of the record in this proceeding and if you would also permit the booklet "Sugar: The Argentine Case" be filed in the Committee's files as information material. Both Dr. Orfila and I have filed our Registration Statements with the Department of Justice and have filed our Reports with the Secretary of the Senate and the Clerk of the House of Representatives.

Argentina has experienced a negative balance of trade with the United States over the past decade and is attempting to solve this chronic situation through an increase in the exports

of agricultural, industrial and manufactured products. This is a difficult problem for Argentina since the country produces commodities similar to those of the United States. However, sugar is an area in which Argentine exports could be expanded.

Sugar quotas were first established for Argentina in 1962, but increases in quotas have apparently been based on factors other than production or production capabilities. Argentina is the seventh largest producer of sugar in the free world and the third largest producer in Latin America. However, the quota system places her in tenth place in the world and sixth in Latin America. The Argentine sugar industry is one of the oldest continually operating industries in the hemisphere and has its beginnings in the 17th century when the Spanish Conquistadors brought the first sugar cane plants to the northern part of the country. Sugar has continued to be grown in this part of Argentina until this day. The first sugar mill was built in Argentina in 1760. The Argentine sugar industry is privately owned. There is no government ownership of any phase of sugar production or processing, although there is government regulation of the sugar industry.

Argentina exercises a self-imposed restriction on sugar production in the interest of not adding to the surplus of sugar so common in recent years, which has led to export sales at less than production cost. Argentina is capable of an expanded production, but such an expansion is not contemplated by the

government or the industry unless it will be required by an increase in domestic consumption or the allocation of an enlarged export quota. Argentina is proud of her record of improving its sugar industry with modern technology and controlling it through a regulated production. However, sugar exports must increase in order to maintain a healthy economic situation and to expand the social benefits that the Argentine sugar worker receives. Sugar, its production and trade are essential to one of the least developed areas of northern Argentina. The decisions and recommendations of this Committee concerning the Argentine sugar quota will have a most favorable impact on the welfare and future of an important area of the country.

In 1969-1970 Argentina produced 1,006,000 tons of sugar despite the fact that the installed capacity of the mills is approximately 2 million tons. For 1970-1971 the Argentine government has established a production limit of 1,210,000 tons. This production is based on local consumption needs of approximately 900,000 tons, plus the export quotas to the world market and the United States. In 1969-1970 Argentina exported to the United States 78,509 tons.

There are 28 sugar mills in Argentina. The sugar industry employs approximately 110,000 persons. Argentina does not import sugar and produces all the sugar that she consumes and exports to the world market and the United States.

Argentina believes that those qualifications that the United States National Sugar Policy requires of American domestic sugar producers should be expected from the foreign suppliers of this country. Based on that reasoning, Mr. Chairman, I would like to call the attention of this Committee that the Argentine government has created by law:

1. A tax to compensate producers for loss of exports.
2. Limited production through a quota system for every producer.
3. Compensate the very small sugar cane producers who were obliged by law to discontinue production with a lower compensation to those who voluntarily stopped production.
4. Modified the system of payment to the sugar cane producer establishing a minimum fixed price calculated on the theoretical yield instead of participation in the final price based on the effective sugar yield.
5. Fixed sales quotas in the internal market for sugar mills based upon production plus existent stock.
6. Prohibited child labor.
7. Enacted a minimum wage law.
8. Provided for additional benefits for sugar production personnel and their families.

The basic wage of the sugar worker, farmer and laborer as of March 1970 is \$3.23 per day. Since all work is done on an assignment basis this generally results in a higher daily wage. Harvesters are paid on the basis of \$2.13 per ton plus \$0.37 per day. Since the normal individual output is one and one-half tons per day, a daily wage of \$3.56 is the rule, with many workers making more than this amount. Most factory workers are paid the daily wage multiplied by 30 regardless of the number of days worked. Due to mechanization, more workers with specialized skills are required and these specialists earn wages considerably above the average.

In addition, the Argentine sugar industry has for years provided many benefits for its workers in addition to their wages such as, one liter of milk per day and per child; 65% of the price of medicines, as well as free medical assistance. Moreover, many sugar mills maintain schools which they have built with their own funds and at their own cost. In many cases the sugar mills cooperate in public campaigns of eradication of endemic diseases such as malaria, tracoma, etc.

To maintain and expand all these benefits which demonstrate the widespread distribution of the price differential obtained from the preferential price market of the United States, Argentina urgently needs to expand its present exports to this country.



Dependability as a source of sugar supply is certainly one of the most important criteria for the allocation of United States sugar quotas. Argentina has proved its dependability and potential for supplying the United States during critical periods and her willingness and desire to do so has been demonstrated.

In 1963, when the United States needed sugar to fill her requirements and the world prices were high, Argentina, although her quota was only 20,000 tons, accepted an additional allotment of more than ten times her quota, 209,000 tons. She actually delivered 228,000 tons. This was at a time when others could not or would not accept increased quotas because of production difficulties or price differential on the world market. Despite this impressive showing the basic quota has been practically unchanged. Argentina has increased only 10,600 tons since 1966, while other countries have done much better. Argentina has the capability of supplying additional sugar under an increased quota without building additional facilities. At this point, Mr. Chairman, I would also like to point out that despite the fact that Argentina has regulated its production during the last five years, she has been unable to reduce substantially the stockpiles on hand which reached a peak of 931,000 tons in 1966 and in 1969 over 600,000 tons.

Argentina is a steadfast proponent of self-help. Over the past five years, Argentina has received only \$2.2 million

in A.I.D. funds which were only for technical assistance. Argentina does not request A.I.D. money from the United States, even though funds are available. In fact, following the example of the United States, Argentina has begun its own program of aiding its neighboring countries, limited though it may be to its proportionate financial capabilities.

Argentina takes the stand that equitable trade will help her to help herself, thereby reducing the necessity for external assistance. However, Argentina's economic problems cannot be solved by credit facilities which, granted in excessive amounts, just postpone the problem and create uncertainty about the future. Only trade, in the true classical sense, affords a healthy economic growth, strengthened by reciprocal cooperation.

In recent years Argentina's world-wide trade balance has been favorable. For example, during 1969 and 1970 Argentina's total imports amounted to \$1.576 and \$1.690 million, while exports were \$1.612 and \$1.750 million, respectively, resulting in a surplus of \$36 and \$60 million. However, during this same period, Argentina's imports from the United States were \$377 and \$440 million, approximately 24% of the total imports; and her exports to the United States were \$156 and \$172 million, approximately 9% of Argentina's total exports.

The deficits from trade with the United States were in the order of \$222 and \$268 million in 1969 and 1970, or a total of \$490 million in just these two years.

Argentina is a country which applies the principle of multilateral trade and is firmly convinced that this system is best suited to her needs. However, it is becoming more and more difficult to apply this principle since those countries with an adverse trade balance with Argentina are demanding, with increased insistence, that their trade be balanced.

Argentina will not be overly concerned with the adverse trade balance with the United States, provided that she is assured the opportunity to develop her competitive possibilities in the immense U. S. markets. The Argentine attitude in her trade relations with the United States is that she does not seek special concessions, but rather, that markets she already has and those to be developed in the future shall not be restricted. However, the exports of both countries are similar and one of the few areas which there is no competition and by which the imbalance of trade could be affected is sugar.

In answering another criteria applicable to foreign quotas, I would like to state, Mr. Chairman, that Argentina does need the United States premium sugar market because:

- a) She does not share in other premium price markets.
- b) Sugar is the one export item which could be expanded immediately to provide an increase in foreign exchange.

- c) Sugar is grown and processed in the Argentine northwest interior where the sugar industry is the principal means of support and where the economic level is very much lower than that around Buenos Aires. An increase in sugar exports would help to raise the standard of living in this area.

In cases of emergency we believe that the geographical location of Argentina will assure deliveries since the port of Buenos Aires located in the South Atlantic ocean will offer maximum security for the vessels proceeding to the United States through the regular maritime lanes, which are protected by the hemisphere navies. Also, Argentina is located on the Atlantic and this affords a direct communication with the big American northeast market where over 1/4 of the population, or approximately 71 million people live and consume sugar.

After analyzing, Mr. Chairman, the different criteria applicable to the allocation of foreign quotas by this Committee, I would like to turn to the criteria referring to the friendly government to government relations including non-discrimination against U. S. citizens and their property. Argentina has enjoyed through many decades a friendly and respectful relation with the United States. This friendship has been based in mutual respect and dignity. The Argentine constitution based on the principles and philosophy of the Constitution of the United States

gives to nationals and foreigners alike the protection of the law and the same rights and privileges. I would like to point out that the new Argentine foreign investment law reaffirms the traditional principles which are the cornerstone of the country's legal foundation, namely, private property, freedom of trade and equality of rights between nationals and foreigners. The Argentine nation looks forward to joint ventures with foreign capital and know-how and welcomes and respects the persons and property of foreign nationals.

Mr. Chairman and members of the Committee, I have been requested by the Argentine Sugar Council and its associates to express on their behalf their appreciation for this opportunity to present to you the Argentine sugar case. They realize that the granting of import sugar quotas is not a privilege or a right that they have as a friendly nation, but an advantage that the United States government offers, and that in itself reflects the philosophy of the American nation and their desire to benefit a foreign economy by permitting it to participate in a privileged and premium price market. They are grateful for this opportunity and they appreciate it. They know that one of the poorest areas of their country, possibly the one most exposed to alien ideologies will benefit if you consider their case. Therefore, based on these principles, the Argentine sugar industry requests from you that an opportunity be given to Argentina to

continue its participation in the United States sugar program and to increase the percentage of such participation in the Sugar Act Amendments of 1971 to allow the shipment of 150,000 tons annually to the United States.

May I conclude my statement, Mr. Chairman, by thanking you and the members of the Committee for the opportunity to state the Argentine sugar case.

Senator BENNETT. Next we shall hear from Mr. Dennis O'Rourke, speaking in behalf of the sugar industry of Mexico.

Very happy to welcome Mr. O'Rourke back to the committee in his new role.

#### **STATEMENT OF DENNIS O'ROURKE, SUGAR INDUSTRY OF MEXICO**

Mr. O'ROURKE. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am Dennis O'Rourke of the law firm of Sutton and O'Rourke of Colorado Springs, Colo., and Washington.

I and my partner, Leonard Sutton, who is with me, appear for the National Association of Sugar Producers of Mexico. We are registered under the Foreign Agents Registration Act of 1938 as amended and have filed a copy of our registration statement with the committee.

We made two recommendations on behalf of the association to the House Agriculture Committee, namely, that, first, the basic premises and goals of the present U.S. Sugar Act should be continued by new legislation and, second, that under such new legislation Mexico should continue to supply approximately the same share of the U.S. market it has supplied in 1969 and 1970, that is to say about 6 percent.

The bill, H.R. 8866, reported by the House committee and passed by the House under a closed rule would instead cut the Mexican quota by about 10 percent.

Set forth in summary form in the statement we have filed with the committee are the major facts which clearly commend Mexico as a prime source of sugar for the United States. Pursuant to the advice of the chairman, such statement includes data on the distribution of the sugar dollar in Mexico, and on U.S. trade with Mexico. The reasons for our view that the United States should continue to look to its closest sugar exporting neighbor for about the same share of its sugar needs as in the past may be most briefly stated as follows:

A basic justification for the U.S. sugar program, so recognized by the domestic sugar industry, U.S. sugar users and the executive departments, is the security and timely availability of the U.S. sugar supply. Mexico is the No. 1 foreign supplier on this score. It is closest to the United States, it has the shortest shipping times and it is the only foreign nation that can and does ship sugar to the United States by land as well as by sea.

This unique ability to ship by rail or truck is always important to U.S. sugar refiners and sugar users but it is especially important when ocean shipping is not or may not be available.

Mexico has an unexcelled record as a dependable sugar supplier to the United States. It has not only fully supplied its U.S. sugar quotas but also at special respect to meet critical U.S. needs and at very material cost to Mexico has supplied extra sugar to the United States when, as in 1963 and 1964, higher prices could have been obtained in the so-called world market.

As is recorded in the 1965 hearings of this committee, the United States stated in advance to Mexico that 1964 deliveries, and I quote "will have a strong bearing on the administration's recommendations to the Congress regarding allocations of country quotas after 1964."

Mexico, in acting on the premise during the 1963-64 sugar crisis that its neighbor's sugar needs should come first, incurred a total cost of more than \$19,770,000.

Mexico ranks as high or higher than any other country on the group of other factors traditionally used by the Congress to set foreign quotas. Friendly U.S. relations, nondiscrimination as to U.S. citizens, no expropriation problems, reciprocal trade (Mexico is the fifth largest foreign buyer from the United States among all nations of the world, but it has an adverse United States trade balance far larger than any other sugar supplying country); no other premium price market. Sugar now the No. 1 export item; need of internal economic development; equitable sharing of the sugar dollar among workers, farmers, and mill owners; a system of small independent land holding; and other progressive and sound socioeconomic policies.

The maintenance of Mexico's share of the U.S. sugar market at about the present level will serve the basic goal of security and timely availability of U.S. sugar supply as well as other important goals of U.S. trade and foreign policy.

We thank the committee for this opportunity to participate in its consideration of new U.S. sugar legislation.

Thank you, sir.

Senator BENNETT. Thank you very much, Mr. O'Rourke for staying within 5 seconds of your 5 minutes limit.

Mr. O'ROURKE. I usually don't have this much success.

Senator BENNETT. Senator Anderson, any questions?

Senator ANDERSON. I know Mr. O'Rourke has been a fine representative all the time. I congratulate him again and his clients for the work he has done.

Senator BENNETT. It is wonderful, as I say, for you to come back to us even in this new responsibility.

Senator Curtis.

Senator MILLER. I merely want to comment this is a very fine statement.

Mr. O'ROURKE. Thank you, sir.

Senator BENNETT. Senator Jordan.

Senator Hansen.

Senator HANSEN. Mr. Chairman, I am well aware of the time limitations. I do have two questions, one on behalf of Senator Fannin, may I ask that responses be provided in writing and be made a part of the record.

Mr. O'Rourke. Certainly, sir.

Senator HANSEN. Senator Fannin would like you to respond.

Could you tell the committee what Mexico has done to expand and modernize its sugar industry?

Mr. O'Rourke. Yes, sir, this will be done.

Senator HANSEN. And I have a question. Mr. O'Rourke, you testified that in 1963 and 1964 Mexico, after a request to the United States, provided sugar to this Nation instead of selling it on the so-called world market and thereby incurred a loss of profits in excess of \$19 million. Would you care to submit detailed information for the record concerning the loss of profit suffered by Mexico in 1963 and 1964 when it took this action. If you could provide in writing the answers to those two questions I would be most grateful.

Mr. O'Rourke. We would, sir. We will supplement the record, if that is agreeable, Mr. Chairman, to show the loss incurred by Mexico during the sugar crisis of 1963 and 1964 in supplying the U.S. market and also shall follow up on Senator Fannin's request.

Senator BENNETT. Fine. Any other questions. Well, thank you very much, Mr. O'Rourke.

Mr. O'Rourke. Thank you, sir.

Senator BENNETT. We appreciate your contribution.

(Mr. O'Rourke's responses and prepared statement follows:)

SUTTON & O'ROURKE,  
Washington, D.C., June 22, 1971.

Senator RUSSELL B. LONG,  
Chairman, Committee on Finance,  
New Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: Pursuant to the request of Senator Hansen at the Committee's hearing yesterday on sugar legislation, we submit herewith data on the cost incurred by Mexico in 1963 and 1964 in selling sugar to the United States rather than at the higher prices that then prevailed in the so-called "world market." This matter was previously discussed in the 1965 hearings of the Committee on H.R. 11135 and S. 2567. See your questions and Under Secretary of State Mann's responses at pages 141 and 142 of the 1965 hearing record.

At the time of the 1965 hearings, the cost to Mexico was estimated by Under Secretary Mann at \$12 to \$15 million. Within the last month, the National Association of Sugar Producers of Mexico (Union Nacional de Productores de Azucar, S.A. de C.V.) has made a precise calculation of such total cost, which turns out to have been \$19,772,845.45, which is materially more than estimated in 1965.

There is attached a copy of a letter to me from the Export Manager of the Association in which such calculation is explained and reported.

Sincerely,

SUTTON & O'ROURKE,  
By DENNIS O'ROURKE.

UNION NACIONAL DE PRODUCTORES DE AZUCAR, S.A. DE C.V.,  
Mexico, D.F., May 27, 1971.

Mr. DENNIS O'ROURKE,  
Sutton, Shull & O'Rourke,  
Colorado Springs, Colo.

DEAR DENNIS: I am enclosing herewith a detailed list of exports made by Mexico in 1963 and 1964.\*

You will notice that we have reached a difference against UNPASA by selling sugars to the United States during those years, when the world market price was higher than that prevailing in the American market.

We have gone through each ship loaded during 1963 and 1964, stating tonnage invoiced by UNPASA to establish a comparison with the world market spot price on the date of the invoice.



Based on the above mentioned procedure we have come to a difference against Mexico's income for export in 1963 dollars \$13,869,578.63 and dollars \$5,903,266.82 for 1964.

In other words, if UNPASA had sold the same tonnage to the world market at the spot price of the date in which we invoiced to the American market, we would have obtained the amount of—dollars \$19,772,845.45 over our real income in those years.

Best regards,

ANTONIO LEÓN DE LA BARRA,  
*Export Manager.*

SUTTON & O'ROURKE,  
*Washington, D.C., June 22, 1971.*

Senator RUSSELL B. LONG,  
*Chairman, Committee on Finance,  
New Senate Office Building, Washington, D.C.*

DEAR SENATOR LONG: At yesterday's Committee hearing on sugar legislation, Senator Hansen, on behalf of Senator Fannin, asked that we provide for the hearing record information about the current program in Mexico for the expansion, improvement and modernization of the Mexican sugar industry. Such information follows:

In December of last year, the new national administration of President Echeverria in Mexico established an agency known as the National Sugar Commission (Comision Nacional de la Industria Azucarera). The Commission's very important responsibilities with respect to Mexican national sugar policy and action include the planning and seeing to the accomplishment of such expansion, improvement and modernization of the Mexican sugar industry as are necessary for the industry to continue meeting both rapidly increasing internal as well as export demands for sugar. The Commission was created at the same time that the sugar industry received a strong economic impetus in the form of an increase of 50% in the Mexican internal sugar price (from about 5½ cents to 8.35 cents U.S. per pound, refined basis).

A part of such sugar price increase is earmarked for and is being diverted into substantial annual accumulations of funds which will be used to increase the production of fully refined sugar for the Mexican market and to increase the industry's total capacity to produce unrefined sugar for both the internal and export markets. The measures necessary to accomplish such increases will be carried out by the industry itself under the guidance of the Commission. They include the improvement, modernization and expansion of a good many existing mills, the expansion of present, and establishment of new, cane growing areas and the building of new sugar mills. Four new mills, to be located in the States of Tabasco, Veracruz, San Luis Potosi, and Oaxaca, are already being planned for completion in the next two to four years. Each of these mills is to have a sugar production capacity in the range of 50,000 to 70,000 metric tons per year. (These planned new mills are in addition to three other new mills which have already reached the test-out stage this year—one each in the States of Tabasco, Jalisco and Oaxaca.

Very material increases in sugar production are expected from the improvement and modernization of existing mills that have been operating at considerably less than full capacity, as well as from high capacity new mills such as those referred to above.

It should be noted that Mexico, with its large and diverse land area in latitudes suitable for cane culture, has a cane production potential that would support many more sugar mills.

To the maximum extent feasible, the Mexican sugar industry intends to acquire from United States sources, including manufacturers and suppliers, the large quantity of machinery and equipment to be used in the improvement, modernization and expansion program.

If additional information should be desired, please do not hesitate to call on us.

Sincerely,

SUTTON & O'ROURKE,  
By DENNIS O'ROURKE.

\*The list referred to was made a part of the official files of the Committee.

STATEMENT OF DENNIS O'ROURKE  
ACCOMPANIED BY LEONARD v. B. SUTTON  
ON BEHALF OF  
THE NATIONAL ASSOCIATION OF SUGAR PRODUCERS OF MEXICO  
(UNION NACIONAL DE PRODUCTORES de AZUCAR, S.A. de C.V.)  
BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
June 21, 1971

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Summary of Principal Points Included in Statement of Dennis O'Rourke,  
 Witness for the National Association of Sugar Producers of Mexico  
 (Before Senate Finance Committee, June 21, 1971)

1. A basic justification for the U.S. sugar program is security and timely availability of the U.S. sugar supply. (This is essentially the one factor recommended by the U.S. domestic sugar industry and U.S. sugar users for consideration in setting foreign quotas.) Mexico is the number 1 foreign supplier on this score: it is closest to the U.S., has the shortest shipping times and is the only foreign nation that can and does ship sugar by land as well as water. This unique contiguity to the U.S. and unique versatility in mode of shipping was especially noted on June 16 by the witness of the Department of Agriculture who, along with the witness of the State Department, recommended no change in the level of present quotas. This ability to ship by rail or by truck is always important to the U.S. refiners and sugar users, but especially so when ocean shipping is not or may not be available.
2. Mexico has an unexcelled record as a dependable sugar supplier to the U.S. It has not only fully supplied its U.S. sugar quota, but also, at special request, to meet critical U.S. needs and at very material cost to Mexico, has supplied extra sugar to the U.S. when, as in 1963 and 1964, higher prices could have been obtained in the so-called "world market." The U.S. Executive Department stated in advance to Mexico that 1964 deliveries " . . . will have a strong bearing on the administration's recommendations to the Congress regarding allocations of country quotas after 1964." (The cost incurred by Mexico in 1963 and 1964 in selling to the U.S. rather than in the then higher world market was more than \$19,770,000.)
3. Mexico ranks as high or higher than any other country on all other factors traditionally used by Congress to set quotas: Friendly U.S. relations; non-discrimination as to U.S. citizens; no expropriation problems; reciprocal trade (5th largest foreign buyer from the U.S. among all nations, but with adverse U.S. trade balance far larger than any other sugar supplying country); no other premium priced market; sugar now the number 1 export item; need of internal economic development; equitable sharing of sugar dollar among farmers, workers, and mill owners; system of small, independent land holdings; and other progressive and sound socio-economic policies.
4. Maintenance of Mexico's share of U.S. sugar market at about the present level will serve basic goal of security and timely availability of U.S. sugar supply, as well as other important goals of the U.S. sugar program and of U.S. foreign economic and political policy.

\* \* \* \* \*

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MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

My name is Dennis O'Rourke. I am a partner in the law firm of Sutton & O'Rourke of Colorado Springs, Colorado, and Washington, D.C. We represent the National Association of Sugar Producers of Mexico (Union Nacional de Productores de Azucar, S.A. de C.V.). With me is my partner, Judge Leonard Sutton, of Washington and Colorado.

The Association is a corporation the stock of which is owned by all the sugar producers of Mexico. It is responsible for marketing all Mexican sugar, both internally and for export, as well as for marketing the by-product molasses and alcohol produced by the Mexican sugar industry.

Judge Sutton and I are registered under the Foreign Agents Registration Act of 1938, as amended, and have filed a copy of our registration statement with the Committee.

RECOMMENDATIONS OF THE MEXICAN SUGAR PRODUCERS ASSOCIATION

On behalf of the Association, we made two recommendations to the Committee on Agriculture of the House of Representatives as to new United States sugar legislation. These recommendations, which we make again today to the Committee on Finance, are that:

1. The basic premises and goals of the present United States Sugar Act should be continued by new legislation.
2. Under such new legislation, Mexico should continue to supply approximately the same share of the United States market it

has supplied in 1969 and 1970, that is to say about 6%.

(It may be noted parenthetically that Mexico is one of the few countries that asked the House Agriculture Committee for no increase in its share of the United States market.)

#### HOUSE BILL

As this Committee is aware, the House Agriculture Committee reported a Bill, H.R. 8866, which would instead cut the quota of Mexico by about 10%, as well as cut the quotas of other large nearby suppliers by the same percentage. Such Bill was passed by the House under a closed rule on June 10, although, according to the press, leaders of the Agriculture Committee were not satisfied with the proposed treatment of Mexico and other nearby suppliers.

#### FACTS COMMENDING MEXICO AS PRIME SOURCE OF FOREIGN SUGAR FOR UNITED STATES

The major facts which clearly commend Mexico as a prime source of sugar for the United States are, in summary, as follows:

1. Sugar from Mexico reaches United States refineries more quickly than from any other foreign sugar source.
2. (a) Mexico has the ability to deliver quickly and economically not only by water, but also by land. During each of the last two years, approximately 50,000 tons of Mexican sugar (some 8% of its total sales to the United States) were shipped by rail to a major United States refinery. Substantially more will be so shipped this year. Assistant Secretary of Agriculture Palmby,

in his testimony before this Committee on June 16, expressly noted Mexico's " \* \* \* unique advantage of being a land area contiguous to the United States and so able to supply sugar without resorting to ocean transportation." This ability to ship by rail or truck is always important to United States refiners and sugar users, but is especially so when ocean transportation is not or may not be available.

(b) It should also be noted that Mexico, because of its production season (November-June) and the short shipping time to the United States, is one of only two principal foreign suppliers that can deliver new crop sugar to the United States before the turn of each calendar year.

3. Mexico has one of the most modern and efficient sugar loading terminals in the world, built in 1965 at Veracruz, particularly for the needs of the United States market.
4. Mexico increased its sugar production by approximately 60% in the decade 1960-1970.
5. Mexico has an unexcelled record of supplying not only its quota but also the extra demands of the United States market, even when, as in 1963 and 1964, it could have sold at much higher prices on the so-called "world market." Mexico was told in advance by the United States Executive Department that 1964 deliveries would have a strong bearing on recommendations to the Congress as to foreign quotas after 1964. Under Secretary of State Mann said in his

testimony before this Committee in 1965 on H.R. 11135 and S. 2567, in answer to a question by Senator Long:

Mr. Mann. Mr. Chairman, I will do that. I would like to say for the record I was in Mexico, as Ambassador, at the time this wire /a State Department cable to United States Embassies which said that 1964 deliveries by foreign suppliers would bear strongly on the Administration's recommendations to Congress as to sugar quotas after 1964/ was sent. I personally went over and talked to the Foreign Minister and delivered the note saying in effect that if they would help us in our time of need, that this is something we would take into account. (The telegram referred to was read into the record by Mr. Tom Murphy on p. 101.)

Senator Long. It cost them \$12 million to do that, they tell me.

Mr. Mann. And I remember that the domestic sugar industry in Mexico, which by the way is not owned by a few rich people -- it is owned by many, many very small farmers -- came and asked me, as Ambassador, if we were serious about this, and since I had just delivered a note on instructions, I told them we were. And they asked me if I realized that this would mean a loss to them, to the industry, the private sector, something in the neighborhood of \$12 to \$15 million, and I said that I did. And they sold us the sugar.

By this action, Mexico willingly bound itself at very material cost to supply to the best of its ability the sugar needs of the United States at levels reflected by the 1965 amendments to the Sugar Act. (To complete and correct the record, we have within the last month calculated precisely the total cost to Mexico of these sales made in 1963 and 1964 to the United States when higher world prices prevailed. Such cost was actually \$19,772,845.45 -- considerably more than estimated at the time of the 1965 Senate Finance Committee hearings.)

6. Sugar was the most important of Mexico's exports in 1970. None goes to any other premium priced market.
7. Friendly relations exist between the United States and Mexico, as evidenced by the 2,000 mile unarmed common border, close cooperation on many common problems and frequent meetings between the Presidents of the two countries.

DISTRIBUTION OF SUGAR DOLLAR IN MEXICO; UNITED STATES - MEXICO TRADE

The following information is submitted in response to the Chairman's advice that representatives of foreign suppliers should "include in their written testimony indication of how, and the extent to which, the benefits of participation in the United States sugar program flow through to the working man and serve to improve the standard of living" in Mexico and "information regarding United States trade" with Mexico "and how it might be increased by participation in the program."

Distribution of Sugar Dollar in Mexico

Net proceeds from the sale of Mexican sugar, as well as from the by-products, molasses and alcohol, have been shared on a 50-50 basis for many years between the cane grower and the cane processor. With the recent increase in the Mexican internal sugar price, growers and processors will each receive substantially more income than before and the grower's receipts will be slightly above 50 percent of sales proceeds.



A total of 1,022,077 acres were cultivated for sugar cane in Mexico in 1970. The companies that own sugar mills are not permitted to own sugar-producing land. There are no large holdings of cane land and no problem of absentee landlords. There are two kinds of tenure of sugar cane lands in Mexico: (1) "ejidal," which resembles cooperative ownership; and (2) individual ownership, known as "small proprietorship." The first (ejidal) accounts for approximately 60% of total holdings, the second (small proprietorship) approximately 40%.

The average holding per person in the first class (ejidal) is approximately 9 acres. The average holding in the second class (small proprietorship) is approximately 29.5 acres. No single holding of cane land exceeds 125 acres. The total number of Mexican cane growers for the 1969-1970 crop was 87,158. Of this number, 72,745 were ejidatarios and 14,413 were small proprietors.

The average gross income of the Mexican cane grower from the last completed harvest (1969-1970) was \$1,563.36. From the harvest now being completed, average income is expected to increase materially because of the recent increase in the price of sugar in Mexico. (See page 9 hereof as to such price increase.)

As might be expected with a large number of small farmers (87,158), most of the cane field work is done by farmers themselves and their families. In addition, about 24,000 persons were employed

in general field work, about 21,000 persons were employed for hauling cane and about 113,000 were employed in cutting cane of the 1969-1970 crop. Average earnings of these field workers, who are employed only seasonally, is about \$300 per person each season, which on an annualized basis is at or slightly above the Mexican average gross income per person of \$600 per year.

Mexico's 65 sugar mills, representing conservatively a value of at least \$600,000,000, employed 34,000 persons during the 1969-1970 sugar-making campaign. The average annual gross income of the sugar mill worker, including the value of fringe benefits, was \$1,866. Sugar mill workers are represented by strong labor unions. The last labor negotiations resulted in average wage and fringe benefit increases of approximately 11% for a two-year contract term. Sugar mill workers are among the highest paid industrial labor in Mexico.

Both sugar farmers and sugar mill workers enjoy an income more than three times the average annual Mexican individual gross income of approximately \$600.

Sugar cane growers and sugar mill workers were the first agricultural industry groups covered by the Mexican Social Security system, which provides family medical care, as well as retirement benefits.

In summary, the total number of persons directly engaged in the Mexican sugar industry, based on the last completed harvest and sugar-making campaign, is as follows in rounded figures:

Cane growers	87,000
Cane cutters	113,000
Other field labor	24,000
Cane transportation labor	21,000
Cane mill employees	<u>34,000</u>
TOTAL	279,000

The average number of dependents of each such person is estimated at 5, which means that the total number of persons who are directly dependent on the Mexican sugar industry is approximately 1,400,000. A substantial additional number are dependent on industries that provide supplies and services to the sugar industry.

#### United States-Mexico Trade

The value of Mexico's purchases from the United States has exceeded by a large amount for many years the value of United States purchases from Mexico. (See Table 27, House Agriculture Committee Print, 91st Congress, 2d Session, The United States Sugar Program). In 1970, Mexico's purchases from the United States were \$1,704,000,000, while United States purchases from Mexico were \$1,222,000,000, leaving a balance in favor of the United States of \$482,000,000. Among all foreign countries, Mexico is the fifth largest customer of the United States, being exceeded by only Canada, Great Britain, Japan and West Germany. 64% of all Mexico's imports come from the United States. Trade between the United States and Mexico could be better balanced, in the interest of both countries, by increased

United States imports of sugar from Mexico.

Deputy Assistant Secretary of State Katz testified before this Committee on June 16 that the total annual adverse trade balance with the United States of all sugar supplying countries is about \$1.5 billion. Mexico's adverse balance of trade with the United States, at recent levels of sugar sales to the United States, is almost one-third of this total. It is by far the largest adverse balance among all the countries that supply sugar to the United States. Mexico vitally needs all dollar earnings possible and, even so, will find it difficult to approach a balance in its trade account with the United States.

RECENT ACTIONS AFFECTING MEXICAN SUGAR PRODUCTION

During the decade 1960 to 1970, Mexico increased its sugar production by approximately 60%. This sharp production increase was slowed by economic conditions affecting the industry and to some extent by droughts and floods in 1968 and 1970. Today economic conditions in the industry are changing rapidly as a result of two recent decisive actions:

1. In December 1970, the low Mexican internal price of sugar was increased by 50%, to a level of 8.35 cents per pound of refined sugar.
2. The new administration of President Echeverria at the same time planned and began funding a national program to expand and modernize the sugar industry.

These two measures are expected to send the curve of production again sharply upward. When this occurs, even greater supplies of sugar will be available next door to the United States.

\* \* \* \* \*

In conclusion, the sugar industry of Mexico respectfully asks at this time for continuation of the share -- approximately 6% -- of the United States market it has supplied in recent years. It seems clear that the security and timely availability of sugar supply to the United States from foreign sources cannot be better served than by such continued reliance upon Mexico, the United States' closest sugar-exporting neighbor.

We thank the Committee for this opportunity to participate in its consideration of new United States sugar legislation.

Senator BENNETT. Mr. George C. Pendleton, speaking in behalf of the sugar industry of the Republic of China.

#### **STATEMENT OF GEORGE C. PENDLETON, SUGAR INDUSTRY OF THE REPUBLIC OF CHINA**

Mr. PENDLETON. Mr. Chairman, my name is George Pendleton and I am an attorney at law here in Washington.

As you have said I appear in behalf of the Government of the Republic of China. We have delivered copies of our printed statement and, of course, request that it be included in the record.

Senator BENNETT. Without objection they will be, the entire statement will be included.

Mr. PENDLETON. Mr. Chairman, I would like to make a very short oral statement pointing up two or three points which we consider important.

We believe that China's case is unique in several ways. First, we didn't ask the House committee for any increase in quota. We did ask for removal of discriminations, preferences in the reallocations of the Cuban reserve, and in the allocation of domestic deficits.

The House committee's bill, H.R. 8866, would not change the tonnage amount of China's quota, but the Western Hemisphere preference regarding proration of deficits was continued, and under H.R. 8866 China would not participate in supplying any deficits in domestic production. We submit to the committee that the Western Hemisphere

preference is illogical and perhaps unfair. The accepted purpose of the Sugar Act primarily is to provide adequate supplies of sugar for consumers at fair prices. We believe that Western Hemisphere preference does not accomplish this objective and, to the contrary, friendly efficient suppliers are discriminated against on the basis of geography alone.

Regarding friendly ties there can be no doubt about the friendly ties between the United States and China. Our two countries have been allies, friends, and trading partners for a long time.

There has been no expropriation in Taiwan, U.S. investments there are welcome and protected. At this time about 50 percent of all foreign investments in Taiwan originate in the United States. One of the points we think is particularly important is that stemming from the administration's testimony the other day when they stressed the importance of a quota country being able to increase its supply to the U.S. market on short notice. We submit that China has a rather unique ability to increase its supply to the U.S. market.

Table B, which is attached to our written statement supplied the committee, illustrates this point. Of the 10 largest foreign suppliers to the United States, China has the largest sugar supply uncommitted and available to the U.S. market.

This flexibility results from a rather unique combination of circumstances. First, we have, Taiwan has, a rather large and stable production. It has a small domestic market resulting in approximately 80 percent of its total production being exported.

The only preferential market with those obligations and benefits which it has is the U.S. market, and this is, of course, small. Some 90 percent, therefore, of its exports are sold in the free world market.

China is indeed the third largest seller in this free world market.

As a result of this combination of circumstances Taiwan could expand its supplies, its shipments to the United States tenfold or so on short notice. Indeed it did even better than this during the shortage years of 1961-62. It is our hypothesis that a large exportable surplus uncommitted elsewhere is a better guarantee of reliability and, of course, additional supply, if needed, than is mere geographic proximity.

Thank you very much, gentlemen for your attention. If there are any questions I will be delighted to try to answer them.

Senator BENNETT. Thank you very much. You really, Mr. Pendleton, came way under the wire.

Mr. PENDLETON. It was my intention to leave some surplus for others who might need it.

Senator BENNETT. If they can get it.

Senator Anderson, do you have any questions?

Any questions on this side of the table.

Thank you very much, Mr. Pendleton.

Mr. PENDLETON. Thank you, sir.

(Mr. Pendleton's prepared statement follows:)

STATEMENT OF THE REPUBLIC OF CHINA

RE

H. R. 8866

COMMITTEE ON FINANCE OF THE UNITED STATES SENATE

George C. Pendleton  
1815 H Street, N.W.  
Washington, D.C. 20006  
(202) 638-6021

Sandys Bao  
Chinese Government Procurement &  
Services Mission  
61 Broadway  
New York 6, New York  
(212) 943-9396

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STATEMENT OF THE REPUBLIC OF CHINA

## POSITION AND PURPOSE

This Statement is presented on behalf of The Government of the Republic of China to the Committee on Finance of the United States Senate in connection with its consideration of sugar legislation, particularly H.R. 8866.

The Republic of China has exported some quantities of sugar to the U.S. each year since 1953, and it has been given a small quota under each sugar law from 1956 to date. Thus, China has an interest in the nature of the U.S. sugar legislation. We submit that the principles of H.R. 8866 should be adopted and approved by this Committee.

The existing sugar act allows the Republic of China a permanent quota of one and one-half percent (1 1/2%) of the total granted to all foreign countries <sup>1/</sup> and also a one and one-half percent (1 1/2%) temporary quota from reallocation of the Cuban reserve resulting from a U.S. consumption of 10 million tons maximum. We requested the House Agriculture Committee to allow China to continue its participation in the United States sugar program at the same percentage level. However, we urged that Western Hemisphere preferences regarding

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<sup>1/</sup> Exclusive of Philippines, Ireland and the Bahama Islands



domestic deficits and reallocations of the Cuban reserve were unfair discriminations and should be eliminated.

H.R. 8866 gives the Republic of China a quota which is two and five hundredths percent (2.05%) of all quotas allowed to foreign suppliers other than the Philippines and Ireland. Committee Report No. 92-245 shows that based on U.S. consumption or 11.2 million tons, China's quota would be 84,910 tons. This is identical to the tonnage which China would have been allowed under the existing law, but, the discriminations against it were not entirely removed.

The Western Hemisphere preference regarding reallocations of the Cuban reserve was frozen into the proposed law by increasing the percentage amounts of the basic quotas for Western Hemisphere countries. It is true, that in the future, the increase of U.S. consumption beyond 11.2 million tons will be shared amongst all foreign suppliers pro rata without preference. Also, another preference contained in the old law was perpetuated. In the reallocation of domestic deficits, preferences were given first to the Philippines and then to the Western Hemisphere nations. Only after the Western Hemisphere countries have been unable to fill these reallocations are the Eastern Hemisphere countries, including the Republic of China, given an opportunity to participate. We had requested that these preferences be eliminated, but they were not.

However, in spite of the foregoing objections to the H.R. 8866, the Republic of China supports this bill and urges that this Committee give it favorable consideration.

INTRODUCTION

This Committee knows the long history of cordial relations between the United States and the Republic of China. The important position of the Republic of China in the international sugar trade may not be as familiar.

Sugar is important to the economy of Taiwan. This mountainous little island which contains 14,000 square miles and supports a population of 14,312,000 produces more than 900,000 tons of sugar annually and is one of the foremost exporters to the free market. Sugar cane was grown in Taiwan and sugar was exported from the island as early as the 17th century. During its fifty years of occupation, Japan encouraged sugar production to supply the Japanese homeland. By 1939, 376,800 acres were planted in sugar cane and fifty mills were in operation. More than one million five hundred thousand tons of sugar were produced annually. Taiwan's sugar industry was severely damaged during World War II and production was reduced to some thirty-three thousand tons. In the post-wars years, the industry was restored but crop diversification and diversion of agriculture land to industrial use has reduced output from the pre-war high. However, the average annual production has been stabilized at about 900,000 tons and sugar continues to be very important to Taiwan's economy. Some one million people are employed in the sugar industry.

The Chinese Government recognized the importance of sugar production and organized Taiwan Sugar Corporation (T.S.C.) which was charged with the production, manufacture and export of sugar. T.S.C. has been successful in stabilizing sugar production in spite of the competing demands for land and labor, the vagaries of weather and unstable international prices. In the 1965-1966 crop year, there was a record sugar production of 1.1 million tons.

T.S.C. has two sources of cane supply. Thirty percent (30%) is grown on its own plantations and seventy percent (70%) by independent farmers.

These farmers are compensated by sharing the sugar produced from their cane with T.S.C. The farmer receives fifty-five percent (55%) and T.S.C. forty-five percent (45%). At their option, the farmers may sell a part of their share on the domestic market or to T.S.C. for export. The independent farmers are compensated for their sugar which is exported on the basis of the average price which T.S.C. receives.

As Taiwan's industrial economy has grown, the relative importance of the sugar industry has declined. However, earnings from sugar exports contributed enormously to the growth of Taiwan's economy and it is still among the most important exports.

CRITERIA FOR FOREIGN QUOTAS

This statement concerns only allocation of foreign country quotas among the various foreign countries. However, we submit that on the accepted criteria and known facts, China should be given a substantial share of any foreign quota which Congress may authorize.

The Sugar Act of 1948 has been revised many times since first enacted. Scores of witnesses have testified and many hours of Committee time expended, but there are no precise guide lines to determine the distribution of quotas among foreign suppliers.

The Senate Report which accompanied the 1965 Act stated:

"The Sugar Act of 1948 is designed to protect the welfare of the domestic sugar industry, to provide adequate supplies of sugar for consumers at fair prices and to promote international trade. These three objectives are achieved through the adjustment of the supplies of sugar that may be marketed in the United States...

A quota system which prorated domestic consumption among producers in the United States and a number of foreign countries was enacted into law in 1934. This quota system was revised in 1937 and again in the Sugar Act of 1948."

Senate Report No. 909, U.S. Code and Congressional News, 89th Cong. 1965, p. 4145, 4146.

The principles contained in this statement remain the best guide lines available. The recent House Committee Print <sup>1/</sup>

<sup>1/</sup> "The United States Sugar Program" 91st Cong. 2nd sess., hereinafter called House Committee Print.

sets out six factors which should be considered in apportionment of import quotas.

We believe that China ranks high among the foreign exporting countries on each of these standards.

1. Friendly Government to Government Relations

The Governments of China and the U.S. are firm friends of long standing. Friendship is difficult to quantify, but we can enumerate some of its characteristics.

China and the U.S. were military allies in World War II and have stood together in international affairs since then. The U.S. gave its assistance generously in rehabilitating Taiwan after the war. The countries are linked by the usual treaties of friendship and navigation and have exchanged air commerce rights.

By the end of 1970, the U.S. business had invested more than \$242 million in Taiwan which was almost one half of the total foreign investment in Taiwan. The list of distinguished U.S. investors includes RCA, Admiral, Philco-Ford, Bendix, General Instruments, Texas Instruments, Motorola, Zenith, American Cyanamid, Morgan Guaranty, Irving Trust, Bankers Trust, Gulf Oil and National Distillers.

China's laws do not discriminate against U.S. citizens or U.S. business. China has never seized or expropriated U.S. property.

The U.S. and Chinese Governments are not only friends but special friends.

## 2. Dependability of Supply

Reliability of supply and price stability are objectives which have been consistently recognized by the U.S. Congress since the Sugar Act of 1948. The importance of a dependable supply is quite clear. The U.S. consumed 10,735 million short tons of sugar in 1969, about one hundred five pounds per person, and forty-five percent (45%) of it was imported.

Uncontrolled sugar prices are fundamentally cyclical and unstable. Every international crisis produces a sharp increase in prices.

"with all other markets more or less regulated, the world market is extremely volatile and reacts sharply to international tensions or to changes in aggregate supply and demand. The world price was as high as 12.60 cents per pound during May 1963 when supplies were tight to as low as 1.23 cents during January 1967." 1/

### Taiwan is an Efficient Producer

Taiwan is a natural sugar producing area. It has been growing, milling, and exporting sugar for more than three hundred years. For the last twenty years T.S.C. has worked to maintain a stable sugar production, and it has been conspicuously successful in spite of diversion of land to industry

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1/ House Committee Print, pg. 21

and other crops. Table A shows that, since 1955, there has been an average annual production of 921,000 tons.

Taiwan has a limited land area and multiple conflicting demands for land use. The area available for cane production has decreased. As population has grown, the size of individual land holdings has decreased. Nevertheless, T.S.C. has been successful in stabilizing production by increasing efficiency. Table A shows that the amount of sugar produced on one acre in one month increased more than ninety-five percent (95%) between 1950 and 1969. Milling efficiency has also increased. The average per mill production in 1969-1970 was 34,750 tons. In comparison, the average in 1949-1950 was 18,700 tons.

T.S.C. also is seeking to extend and improve its own plantations. Although only thirty percent (30%) of T.S.C.'s cane supply now comes from its own plantations, this is not the pattern world wide. For example, ninety-eight percent (98%) of Indonesia's supply is from large plantations, but the figure for Hawaii is eighty-nine percent (89%) and eighty-six percent (86%) in Puerto Rico. T.S.C. initiated a \$5.5 million program in 1966 to increase the area and production of its plantations. It is estimated that by 1973, the production of T.S.C.'s plantations will have increased by forty-one percent (41%).



Taiwan has an elastic supply for export

China has been a faithful supplier to the U.S. since 1953. It has faithfully met every quota allocation regardless of price conditions. The record demonstrates Taiwan's ability to meet excess U.S. demand when the occasion arises. During 1961 and 1962, large additional supplies were necessary to replace imports from Cuba. China exported to the U.S. 170,026 tons in 1961 and 121,473 tons in 1962. In 1960, the figure had been 10,440 tons. Thus, China has proven its ability to increase its exports to the U.S. many fold on short notice. This history is clear from the record, but Taiwan's unique sugar marketing conditions are equally important.

Taiwan has an elastic supply of sugar available for the U.S. market because:

--It has a large production: 944,000 tons

--The domestic market is small thus a large percentage of production, seventy-six and sixty-five hundredths percent (76.65%) is available for export.

--A very small portion of the exports, eleven and thirteen hundredths percent (11.13%), filled the U.S. quota.

Table B shows the comparative data for the ten largest foreign suppliers to the U.S.

It is apparent from Table B that China has the largest amount of sugar available to ship to the U.S. market upon demand. Australia and the British West Indies are apparent exceptions. However, both are members of the Commonwealth preferential market and have heavy commitments to it. Indeed, under the British Commonwealth Sugar Agreement, for the four years 1966-1969, the West Indies had a quota of 3.965 million tons and Australia had a quota of 3.879 million tons. This means that the British West Indies had no surplus to allow an increase of exports to the U.S. In contrast, China could have shifted up to eighty-nine percent (89%) of its exports into the U.S. market.

### 3. China Needs the U.S. Market

Sugar is a unique trade commodity. It is controlled to some extent by almost every nation in the world. Like the U.S., the British Commonwealth and the EEC Common market impose import controls. The U.S.S.R. and other socialist nations control their imports including those from Cuba. The International Sugar Organization which is composed of some forty-nine nations engaged in importing or exporting sugar establishes quotas for those exports which are not governed by "special arrangements."

So universal are production price and import controls, and "preferential arrangements", that only some twelve percent (12%) of the world's total sugar supply is traded in the "free market." Sales in this market are at very low prices--frequently below the cost of production.<sup>1/</sup>

China has neither a large domestic market nor a substantial quota in a premium market. It exports almost eighty percent (80%) of its production, the largest part of which is sold in the "free market" at low prices. Table B shows average exports from Taiwan of seventy-six and sixty-five hundredths percent (76.65%) for the years 1966-1969. China is the third largest exporter to the world's free market.

The ten leading exporters to the U.S. are listed in Table B. Other than China, all of the other nine nations listed have more favorable sugar markets. Six of these countries have U.S. quotas sufficiently generous to absorb from fifty percent (50%) to one hundred percent (100%) of their available exports. Three of the remaining four enjoy membership in the British Commonwealth Sugar Agreement and thus have access to its preferential markets. Of the top ten, only China has a small quota in relation to its total exports and also has no other preferential market.

In recent years, Taiwan's economy has grown rapidly,

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<sup>1/</sup> House Committee Print pgs. 21-22

and sugar earnings have contributed to this growth. Nevertheless, Taiwan continues to need help in its economic development. The Committee Print, 2/ compares the quota countries on the basis of gross domestic product per capita. On this standard, China is the third most needy among the ten largest suppliers to the U.S. China's average of \$238 production per capita exceeds only Ecuador and India.

It is apparent that on objective standards, China needs and deserves a U.S. quota much larger than the one it now enjoys.

#### 4. Worker Benefits

Individual sugar cane farmers in Taiwan participate fully in the proceeds from sales in the U.S. market. The marketing system assures that all profits are distributed pro-rata. Some seventy percent (70%) of the cane is supplied to T.S.C. by individual farmers. In all other major sugar producing countries, most of the supply comes from large plantations.

T.S.C. must extend every possible benefit to the farmers to induce them to plant cane. Farmers in Taiwan prefer rice crops and in recent years other crops such as fruit and vegetables have competed with sugar cane for the farmers' attention.

2/ Ibid pg. 50, Table 23

The wide fluctuations in the international prices of sugar tend to discourage farmer interest. Thus, in 1950, T.S.C. adopted a policy of stabilizing prices and sharing income with producing farmers.

A Sugar Stabilization Fund was established in 1966. Thus, when net export prices received exceed the stabilized price guaranteed to farmers by T.S.C., a part of the proceeds are deposited in the fund and used to make up deficits when net export prices fall below the stabilized price.

All sugar cane raised by private farmers is delivered to T.S.C. for milling and the sugar produced is divided fifty-five percent (55%) to the farmer and forty-five percent (45%) to T.S.C. in payment for milling and marketing. The farmer is allowed to sell a portion of his sugar on the domestic market. Usually most of the domestic market is supplied by the private farmers and nearly all of T.S.C.'s sugar is exported. Generally, domestic prices are some seventy-seven percent (77%) higher than average export prices and the individual farmer gets this benefit.

That portion of the farmer's sugar delivered to T.S.C. and sold by it is priced at the average net price realized by T.S.C. or at the guaranteed stabilized price whichever is greater. For example in 1969 the prices per pound were:

Taiwan domestic	7.03¢ <u>1/</u>
Average export price	3.97¢
Stabilized price	4.42¢

The stabilized price guaranteed for 1971 is 4.54¢ per pound.

#### 5. Reciprocal Trade

The U.S. and China are important international trading partners. In the years following World War II, China and the U.S. have enjoyed strong commercial ties. In spite of the geographic distance between our countries, they exchange a large volume of trade.

In 1969, China imported \$393,000,000 of U.S. products. China shipped \$386,000,000 to U.S. The two-way trade amounted to \$779,000,000. In the seven years from 1963 to 1969, the trade between China and the U.S. has increased from \$196,000,000 to \$779,000,000. 2/

Of course, it is evident that in the course of the past seven years, China's exports to the U.S. have increased faster than its imports from the U.S. This is not an unusual pattern for a developing country. However, it should be noted that Taiwan continues to be a most important U.S. customer, close to forty percent (40%) of China's total imports come from the U.S. and the volume continues to grow. Excepting only Japan,

1/ House Committee Print, Table 5, pg. 9 shows 13¢ but this includes excise and other taxes.

2/ House Committee Print, Tables 26 and 27, pgs. 55 and 57.

the U.S. is China's largest supplier. In 1969, thirty-six and six tenths percent (36.6%) or \$386 million of Taiwan's imports came from the U.S.

The history of the agricultural commodity trade between the U.S. and China is particularly impressive. The Committee Print, shows that in 1969 there was a \$66 million surplus in favor of the U.S. in the balance of agricultural trade between the countries. <sup>1/</sup> Of the ten largest foreign sugar suppliers, seven of the countries had negative balances in agricultural trade with the U.S. Only China, the British West Indies and India imported more agricultural products from the U.S. than they exported to it.

In 1969, China took \$91 million worth of agricultural products from the U.S. This was more than any other country supplying sugar to the U.S. except Mexico which imported the same amount.

China's trade more than pays for its sugar exports to the U.S.

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<sup>1/</sup> House Committee Print, Table 27 pg. 57

CONCLUSION

The facts justify continuing China's quota at least at the existing level. In fact, we believe that China deserves a more equitable position by allowing it to participate in the allocation of domestic deficits on the same basis as do the Western Hemisphere countries.

We submit that --

-- China is a firm friend and ally of the U.S.

-- China is a dependable sugar supplier and has a large export surplus available for the U.S. market.

-- U.S. and China are important trading partners.

-- China has no preferential market other than the U.S. and it needs that market to sustain its sugar industry and to contribute to foreign exchange earnings.

-- The individual sugar farmers in China fully share in the proceeds of export sales of sugar.

Respectfully submitted,

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George C. Pendleton  
Attorney for Republic of China  
1815 H Street, N.W., Suite 708  
Washington, D. C. 20006



TABLE - A

## STATISTICS OF CANE AND SUGAR PRODUCTION IN TAIWAN

Crop Year	Cane Area (Acres)	Number of Mills	Sugar Production (1,000 Short Tons)	Per Acre Cane Production (Short Tons)	Average Growing Period (Months)	Monthly Production of Sugar in Pounds Per Acre
1938-39	376,800	50	1,515	35.63	18.20	486
1949-50	292,576	36	675	23.03	17.77	316
1955-56	188,638	27	808	36.45	15.70	590
1956-57	216,749	27	846	32.10	16.48	545
1957-58	232,928	27	918	33.96	16.15	556
1958-59	241,887	27	985	35.24	13.93	619
1959-60	237,767	26	1,036	37.80	14.63	628
1960-61	231,080	25	854	32.35	14.00	566
1961-62	240,600	25	1,019	36.45	14.66	603
1962-63	222,628	25	783	30.09	14.14	529
1963-64	224,997	25	829	31.66	13.69	565
1964-65	230,334	25	860	32.61	13.60	598
1965-66	262,993	25	1,108	39.71	14.38	621
1966-67	248,519	25	1,081	38.85	14.20	647
1967-68	214,442	25	884	35.02	14.61	565
1968-69	230,105	25	975	39.16	13.65	627
1969-70	223,070	24	834	33.82	14.48	616

Source: T. S. C. Statistics

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TABLE - B

PRODUCTION AND EXPORT STATISTICS  
FOR TEN LARGEST FOREIGN SUPPLIERS

Unit: 1000 Short Tons, Raw Value.

Country	Total Sugar Production of 4 Crop Years 1966-67 1967-68 1968-69 1969-70	Total Sugar Exports 1966-69	% of Production Exported	Total Exports to U. S. 1966-69		Total Exports to Other Preferential Markets 1966-69	
				Tonnage	As % of Total Exports	Tonnage	As % of Total Exports
Philippines	6,822	4551	66.71	4551	100.00	0	0
Mexico	10,284	2631	25.58	2338	88.86	0	0
Dominican Republic	3,345	2761	82.54	2732	98.94	0	0
Brazil	19,857	4572	23.02	2589	56.62	0	0
Peru	3,315	1755	52.94	1545	88.03	0	0
B. W. I.	5,511	4783	86.79	818	17.10	3965	82.89
Ecuador	840	327	38.92	327	100.00	0	0
Australia	10,269	7797	75.92	780	10.00	3879	49.74
China	3,774	2893	76.65	322	11.13	0	0
India	15,285	983	6.43	306	31.12	414	42.11

Source: The U. S. Sugar Program, December 31, 1970

Senator BENNETT. The next witness is Mr. W. DeVier Pierson on behalf of the Mauritius Chamber of Agriculture and the Mauritius Sugar Syndicate.

**STATEMENT OF W. DE VIER PIERSON, MAURITIUS CHAMBER OF AGRICULTURE AND MAURITIUS SUGAR SYNDICATE**

Mr. PIERSON. Thank you, Mr. Chairman and members of the committee. We appreciate the opportunity to appear this morning on behalf of our clients, the Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture.

We have submitted a statement to the committee, and I ask, Mr. Chairman, that the statement be placed in full in the record as it is my intention only to briefly summarize some aspects of that statement.

Senator BENNETT. It will be placed in full in the record.

Mr. PIERSON. Let me say at the outset, that Mauritius is most appreciative not only of the opportunity of appearing here today but of the fact that the House of Representatives in its consideration of H.R. 8866 saw fit to increase the quota to Mauritius from 18,000 tons to approximately 30,000 tons.

This increase will be of great assistance to Mauritius and is most appreciated by that country.

We recognize that one of the most difficult tasks that this committee faces is the division of the share of the foreign quota that it chooses to allocate to foreign suppliers among competing claims. Invariably the claimants for that share propose a number of sensible and equitable means by which the division could be made, and we suggest for the committee's consideration this morning that it is useful to the maximum extent possible that the committee finds neutral standards or criteria which would be fair to all.

Naturally it is not possible to put entirely in statistical terms the basis on which each country may request a share of the foreign quota.

But there are some statistical guide lines that may be of assistance to the committee, and our statement suggests a number of them.

1. The dependence of each country participating in the program on sugar for its economic well-being.

2. The density of population of each country because of the impact of population density on alternative avenues to economic progress

3. The relationship that sugar exports to the United States bear to each country's total sugar exports.

4. The U.S. sugar quota for each country as compared to the size of its total sugar crop.

5. The share of each country in other preferential markets.

With respect to the Mauritius case I should say that these standards favor of this country in most respects. First, Mauritius is far more dependent on sugar for its economic well being than any of the others participating in the U.S. sugar program. Indeed sugar exports account for over 90 percent of the total value of all Mauritius exports as compared to only 4.4 percent of the value of all exports for all of the countries participating under the program, and for non-western hemisphere countries this figure is only 3.7 percent of total exports.

With respect to sugar exports to the U.S. as a percentage of total sugar exports, for the countries that received quotas under the 1965 act

approximately 36 percent of their sugar exports went to the U.S., the most highly remunerative market. Approximately 10 percent of all sugar exports from non-western hemisphere countries with quota allocations went to the U.S. In the case of Mauritius her U.S. quota was 2.5 percent of total sugar exports.

Even with the proposed quota of 30,000 tons, the Mauritius share participation in the U.S. market will represent only 4.5 percent of her total sugar exports as compared to 11.5 percent—which is the average for small non-Western Hemisphere countries.

With respect to the total sugar crop of Mauritius, the proposed quota represents only 4 percent of that total crop. While the Mauritius crop is the 11th largest of the 32 countries receiving quotas, 28 countries received proposed quotas which would permit them to sell a larger share of their crop to the United States.

We have in our statement, Mr. Chairman, indicated the benefits of the Mauritius sugar quotas to the workers of that country, and have described the trade and other commercial relationships that have always existed between these two countries.

As a result of these considerations, we ask the committee's consideration of a quota for Mauritius in the amount of 45,000 tons. The amount would be less than the amount that might be calculated under a number of the standards that I have suggested. It would be a quota that would permit this small developing nation, which is at the same time a major sugar exporter, to have a reasonable share of the total U.S. sugar market.

Whatever the results, let me assure you that Mauritius will appreciate its opportunity to continue to supply the U.S. market at whatever level is established by the Congress and will be a dependable supplier for that portion it receives.

Thank you very much, Mr. Chairman.

Senator BENNETT. Thank you very much, Mr. Pierson. We are glad to welcome you back to a relationship with the committee.

Mr. PIERSON. Thank you, Mr. Chairman.

The CHAIRMAN (presiding). Thank you very much  
(Mr. Pierson's prepared statement follows:)

STATEMENT ON BEHALF OF MAURITIUS  
BEFORE THE SENATE FINANCE COMMITTEE

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STATEMENT ON BEHALF OF MAURITIUS  
BEFORE THE SENATE FINANCE COMMITTEE

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STATEMENT ON BEHALF OF MAURITIUS  
BEFORE THE SENATE FINANCE COMMITTEE

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On behalf of our clients, the Mauritius Chamber of Agriculture and the Mauritius Sugar Syndicate, we appreciate the opportunity to submit this statement for the Committee's consideration.

A detailed statement in support of the case for Mauritius was submitted to the House Agriculture Committee. That statement dealt with the long and unbroken history of friendly relations between the two countries, the dependability of Mauritius as a sugar supplier, the dependence of the country on sugar exports and other matters of concern to the Committee in its consideration of foreign quotas. A copy of that statement is attached and no effort will be made to repeat the facts included therein except to the extent that the notice of hearings by the Committee on Finance has requested information on specific issues.

Mauritius recognizes the difficult task faced by the Congress, and in particular by this Committee and the House Committee on Agriculture, in allocating the foreign share of sugar quotas among the many countries who have presented competing proposals. The task is to establish a fair and reasonable allocation and every country, including Mauritius, must realize that only a limited quantity is available to meet the aspirations of all.

Mauritius was pleased by the fact that in H.R. 8866, as recently passed by the House of Representatives, a significant step was taken to recognize and correct the inadequate quota that Mauritius had received in 1965. In the House bill, the quota for Mauritius was increased from 18,681 short tons to 30,000 short tons. Mauritius is grateful for recognition that an increase was warranted.

Even so, Mauritius believes that a review of objective criteria will reveal that its stature as a major sugar producer still appears to be inadequately recognized. In this connection, it would seem desirable for this Committee to seek "neutral standards" to the maximum extent possible in deciding competing claims for the foreign share. The use of such criteria would seem to be fair to all foreign suppliers in deciding among requests that inevitably exceed the finite available total.

Obviously, the quotas established in H.R. 8866 and in the 1965 Act represent a point of departure for this Committee's consideration. In the consideration of whether the quotas of an individual country is deemed worthy of adjustment, the Committee may also wish to consider the following:

- 1) The dependence of each country participating in the program on sugar for its economic well being.
- 2) The density of population of each country because of the impact of population density on alternative avenues to economic progress.
- 3) The relationship that sugar exports to the United States bear to each country's total sugar exports.



4) The U.S. sugar quota for each country as compared to the size of its total sugar crop.

5) The share of each country in other preferential markets.

Of course, the Committee will give consideration as well to matters that do not lend themselves as readily to statistical interpretation: diplomatic and commercial relationships and the manner in which the benefits of the U.S. preferential market are passed on to the workers of a country are prime examples.

The remainder of this statement deals with these statistical and non-statistical considerations. All of the figures discussed below are based on statistics found in the various tables of the House Committee on Agriculture pamphlet, "The United States Sugar Program," dated December 31, 1970.

1. Mauritius is far more dependent on sugar for its well-being than any of the other countries participating in the U.S. sugar program.

Mauritius is dependent on sugar to a greater extent than any other country in the world. Sugar exports account for over 90% of the total value of all Mauritius' exports. (See Appendix A) Sugar accounts for more than 20% of the export earnings of only three other countries participating in the U.S. sugar quota program. If we examine the combined exports of all countries provided with quotas under the House bill, it appears that sugar exports represent only 4.4% of the value of all exports for these countries. For non-Western Hemisphere countries, this figure is only 3.7%. Thus, when viewed in terms of the need for remunerative markets for its sugar, Mauritius' case is exceptionally compelling.

2. Although Mauritius is the smallest country in area participating in the U.S. sugar program, it has the greatest density of population.

With over 1100 people per square mile, Mauritius is one of the most densely populated countries in the world. (See Appendix B) Because of its location and climate, its economy has been and will continue to be almost exclusively based on sugar. This is the only product which has, over the centuries, demonstrated its ability to provide the population of the country with a viable source of livelihood or export earnings.

- 3A. Under the 1965 Sugar Act, Mauritius' sugar exports to the United States represented a smaller percentage of its total sugar exports than any other country given a quota under that Act.

All sugar exporting countries seek remunerative markets for their sugar. It is important, therefore, for the economic development of those less developed countries which export sugar to be able to export a reasonable percentage of their product to the United States market. Of those countries which received quotas under the 1965 Act, approximately 36% of their sugar exports went to this highly remunerative market. Approximately 10% of all sugar exports from non-Western Hemisphere countries with quota allocations went to the United States. Mauritius, however, was granted a quota under the 1965 Act which permitted her to ship only 2.5% of her total sugar exports to the United States. This was by far the lowest percentage of any foreign country. (See Appendix C) If Mauritius' percentage of exports to the U.S. had been equivalent to the average of all non-Western Hemisphere countries,

she would have been authorized to export approximately 68,000 tons annually to the United States.

- 3B. Even with a proposed quota of 30,000 tons, as approved by the House of Representatives, Mauritius' sugar exports to the United States will represent a smaller percentage of its total sugar exports than any other country.

Of the 32 countries given a quota under H.R. 8866 as approved by the House, only six export more sugar than does Mauritius. (See Appendix D) Yet 22 countries received a larger quota than Mauritius and Mauritius' quota represented only 4.5% of her average annual sugar exports in the base period 1966 - 1969. Only one other country received a quota which represented less than 10% of average annual sugar exports. All non-Western Hemisphere countries received quotas which equalled approximately 11.5% of their average base period exports. A quota for Mauritius equal to 11.5% of her base period exports would amount to 76,245 tons.

4. The proposed quota for Mauritius represents only 4% of Mauritius' 1969/1970 crop year production. While Mauritius' crop is the 11th largest of the 32 countries receiving quotas, 28 other countries received proposed quotas which permit them to sell a larger share of their crop to the United States.

Only three other countries -- India, Ireland and South Africa -- received proposed quotas which represent a lower percentage of their 1969/1970 crop than did Mauritius. (See Appendix E) Since India consumes approximately 75% of its own sugar and Ireland is a net importer of sugar, this percentage is not as meaningful in those cases.

With the exception of India, the quotas proposed for non-Western Hemisphere countries in H.R. 8866 amount to approximately 6.5% of the 1969/1970 crop year sugar production in these countries. A quota for Mauritius equal to 6.5% of her production would amount to approximately 48,000 tons.

5. Even though Mauritius participates in other premium-priced markets, it exports a smaller percentage of its sugar to these markets than most of the other countries given quotas under H.R. 8866; it receives a smaller premium than is afforded by the U.S. market; and it enjoys no significant or remunerative domestic market.

It is, of course, true that the United States is not the only preferential market to which Mauritius exports its sugar. Mauritius is a member of the Commonwealth Sugar Agreement and for calendar years 1968, 1969 and 1970 the C.S.A. quota for Mauritius represented approximately 62% of Mauritius' total production and 66% of total net exports. \* The average price which Mauritius received for its sugar under the C.S.A. was 5.07 cents per pound. The average price prevailing in the U.S. market during this time was 7.36 cents per pound. Thus, including the 2.5% of total net exports to the United States, a total of 68.5% of Mauritius' exports in the 1968-1970 period went to protected markets.

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\* These figures differ from those shown in Table 25 of "The United States Sugar Program". Table 25 indicates that all of Mauritius' exports in the period 1966-1969 went either to the U.S. or to "other preferential markets". The figures in Table 25 were derived from the Sugar Yearbook of the International Sugar Organization which, for statistical purposes, includes as "preferential markets" those markets which import sugar at world prices but which provide a preferential duty rate (which increases the return by a minimal amount) to some suppliers. The figures mentioned above, however, are based on ISO statistics which treat as "imports to preferential markets" only those imports which are afforded a special price above the world market price, e.g., imports into the U.S. and imports under the C.S.A.

A number of countries participating in the U.S. sugar market exported 100% of their sugar to preferential markets. While it is difficult to compare various preferential markets, it appears that a majority of the countries enjoyed a greater percentage than did Mauritius. Moreover, the premium-priced U.S. market to which these countries exported most of their sugar is at least two cents per pound more remunerative than the premium-priced markets to which Mauritius exported its sugar.

It should also be kept in mind that some 88% of world sugar production is sold in protected markets, and only 12% is sold on the so-called "world market." Mauritius exports only 60% of her production to such premium-priced markets.

Furthermore, many other producers enjoy the benefits of a remunerative domestic market. This is not the situation for Mauritius, where domestic consumption absorbs less than 5% of domestic production and where the domestic price is the lowest in the world.

In short, while Mauritius is one of the world's major sugar producers and exporters, she continues to be categorized as a "small country" and, therefore, a "small producer." As a result, she tends to receive quota allocations more appropriate for countries with one-fourth her export history or productive capability. This is particularly unfortunate since no other country is as totally dependent on sugar exports as is Mauritius. For Mauritius, unlike the other countries participating in the U.S. sugar program, sugar is the only product that it can export to the United States.

Sugar quotas benefit the workers of Mauritius,

The prime beneficiaries of the revenue produced by an increase in Mauritius' quota would be the workers and small farmers of the country.

Approximately 46% of the total acreage presently under sugar cane is owned and cultivated by some 30,000 small farmers. The balance of the acreage is owned by about 19 sugar companies which also own the 21 mills which grind the canes. All but two of these companies are exclusively owned and operated by Mauritians. Most of these sugar companies are publicly owned.

The sugar output of all of the mills becomes the property of the Mauritius Sugar Syndicate, a non-profit organization incorporated by state law, which is the sole marketing agency for sugar from Mauritius. The Sugar Syndicate sells the entire output on behalf of all cane growers on the island. The Syndicate pools all its receipts from sales made to various markets, including the United States market, and after deducting marketing expenses, taxes and levies, pays the entire net receipts to all the producers and millers pro rata to their share in the production of sugar. Under Mauritian law, 68% of the net proceeds from export sales go to the growers and 32% go to the millers. The proportion given to the growers is one of the highest in the world and approximately half of the 68% goes to the 30,000 small farmers. Thus, each sugar company and each individual grower receive exactly the same price for their sugar and partake pro rata in the proceeds from sales made to the United States, to the United Kingdom, and to the world market. All producers, both large and small, share proportionately in the benefits derived from sugar sales to premium priced markets.

Approximately 43% of the gross revenues received by the sugar companies is passed on to workers and employees in the form of wages and salaries. A much larger portion of the proceeds accruing to small farmers goes to the payment of wages. As a result, more than 50% of the total proceeds derived from sugar sales are used for the payment of wages and salaries in the industry.

In regard to the sugar companies, no one company received more than \$200,000 in gross revenues in 1969 from sugar exports to the United States market. On the average, each of the companies received approximately \$70,000 in revenues from such sales. Dividends distributed by sugar companies over the past 4 years have averaged \$2.9 million on average gross proceeds of \$64 million, i.e., 4.5%. In fact, pre-tax and pre-dividend profits have averaged only 5.2% of capital employed in the industry over the past 4 years. Dividends are shared by a considerable number of large and small shareholders. Company profits are not only re-invested in the sugar industry, but are also invested in other activities intended to benefit the country at large. For example, recently the sugar industry has set up a tea factory in order to process the tea grown by small growers. This has helped in the diversification of the Mauritius economy.

A Labour Welfare Fund has been established by law and is financed by a 1% levy on the gross proceeds of all sugar exports. The Fund provides various benefits to labor as employed in the industry. In addition, workers are protected by wide-ranging social legislation which ensures reasonable

wages and benefits, and the provision of good conditions of employment. Wage rates and conditions are fixed by law by the government, upon advice from a Wages Council, and are not the result of direct bargaining between employer and employee.

The government of Mauritius levies an ad valorem tax of 6% on the gross proceeds of sugar exports. In addition, a company tax at the rate of 45% is levied on undistributed profits; distributed profits, in the form of dividends, are taxed in the hands of the recipients at rates varying between 20% and 80%. Of the total expenditures made by the government, approximately 40% are made on health, education, welfare and social activities which are of direct benefit to the working man.

#### Trade with the United States.

As pointed out above, Mauritius has only one product which it can sell to the United States -- sugar. For many years prior to 1962, Mauritius was denied participation in the United States sugar market but nevertheless imported significant quantities of United States goods, particularly machinery, chemicals, tobacco and food. It was only in 1962 that Mauritius first began to export sugar to the United States. During the period 1960 to 1969, Mauritius imported approximately \$1.5 million worth of goods from the United States per year. In 1970 these imports increased to \$4,250,714 providing the United States with a net favorable balance of trade. The largest items of import were vegetable oils, machinery and transport equipment. In view of the new four year plan starting July 1, 1971, and the implementation of



various public works projects (such as airport construction), imports from the United States are likely to continue to increase.

Moreover, these figures do not take into account the indirect imports by Mauritius from the United States from subsidiaries of American firms based outside the United States. For example, during the 5 years of 1964 through 1968, such imports into Mauritius amounted to more than \$80 million.

Because of her unique dependence on a single agricultural product, and because of her peculiar geographic location, Mauritius must depend on imports of manufactured and semi-manufactured goods. Increased sugar sales in the United States would provide Mauritius with the wherewithal to purchase increased quantities of such goods from the United States.

#### Conclusion

In our appearance before the House Agriculture Committee, we requested the Committee's consideration of a quota for Mauritius of 100,000 tons. While we believe such a quota would be fully justified, we also recognize that the decisions reached as to other foreign quotas in the House bill make it difficult to now enlarge the Mauritius quota by these dimensions. Under these circumstances, Mauritius asks consideration of a quota of 45,000 tons -- an amount equal to three shiploads annually -- as a reasonable increase to bring the country's share in line with its position in the sugar world. Moreover, this quota would be a somewhat lower figure than would be indicated if the quota were determined on the basis of the criteria previously discussed.

Whatever decision the Committee reaches, Mauritius wishes to express deep appreciation for the opportunity to participate in the U.S. sugar quota system. This country will continue to be a dependable supplier of the portion of the total allocation it receives as a result of this Committee's deliberations and the action of the Congress.

APPENDIX A

<u>Country</u>	<u>Average Annual Exports 1966 - 1968 *</u>	<u>Average Annual Sugar Exports 1966 - 1968 *</u>	<u>Sugar Exports as a Per- centage of Total Exports</u>
Argentina	1,475	10	0.7 %
Australia	3,190	131	4.1 %
Bahamas	NA	NA	NA
Bolivia	161	1	0.6 %
Brazil	1,759	88	5.0 %
British Honduras	14	5.7	40.7 %
British West Indies	767	114	14.9 %
China, Republic of	659	46	7.0 %
Columbia	515	10.6	2.1 %
Costa Rica	151	8	5.3 %
Dominican Republic	152	78	51.3 %
Ecuador	183	7.7	4.2 %
El Salvador	203	6.7	3.3 %
Fiji Islands	50	29	58.0 %
Guatemala	217	7.7	3.5 %
Haiti	35	3.3	9.4 %
Honduras	NA	NA	NA
India	1,638	18	1.1 %
Ireland	748	2	0.3 %
Malagasy Republic	106	8	7.5 %
Malawi	NA	NA	NA
<u>Mauritius</u>	<u>66</u>	<u>60</u>	<u>90.9 %</u>
Mexico	1,159	70	6.0 %
Nicaragua	147	4.3	2.9 %
Panama	89	3.7	4.2 %
Paraguay	NA	NA	NA
Peru	760	54	7.1 %
South Africa	1,900	49	2.6 %
Swaziland	NA	NA	NA
Thailand	672	3	0.4 %
Uganda	NA	NA	NA
Venezuela	3,003	4.3	0.1 %
All countries	19,520	856.3	4.4 %
Non-western hemi- sphere countries	8,924	337	3.7 %

SOURCE: "The United States Sugar Program," Table 28.  
\* All figures are in millions of dollars.

APPENDIX B

<u>Country</u>	<u>Population</u>	<u>Area in Square Miles</u>	<u>Population per Square Mile</u>
Argentina	23,983,000	1,073,000	22
Australia	12,296,000	2,971,000	4
Bahamas	150,000	4,000	37
Bolivia	4,804,000	424,000	11
Brazil	90,840,000	3,288,000	28
British Honduras	120,000	8,000	13
British West Indies	3,995,000	166,000	24
China, Republic of	13,800,000	14,000	985
Columbia	20,463,000	455,000	45
Costa Rica	1,695,000	23,000	74
Dominican Republic	4,174,000	19,000	220
Ecuador	5,890,000	116,000	51
El Salvador	3,390,000	8,000	424
Fiji Islands	519,000	7,000	74
Guatemala	5,014,000	42,000	119
Haiti	4,768,000	11,000	433
Honduras	2,495,000	43,000	58
India	536,983,000	1,261,000	426
Ireland	2,921,000	27,000	108
Malagasy Republic	6,643,000	228,000	29
Malawi	4,042,000	42,000	96
<u>Mauritius</u>	<u>799,000</u>	<u>720</u>	<u>1100</u>
Mexico	48,933,000	758,000	65
Nicaragua	1,915,000	57,000	34
Panama	1,417,000	29,000	49
Paraguay	2,100,000	157,000	13
Peru	13,172,000	514,000	26
South Africa	19,618,000	472,000	42
Swaziland	410,000	7,000	59
Thailand	34,738,000	197,000	176
Uganda	7,800,000	91,000	86
Venezuela	10,035,000	352,000	29

SOURCE: "The United States Sugar Program," Table 24.

APPENDIX C

<u>Country</u>	<u>Average Annual Sugar Exports 1966 - 1969 *</u>	<u>Average Annual Sugar Exports to U. S., 1966 - 1969 *</u>	<u>Sugar Exports to U. S. as a percent of total sugar exports</u>
Argentina	85,250	69,500	81.5 %
Australia	1,949,250	195,000	10.0 %
Bahamas	2,500	2,500	100.0 %
Bolivia	10,000	6,500	65.0 %
Brazil	1,143,000	647,250	56.6 %
British Honduras	58,500	14,750	25.2 %
British W. Indies	1,195,750	204,500	17.1 %
China, Rep. of	723,250	80,500	11.1 %
Columbia	200,250	102,250	51.1 %
Costa Rica	73,000	71,500	97.9 %
Dominican Republic	690,250	683,000	98.9 %
Ecuador	81,750	81,750	100.0 %
El Salvador	59,250	43,250	73.0 %
Fiji Islands	358,000	43,000	12.0 %
Guatemala	63,000	60,500	96.0 %
Haiti	27,500	24,750	90.0 %
Honduras	5,250	5,250	100.0 %
India	245,750	76,500	31.1 %
Ireland	0	5,000	--
Malagasy Rep.	81,250	9,250	11.4 %
Malawi	NA	0	--
<u>Mauritius</u>	<u>663,000</u>	<u>17,000</u>	<u>2.5 %</u>
Mexico	657,750	584,500	88.9 %
Nicaragua	48,000	48,000	100.0 %
Panama	31,250	30,500	97.6 %
Paraguay	NA	0	--
Peru	438,750	386,250	88.0 %
South Africa	807,000	68,750	8.5 %
Swaziland	158,750	7,000	4.4 %
Thailand	23,750	13,000	54.7 %
Uganda	NA	0	--
Venezuela	39,500	26,250	66.5 %
<b>All countries</b>	<b>9,920,500</b>	<b>3,607,500</b>	<b>36.4 %</b>
<b>Non-western Hemisphere Countries</b>	<b>5,010,000</b>	<b>514,750</b>	<b>10.3 %</b>

SOURCE: "The United States Sugar Program," Tables 24 and 25.  
\* All figures are in short tons, raw value.

APPENDIX D

<u>Country</u>	<u>Proposed Quota*</u>	<u>Average Annual Sugar Exports 1966 - 1969*</u>	<u>Proposed Quotas as a Percentage of Average Annual Sugar Exports 1966 - 1969</u>
Argentina	75,394	85,250	88.4 %
Australia	203,785	1,949,250	10.5 %
Bahamas	33,173	2,500	1326.9 %
Bolivia	16,612	10,000	166.1 %
Brazil	519,909	1,143,000	45.5 %
British Honduras	33,173	58,500	56.7 %
British West Indies	189,926	1,195,750	15.9 %
China, Republic of	84,910	723,250	11.7 %
Columbia	72,650	200,250	36.3 %
Costa Rica	64,607	73,000	88.5 %
Dominican Republic	519,909	690,250	75.3 %
Ecuador	79,852	81,750	97.7 %
El Salvador	39,924	59,250	67.4 %
Fiji Islands	44,719	358,000	12.5 %
Guatemala	54,445	63,000	86.4 %
Haiti	30,489	27,500	110.9 %
Honduras	16,612	5,250	316.4 %
India	81,514	245,750	33.2 %
Ireland	5,351	0	- -
Malagasy Republic	15,000	81,250	18.5 %
Malawi	15,000	NA	- -
<u>Mauritius</u>	<u>30,000</u>	<u>663,000</u>	<u>4.5 %</u>
Mexico	531,603	657,750	80.8 %
Nicaragua	64,607	48,000	134.6 %
Panama	62,947	31,250	201.4 %
Paraguay	15,079	NA	- -
Peru	414,691	438,750	94.5 %
South Africa	60,003	807,000	7.4 %
Swaziland	30,000	158,750	18.9 %

(Contd.)

(Appendix D - Contd.)

<u>Country</u>	<u>Proposed Quota*</u>	<u>Average Annual Sugar Exports 1966 - 1969*</u>	<u>Proposed Quotas as a Percentage of Average Annual Sugar Exports 1966 - 1969</u>
Thailand	18,681	23,750	78.7 %
Uganda	15,000	NA	- -
Venezuela	36,417	39,500	92.2 %
<hr/>			
All countries	3,430,903	9,920,500	34.6 %
Non-western Hemisphere Countries (excluding Malawi, Paraguay & Uganda)	573,963	5,010,000	11.5 %

SOURCE: "The United States Sugar Program," Table 24.

\* All figures are in short tons, raw value.

<u>Country</u>	<u>Proposed Quota*</u>	<u>1969/1970 Sugar Crop Year Production *</u>	<u>Proposed quota as a Percentage of 1969/1970 production</u>
Argentina	75,394	1,006,000	7.5 %
Australia	203,785	2,962,000	6.9 %
Bahamas	33,173	15,000	221.2 %
Bolivia	16,612	125,000	13.3 %
Brazil	519,909	4,804,000	10.8 %
British Honduras	33,173	58,000	57.2 %
British West Indies	189,926	1,332,000	14.3 %
China, Republic of	84,910	834,000	10.2 %
Columbia	72,650	740,000	9.8 %
Costa Rica	64,607	143,000	45.2 %
Dominican Republic	519,909	975,000	53.3 %
Ecuador	79,852	240,000	33.3 %
El Salvador	39,924	120,000	33.3 %
Fiji Islands	44,719	448,000	10.0 %
Guatemala	54,445	197,000	27.6 %
Haiti	30,489	60,000	50.8 %
Honduras	16,612	63,000	26.4 %
India	81,514	4,640,000	1.8 %
Ireland	5,351	178,000	3.0 %
Malagasy Republic	15,000	115,000	13.0 %
Malawi	15,000	-----	--
<u>Mauritius</u>	<u>30,000</u>	<u>737,000</u>	<u>4.1 %</u>
Mexico	531,603	2,765,000	19.2 %
Nicaragua	64,607	138,000	46.8 %
Panama	62,947	86,000	73.2 %
Paraguay	15,079	-----	--
Peru	414,691	716,000	57.9 %
South Africa	60,003	1,659,000	3.6 %
Swaziland	30,000	170,000	17.6 %

(Contd.)



## (Appendix E - Contd.)

<u>Country</u>	<u>Proposed Quota*</u>	<u>1969/1970 Sugar Crop Year Production*</u>	<u>Proposed quota as a Percentage of 1969/1970 Production</u>
Thailand	18,681	370,000	5.1 %
Jganda	15,000	NA	- -
Venezuela	36,417	401,000	9.1 %
<hr/>			
All countries	3,430,903	26,428,000	13.0 %
Non-western Hemisphere countries (excluding Malawi, Paraguay & Uganda)	573,963	12,245,000	4.7 %
Non-western Hemisphere countries except India (excluding Malawi, Paraguay & Uganda)	492,449	7,605,000	6.5 %

SOURCE: "The United States Sugar Program", Table 24.

\* All figures are in short tons, raw value.

STATEMENT ON BEHALF OF MAURITIUS FOR A  
MORE EQUITABLE SHARE OF THE U. S. SUGAR MARKET

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STATEMENT ON BEHALF OF MAURITIUS FOR A  
MORE EQUITABLE SHARE OF THE U.S. SUGAR MARKET

I. The Mauritius Case for a U.S. Sugar Quota

Mauritius seeks favorable consideration of a quota of 100,000 short tons as its equitable share of the U.S. sugar market.

Mauritius is an independent country within the British Commonwealth and a member of the United Nations. The policy of its Government is one of democratic freedom and social justice in close association with the Western World.

It has a long and unbroken record of friendly relations with the United States.

Background information on the geography, history, political and strategic importance of Mauritius and the economy of the country is discussed in Annex A (attached). Information on Mauritius' sugar trade and on the country's trade with the United States is provided in Annex B.

Mauritius is essentially a sugar island. It has no mineral resources and its economy is exclusively based on agriculture and agricultural industries, predominantly sugar. Approximately 210,000 acres, or 46% of its total area, are devoted to the cultivation of sugar. Sugar is not only Mauritius' largest foreign exchange earner, representing approximately 94% of the total value of its annual export trade; it is also the largest employer of labor. The number of workers

employed directly in the sugar industry is approximately 70,000, or about 30% of the economically active population.

The industry is owned and controlled almost exclusively by local shareholders. Furthermore, about 50 percent of the cane lands are owned and cultivated by about 30,000 local farmers, the balance being in the hands mostly of local companies which also own the mills.

The well-being of most of the other industries on the island is directly related to the fortunes of the sugar industry, since sugar directly accounts for about one-third of the country's national income. Government revenue depends largely on sugar production through direct and indirect taxation, including an ad valorem duty of 6% on sugar exports.

The population is approximately 800,000, or more than 1,100 per square mile: one of the highest in any agricultural area in the world. Mauritius faces the problem of having to provide a living for its unusually large population on the produce of less than one-third of an acre of cultivable land per head.

Sugar is the only crop which, over many years, has proved its ability to meet the economic needs of this growing country, although many attempts have been made since the early days of the 18th century to diversify the economy. Sugar production reached a peak in 1963

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when the output totalled 797,000 short tons raw value. The average production per annum over the past 5 years (1966-1970) was 710,300 tons. Given average weather and growing conditions, and without any increase in the area now under cultivation, it is reasonable to expect a normal annual crop of about 775,000 tons. This is, in fact, the estimate for the 1971 crop which is due to start in June next. On the basis of such a crop, the statistical position by the end of 1971 would be as follows:

(a) Supplies

Carry over stocks 1.1.1971	148,700 S.T.R.V.
Estimated production 1971	<u>775,000 "</u>
Total supplies	<u>923,700 "</u>

(b) Outlet

Special arrangements (U.K. & U.S.A.)	461,000 S.T.R.V.
World markets (I.S.A.)	219,300 "
Domestic consumption	<u>36,000 "</u>
Total outlets	<u>716,300 "</u>

As can be seen from the above figures, out of estimated exports of 716,300 tons, 219,300 tons will have to be sold on the basis of the generally unremunerative world price, leaving an unsold balance of 207,400 tons to be carried over to 1972 -- subject only to any adjustments in the level of I.S.A. quotas.

Like other countries Mauritius depends upon a remunerative price for its sugar exports. No sugar producer in the world would be able to make a living by selling its product at the so-called world sugar price, which is subject to sharp fluctuations and which during 8 of the past 10 years has consistently been well below the cost of production. Of the amount of sugar produced in the world, about 88% is sold and consumed under some form of special arrangement which provides an assured outlet at a remunerative price; only some 12% is sold freely at the so-called world market price. In the case of Mauritius nearly 30% of its sugar output has to be sold at the world price; this proportion is much higher than the world average and makes the Mauritian sugar economy precarious and vulnerable.

And yet, Mauritius is a small developing country in need of foreign exchange for its one basic export commodity, sugar. Its dependence on sugar exports is the highest in the world. It is a long established and highly efficient producer and exporter of sugar and has never defaulted on any of its export contracts. It is one of the 10 largest world exporters of sugar, and its present share of the U.S. sugar market expressed as a proportion of its total sugar exports is the lowest of all. It amounts to only 2.8 percent.

The relevant aspects of the Mauritius claim for a more equitable U.S. sugar quota, as set out fully in the following paragraphs relating to the specific questions raised by the Committee of Agriculture of the House of Representatives, justify an annual quota of 100,000 short tons.

II. Responses to Specific Issues Raised by the Committee on Agriculture of the House of Representatives

A. Friendly Government to the United States, including nondiscrimination against U. S. citizens in the quota country and indemnification for property owned by U. S. citizens in cases of expropriation,

Mauritius has had a long and unbroken record of friendly relations with the United States. In May, 1794, Congress appointed William Macarty, who had come to Mauritius some years before as commercial agent, to act as consul. In the three years after his arrival, over 100 American trading ships stopped at the island. A formal consulate was maintained in Mauritius between 1844 and 1911. This consulate was reopened in 1967. It was raised to the level of an Embassy in 1968, the same year in which Mauritius established its Embassy in Washington.

Mauritian leaders have visited the United States on a number of occasions since 1968. The Prime Minister was received by President Johnson in the White House in April 1968, and has subsequently discussed various topics of mutual interest with President Nixon and Secretary of State Rogers.

The Mauritius government has demonstrated its friendship with the government of the United States in a number of concrete ways. Mauritius has allowed various facilities to be set up on the island in connection with U. S. space projects. U. S. aircraft are afforded various



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privileges at Plaisance Airport and the island is used as an air/sea rescue station. (See Annex A.) Facilities have also been granted to a U.S. scientific team collecting data on the magnetic attraction of the earth under the U.S. Magnet Project. The government of Mauritius has also authorized the U.S. government to establish and operate a station for making geodetic satellite observations from Mauritius. A mutually agreed site will be made available at no cost to the U.S. government. Mauritius has also agreed to exempt from taxes and customs duties all property imported by the U.S. government or its contractors, or by the personnel of either, for use in the program.

Mauritius in no way discriminates against U.S. citizens, corporations or their property. No question of indemnification for property expropriated from U.S. citizens has ever arisen, because no property of U.S. citizens has ever been expropriated.

Moreover, U.S. businesses have been encouraged to make investments in the Mauritian economy. For example, American interests own 50% of the capital of the Mauritius Fertilizer Company, a manufacturer of compound fertilizers with an annual production of 100,000 tons. Furthermore, a U.S. oil company has obtained from the Mauritius Government an exclusive lease to explore for oil and gas in the territorial waters of the dependencies of Mauritius, a large continental shelf area in the Western Indian Ocean.

- B. Dependability as a source of sugar supply as reflected by the country's history in supplying the U. S. market, its maintenance of sugar inventories and its potential for supplying additional sugar upon call during critical periods of short supply.

In its 300 years of producing sugar, Mauritius has never defaulted on a contract. In the few short years it has supplied the United States market, Mauritius has demonstrated not only that it is a dependable source of supply, but that it stands ready and willing to help satisfy the needs of the United States during critical periods of short supply, even though higher prices could be obtained elsewhere. This was precisely the situation in 1962 and 1963 when Mauritius supplied a total of 80,000 tons of sugar even though it had received no statutory allocation under the 1962 Sugar Act. Since 1965, Mauritius has always supplied its full quota allocations and all additional prorations it has received.

Mauritius' present and anticipated future production of sugar will be more than adequate to meet the quota which it is requesting of 100,000 short tons per annum. Moreover, if this quota is allotted to Mauritius, it will still have the productive ability and reserves to supply additional sugar to the U. S. market if called upon to do so during critical periods of short supply.

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Mauritius' normal production is 775,000 short tons raw value. Present commitments under contract amount to 479,000 tons (U.K. - C.S.A. 443,000; domestic market 36,000) leaving an available balance of 296,000 tons. If we add a U.S. quota commitment of 100,000 tons, Mauritius' surplus would be reduced to 196,000 tons or 25% of total production.

As long as cyclone damage does not exceed 25% of production, Mauritius cannot face any difficulty in supplying commitments. Even if this percentage of loss is exceeded, Mauritius maintains significant stocks of sugar carried over from year to year as a result of surplus production during the previous year. Since the International Sugar Agreement came into being, stocks carried over from year to year have averaged 170,000 tons per annum. If this stock is added to production in any year, losses due to cyclones must exceed 47% before any difficulties are faced. This percentage of loss has been exceeded only twice in 118 years. Over the past 40 years, the average annual percentage of sugar production lost as a result of cyclones has been only 6.8% so that the capacity of Mauritius to fulfill its quota commitments is unimpaired under all foreseeable circumstances.

Another factor which reflects on Mauritius' ability to supply sugar is that all Mauritian sugar is marketed through the Mauritius

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Sugar Syndicate, a non-profit corporation, which provides a useful service of coordinating the sales efforts on behalf of all growers and sugar manufacturers. By having a single entity that can pool all of the sugar grown on the island, Mauritius ensures that the country can respond rapidly and efficiently to the needs of importers in other countries.

C. Reciprocal trade as reflected by purchases of U.S. products and services, as contrasted with sales to the U.S., and also by Government treatment of imports from the U.S.

As discussed in Annex B, Mauritius has for many years prior to 1962 imported U.S. goods during times when it had no exports to the U.S. It was only in 1962 that Mauritius first began to export sugar to the United States. During the period 1960 to 1969, Mauritius imported from the United States goods with a total value of \$15.6 million. During the same period, it exported to the United States \$28.9 million worth of goods, virtually all of which was composed of sugar. In 1970, exports from Mauritius to the U.S. amounted to \$3.5 million. Although import statistics are available through only the third quarter of 1970, Mauritius imported \$3.3 million of U.S. goods during that nine months. It is clear that the U.S. will have a net favorable balance of trade with Mauritius for the year of 1970.

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Moreover, these figures do not take into account the indirect imports by Mauritius from the United States through the subsidiaries of American firms based outside the United States which, during the five years of 1964-68, amounted to more than \$80 million.

Furthermore, the new fertilizer company with 50% U.S. ownership will be importing its raw materials from U.S. sources.

U.S. goods imported into Mauritius are treated on a most-favored-nation basis, consistent with Mauritius' participation in the British Commonwealth. No discriminatory restrictions, duties or taxes of any sort are imposed on American products.

- D. Need of the country for a premium priced market in the United States including (a) reference to the extent it shares in other premium priced markets such as the United Kingdom, (b) its relative dependence on sugar as a source of foreign exchange and (c) present stage of and need for economic development.

Of all the countries exporting sugar to the United States, none is as dependent on sugar as a source of foreign exchange as Mauritius. According to the figures set forth in Table 28 of the Committee's pamphlet entitled "The United States Sugar Program," dated December 31, 1970, sugar exports in 1968 (excluding by-products) represented 90.63% of Mauritius' total exports to all countries. Sugar exports accounted for more than 15% of total exports for only three countries: the French West Indies (31.7%), Dominican Republic (50.92%), and Fiji (51.79%).

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Thus, Mauritius is virtually dependent on sugar exports as a source of foreign exchange with which it can pay for the many necessities it must import in order to maintain or improve the standard of living of its people.

If Mauritius is to survive, it must continue to produce and export sugar. But this is not enough. Mauritius needs remunerative markets for its sugar. At the present time, some 88% of the world sugar production is sold in premium priced markets, and only the remaining 12% is sold on the so-called free market at prices which more often than not fluctuate below costs of production. Nearly all world producers sell the greater part of their output on these special markets and this enables them to average out their returns at a level whereby sugar exports can contribute a reasonable share to the economic life of the country. Mauritius, unfortunately, and despite its almost complete reliance on sugar exports, finds itself in a position where only about 60% of its production is sold on the protected markets, and the average price it receives for its product is, as a consequence, comparatively low.

For example, in 1968 and 1969, sugar exports to the U.S. premium priced market amounted to 41% and 46% respectively of all sugar exported by all countries with a quota under the United States Sugar Act. Among the countries whose exports to the United States represented a significantly smaller percentage of their total sugar exports (based on 1968 and

1969 shipments) are the British West Indies (19%), Australia (10.1%), South Africa (6.8%) and Swaziland (4.3%). Mauritius, who is far more dependent on sugar exports than any of these other countries, exported only 2.5% of its total sugar exports to the United States market in these years.

Of course, a good portion of Mauritius' exports are not made on the world market, but are exported under the Commonwealth Sugar Agreement to the United Kingdom. The C.S.A. quota for Mauritius for the calendar years 1968, 1969 and 1970 represented approximately 66% of Mauritius' total net exports, and 62% of Mauritius' total sugar production. The average price which Mauritius received for this sugar was 5.07 cents per pound. The average price prevailing in the U. S. market during this period was 7.36 cents per pound. Thus, approximately 68.5% of Mauritius' total net exports in this three year period was to protected markets. Well over half of the countries participating in the U. S. market enjoyed a greater percentage than this during this period.

Moreover, many of the producing countries enjoy the benefits of a remunerative domestic market. This is not the situation for Mauritius, where domestic consumption absorbs less than 5% of domestic production and where the domestic price is the lowest in the world.

Finally, while it cannot claim to be unique in this regard, Mauritius is at a stage in its economic growth, and political and social development where the ability to earn significant foreign exchange is an

absolute prerequisite to a healthy future development. Mauritius can never hope to produce domestically the manufactured and semi-manufactured goods needed for industrial development. These goods can only be purchased from abroad, and the financial resources to pay for them can only be acquired through the export of sugar at remunerative prices. For Mauritius, as for no other country on earth, its prosperity and development is dependent on the prices it can obtain for its sugar. Increased sales in the United States can only lead to increased purchases of the goods which are necessary for economic growth; and this will not only benefit Mauritius, but the United States as well.

- E. Extent to which the benefits of participation in this market are shared by factories and large land owners with farmers and workers together with other socio-economic policies in the quota countries.

The structure of the Mauritian sugar industry is such that workers and small farmers are the prime beneficiaries of the revenue produced by sugar exports. This requires some elaboration.

About 46% of the total area under sugar cane is owned and cultivated by some 30,000 small farmers. The balance is owned by about 19 sugar companies which also own the 21 mills which grind the canes. All but two of these companies are exclusively owned and operated by Mauritians. Most of the sugar companies are publicly owned.



The sugar output of the various mills becomes the property of the Mauritius Sugar Syndicate, a non-profit organization incorporated by State law, which is the sole marketing agency for sugar in Mauritius. The purpose of the Sugar Syndicate is to sell the entire output on behalf of all the cane growers of the island. The Syndicate pools all its receipts from sales made to the various markets, including the U. S. market, and after deducting marketing expenses, taxes and levies, pays the entire net receipts to all the producers and millers pro rata to their shares in the production of sugar. Under Mauritian law, 68% of the net proceeds go to the growers, and 32% go to the millers. The proportion given to the growers is one of the highest in the world. Thus, each sugar company and each individual grower receive exactly the same price for their sugar and partake pro-rata in the proceeds from sales made to the United States, to the United Kingdom, and to the world market. All producers, both large and small, share proportionately in the benefits derived from sugar sales to premium priced markets.

Approximately 43% of the gross proceeds received by the sugar companies are passed on to workers and employees in the form of wages and salaries. A much larger proportion of the proceeds accruing to small farmers goes to payment of wages. As a result, more than 50% of the total proceeds derived from sugar sales are used for the payment of wages and salaries in the industry.

A Labour Welfare Fund has been established by law and is financed by a 1% levy on the gross proceeds of all sugar exports. The Fund provides various benefits to laborers employed in the industry. Furthermore, workers are protected by wide-ranging legislation which ensures reasonable wages and benefits, and the provision of good conditions of employment. Wage rates and conditions are fixed by law by the Government, upon advice from a Wages Council, and are not the result of direct bargaining between employer and employee.

The government of Mauritius levies an ad valorem tax of 6% on the gross proceeds of sugar exports and of 5% on molasses exports for general revenue purposes. In addition, a company tax at the rate of 45% is levied on undistributed profits; distributed profits, in the form of dividends, are taxed in the hands of the recipients at rates varying between 20% and 80%. Of the total expenditures made by the government, approximately 40% are made on health, education, welfare and social activities.

Dividends distributed by sugar companies over the past 4 years have averaged \$2.9 million per annum on average gross proceeds of \$64 million, i.e., 4.5%. In fact, pre-tax and pre-dividend profits have averaged only 5.2% of capital employed in the industry over the past 4 years. Dividends are shared by a considerable number of large and small shareholders. Company profits are not only re-invested in the

industry, but are also invested in other activities intended to benefit the country at large. For example, recently the sugar industry has set up a tea factory in order to process the tea grown by small growers. This has helped the diversification of the economy of Mauritius.

In short, through direct earnings, receipt of dividends, statutory participation in the proceeds of sugar exports, and in the expenditures by the government of monies derived from taxes on sugar exports, the workers and small growers are the ones who have the greatest stake in the health and prosperity of Mauritius' sugar economy. They will be the prime beneficiaries of the increased earnings which will be provided by the increased participation in the U. S. sugar market requested by Mauritius.

### III. Mauritius' Future Participation in the United States Market

Congress once again has under consideration renewal and revision of the United States sugar program. This system, which is so vital to the stability and protection of domestic sugar prices, also operates to stabilize the sugar trade of a large portion of the free world. The effect of the quota allocations on the economies of the applicant countries is beyond any question a salutary one.

The relief which Mauritius seeks is an outlet for an exportable surplus of sugar, part of which, if not sold to the United States at the prices established under the quota system, would be left unsold because of the export restrictions now in force under the International Sugar Agreement, the balance having to be disposed of at unremunerative world prices.

The basic purposes of the United States sugar program are said to be (1) to make it possible, as a matter of national security, to produce a substantial part of domestic sugar requirements within the continental United States without the consumer-penalizing device of a high protective tariff; (2) to assure United States consumers of a plentiful and stable supply of sugar at reasonable prices; and (3) to permit friendly foreign countries to participate equitably in supplying the United States sugar market for the double purpose of expanding international trade and assuring an adequate and stable supply of sugar.

The application of Mauritius for a statutory sugar quota is fully consistent with these basic objectives. Mauritius has been producing sugar for three centuries; it has developed a highly efficient sugar producing industry and today is one of the ten largest world exporters of sugar. She is endowed with a friendly and stable government and has developed the ability to produce sufficient quantities of sugar to fulfill the quota for which application is now made.

The mere fact that Mauritius has a demographic problem which can be solved only by increasing her outlets for sugar, does not, of course, justify the allocation of a quota. But Mauritius is one of the developing countries of the world which occupies -- even more so since the closing down of the Suez Canal and the impending removal of British forces east of Suez -- a strategic position of some importance in the Indian Ocean. She is already one of the important tracking stations used by the United States in connection with its Space Program. She is a country which particularly deserves the assistance which the United States has pledged itself to give to developing countries. In the form of a sugar quota allotment, the assistance which the United States can render to Mauritius will not only benefit Mauritius, but will be consistent with the basic objectives of the United States sugar program.

How much sugar should Mauritius be called upon to supply? In view of the inadequate share of the U. S. market which Mauritius had

to accept under past sugar enactments, it is clear that predicating a quota exclusively on the basis of prior shipments would, in this case, be merely perpetuating the same inequitable treatment.

Although Mauritius shipped sugar to the United States for the first time only in 1962, she has nevertheless traded with the United States over a considerable period of time, procuring from the United States chemicals, tobacco and machinery, and has a long history of friendly trade relations.

We submit that a quota allocation to Mauritius ought to be predicated upon the factors of the country's political stability and friendliness to the United States, her dependability as a source of supply, her status in the world as a net exporter of sugar, and her need to expand her exports to the United States in order to continue and increase her purchases of U. S. goods. The political traditions of Mauritius are not as volatile as those of many countries in the Western Hemisphere. While Mauritius experiences a need to earn dollars to sustain and increase if possible her standard of living, the staid and orderly development of her political democracy augurs well for her long term ability to satisfy United States requirements for sugar.

It is estimated that Mauritius will have, over and above the amount of sugar to be sold under her special arrangements (including her

present United States allocation), an exportable surplus of approximately 207,400 short tons raw value in 1972, to which should be added an amount of 219,300 tons which, if not sold to the United States, would have to be disposed of at world prices. There is virtually no likelihood that Mauritius' quota under the Commonwealth Sugar Agreement will be increased, as the United Kingdom market is already fully committed. There is even the threat that it might be reduced if Great Britain's negotiations to join the European Economic Community are successful.

In the circumstances an annual United States quota of 100,000 short tons raw value would be fair and reasonable. It should be recalled that in the proposed legislation for 1962, Mauritius was accorded a basic quota of 10,000 tons and a reallocation from the Cuban quota of 100,000 tons, or all together a quota of 110,000 tons. The suggested quota of 100,000 tons annually is commensurate both with Mauritius' status as a world sugar exporter and the proposed allocation made by the House of Representatives in 1962. Such an allocation would result, on the basis of present prices, in an annual income to Mauritius of approximately \$14,600,000 which would help to underpin the economy of Mauritius. It would enable Mauritius to maintain and develop her trade relations with the United States..

ANNEX ABackground Information on MauritiusA. Geography

Mauritius is an island of volcanic origin in the Indian Ocean, lying about 550 miles east of Madagascar and about 1,250 miles east of the African mainland. The dimensions of the island are approximately 38 miles in length (roughly North-South) and 29 miles in width; its area is about 720 square miles, which is slightly more than 10 times the area of the District of Columbia and a little more than one-half of the area of Rhode Island.

The island enjoys a fairly temperate sub-tropical climate. Temperature ranges from 55°F to 88°F and the annual rainfall from about 30 inches on the coast to over 200 inches in the center of the island. The climate and soil of Mauritius are well suited to the cultivation of sugar cane and the island is a "sugar island" to an even greater extent than Barbados or any West Indian island.

The population is approximately 800,000, or somewhat more than 1,100 people per square mile, one of the highest in any agricultural area in the world. Port Louis is the capital as well as the main town and port of the country.

Mauritius is a vital link on the sea and air routes to the Far East and Australia. She has a good harbor which can easily accommodate



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ten ships or more and handle up to eight of them simultaneously. Mauritius serves as an operational stop on the air route between Africa and Australia, and is the terminus of services operated by BOAC, Air France and other airlines from Europe, Africa and Asia. Her airport offers facilities for large jets. The growth in air traffic over the past ten years has been very great and has helped to start a small tourist trade which shows good prospects of development.

#### B. History

The Portuguese discovered Mauritius early in the 16th Century. The island was then uninhabited, though it was known to the Arabs and Malays who had used it for centuries as a shelter. The Dutch took possession of the island in 1598 and named it Mauritius after Prince Maurice of Nassau. The Dutch finally abandoned their attempt to settle the island in the early years of the 18th Century. A more successful attempt at settlement was made by the French East India Company, which later surrendered its administration to the French Government. The French occupied the island, which they called Ile de France, for nearly a century and established the sugar industry there. During the Napoleonic Wars, Mauritius was the base for raids on British ships in the Indian Ocean, and in 1810, the British organized an expedition which resulted in the capture of the island. Mauritius

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and her dependencies were ceded to Britain under the terms of the Treaty of Paris in 1814. The island was then renamed Mauritius by the British and remained a British Colony until 1968 when she received her independence.

Because of her geographical position and natural harbor, Mauritius, until the middle of the 18th Century, was mainly regarded as an important military outpost. With the opening of the Suez Canal and the progressive elimination of sailing ships by steam power, the economy of the island became more dependent on its entrepot trade and its gradually developing sugar industry, which, by the end of the 19th Century, was producing about 200,000 tons of sugar annually.

After having undergone a gradual and peaceful constitutional evolution over the past twenty years, in 1968 Mauritius became an independent country within the British Commonwealth and a member of the United Nations Organization. The main milestones on the road to independence were the introduction of the Cabinet system in 1957 and universal adult suffrage at the 1959 general election.

For electoral purposes, the country is divided into 21 constituencies which elect a total of 70 members to the Legislative Assembly. The Council of Ministers, presided over by the Prime Minister, is the supreme policy-making body and is responsible to the Assembly. The Government is made up of a coalition of members from three political

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parties: the Labour Party, the Parti Mauricien Social Democrate and the Comite d'Action Musulman. Two other parties, the Independent Forward Block and the Union Democratique Mauricienne, constitute the opposition. The Governor-General is the representative in Mauritius of Her Majesty Queen Elizabeth II.

Local government is the responsibility of the City Council of Port Louis and of a number of municipalities, district and village councils. All these authorities are under the supervision of the central Government through the Ministry of Local Government.

Since independence, a defense agreement has been signed with the United Kingdom which covers internal as well as external security.

A number of small islands, from 200 to 1,200 miles to the East and Northeast are dependencies of Mauritius. The most important of these, economically, is Rodriguez, lying 350 miles to the East with an area of 40 square miles and a population of some 26,000. On achieving independence, Mauritius ceded some of her dependencies to the United Kingdom as part of the British Indian Ocean Territories. The United States and the United Kingdom are presently building a joint communications center and airstrip on Diego Garcia, the largest of the former Mauritian dependencies.

#### C. Political and Strategic Importance

Mauritius is an island of democracy in the Southwest Indian Ocean and stands as one of the more important beacons of political freedom

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achieved through orderly development. In fact, the measured, orderly pace of her development has resulted, even after the changeover from the status of Crown Colony to that of an independent country, in a continuing, stable, democratic government.

Diplomatic relations have been established with most Western States and also with the USSR, India, Pakistan, the Malagasy Republic and the Republic of China.

Lying astride important trade routes in the Indian Ocean, Mauritius is reclaiming a strategic importance which has recently been enhanced by the advent of the closure of the Suez Canal. She can play a role in the eventual installation of United States - United Kingdom bases in the Indian Ocean. With an airport large enough to accommodate big jet transports, and lying athwart principal air routes serving Europe, Africa, India and the Australian Continent, she becomes a vital link in the aerial navigation of this quarter of the globe. Moreover, Mauritius has recently served as a base for tracking stations in the Indian Ocean for the United States manned satellites.

D. Facilities granted by Mauritius to the United States

In September 1968, an Agreement was signed between the Mauritius Government and the United States Government regarding the provision of facilities for United States Air Force aircraft at the Mauritius Airport of

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Plaisance in connection with the Apollo Project. Under the terms of this agreement United States planes operating as part of the Apollo space mission are allowed to enter freely, operate within and depart from Mauritius airspace, and they may also use, on a priority basis, the facilities and services at Plaisance Airfield, such as the parking apron which the Government of Mauritius has constructed at the request of the United States Air Force with funds supplied by the United States. When this parking apron reverts to the Mauritius Government in 1972 for use as part of the civil airport, it has been agreed that suitable parking space will be provided at all times for three United States Air Force aircraft whenever these are performing missions connected with the Apollo Project. This 1968 Agreement, which also provides other facilities such as the free entry of Air Force personnel and of material, equipment and supplies, as well as the use of radio frequencies, power and bandwidths for communications and test operations, is valid for a period of ten years and shall remain in force thereafter unless it is terminated by either party after six months' notice.

Besides, a small team of United States personnel occupies a site near Port Louis for conducting scientific studies as part of the worldwide National Geodetic Satellite Survey Project.

It should also be noted that United States Navy ships make periodic operational visits to Mauritius and that United States military aircraft make transit and refueling stops on an occasional basis.

### E. Economy

Mauritius has no mineral wealth of any description and her economy is exclusively based on agriculture and agricultural industries, predominantly sugar. At the present time, approximately 210,000 acres, or 46% of the total area of the country, are devoted to the cultivation of sugar. Sugar is not only Mauritius' largest foreign exchange earner, representing approximately 94% of the total value of its annual export trade, but it is also the largest employer of labor. The number of workers employed directly in the sugar industry is approximately 70,000, or over 30% of the economically active population. The well-being of most of the other industries on the island is directly related to the fortunes of the sugar industry, since sugar directly accounts for about one-third of the country's national income. Government revenue depends largely on sugar production through direct and indirect taxation, including an ad valorem duty of 6% on sugar exports and of 5% on the exports of molasses, a by-product of sugar production.

While there are some industrial concerns catering primarily to local needs, there is no possibility for the industrial development of Mauritius on any significant scale. The Government and the private sector have attempted various measures to diversify the economy of Mauritius and to establish new consumer industries, but the country must still rely upon sugar as the backbone of its economy. The development of new

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industry, apart from small industries catering to local needs, is almost precluded by Mauritius' peculiar geography. With no mineral resources, the development of any manufacturing industry for export trade is hampered by the fact that all of the raw materials for any such industry would have to be imported. Moreover, no significant industrial development could be contemplated unless there were some expectation of a remunerative export market, and this is unlikely in view of the competitive advantages enjoyed by such countries as Japan, Taiwan, Korea and Hong Kong.

Nevertheless, Mauritius realizes that it can improve the economic situation of its people only by its own efforts. Accordingly, plans have been drawn up for the installation of a fertilizer plant, a flour mill, and a plant for manufacturing hardboard from bagasse, a by-product of the sugar industry. These plants should contribute significantly to the creation of new employment opportunities and the development of new skills. An oil refinery has recently been put into operation and is at present using imported crude vegetable oil for refining and supplying home demand. It is expected that it will soon start producing for export refined ground nut oil out of locally-grown nuts.

In November 1970, the Government set up an Export Processing Zone which is designed to operate on lines similar to those which exist in Taiwan. Several foreign companies have indicated their interest in making use of the facilities of this duty-free zone whose main purpose

is to provide employment for the growing mass of unemployed workers.

In recent years, sugar production has increased even though the amount of acreage under cultivation has declined. The increase in output has been brought about by more rational cultivation methods and technological advancements. Many of these advancements were the result of the work of the Mauritius Sugar Research Institute. The Research Institute, which ranks among the top four in the sugar world, has been responsible for many advances in sugar cane technology and cane agronomy.

This increase in sugar production is vital to the economy of Mauritius, for only by increasing sugar exports can Mauritius expect to pay for the food-stuffs and manufactured products it must import in order to maintain her present standard of living, let alone improve it.

In the immediate pre-war period (1936-1940) the natural increase in population was about one-half of 1% per annum. By 1948 it had risen to nearly 2%, and a decade later it reached 3%. It has remained at this level ever since, except in the last two years when a very slight fall has been noticed as a result of family planning campaigns and of emigration. Nevertheless, even if the rate of increase continues to diminish, the population of Mauritius will increase from its present 800,000 to more than 1,000,000 by 1980. Sugar is the only crop which over many years has proved its ability to meet the economic needs of this



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growing country. It is by no accident that sugar has come to occupy such a large place in the economy. Since the early days of French occupation many crops have been grown in an effort to diversify the economy of the island. None of them, however, has been able to compete with sugar in respect to (a) resistance to cyclones and drought, (b) adaptability to climate and soil, and (c) economic return. In fact, few of them have ever contributed more than marginally to the economy of the country, and sometimes for brief periods only.

It should not be assumed that this great dependence on sugar is welcome in Mauritius. Despite the fact that little success has been made in the development of new agricultural crops, continuing efforts have been and are constantly being made to achieve some measure of crop diversification. Tea plantations are being developed in the upper plateau with the result that in 1970 nearly 3.2 million pounds of tea were grown for export. In 1967, a new processing plant, the largest in Mauritius and perhaps the most up-to-date tea factory in the world, was erected to handle the increased tea output. Experiments in rice growing are now being undertaken under the supervision and with the help of experts from Taiwan. At the present time, more than one-half of the island's food supply is imported from overseas, including rice, the staple food for most of the population.

These two crops, however, are mostly cultivable in areas where sugar cane is not already grown. Cultivation of foodcrops, such as

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potatoes and peanuts, is also being expanded but largely in the interlines of sugar cane so as to make double use of the land available in an island where land is a very scarce resource. In the long term, it may be that a percentage of present cane land will gradually be turned over to other crops, but no decrease in sugar production should result for the reasons explained above.

ANNEX BMauritius TradeA. Mauritius Sugar Trade Generally

Sugar, together with its by-products (mainly molasses), constitutes 94% of Mauritius' exports by value. About 36,000 tons of sugar are consumed locally, and the balance of Mauritius sugar production is available for export, subject to the limitations imposed by the International Sugar Agreement which came into force on January 1, 1969.

Throughout the period 1966-1970, the calendar year sugar exports of Mauritius followed roughly the same pattern: 62% of her annual output was shipped to the United Kingdom to fulfill her negotiated price quota of 443,000 short tons raw value which was sold, in terms of the Commonwealth Sugar Agreement, at a price of 5.09 cents per pound (f.o.b.s. Port Louis); 2.5% to the United States, representing the average annual Mauritius quota of 18,000 tons under the 1965 United States Sugar Act; 27.5% was sold at world prices and, when sold to Canada and the United Kingdom, enjoyed the benefit of duty preferences ranging from 0.7 cents to 0.4 cents per pound. The balance of about 3%, after withdrawing local consumption requirements of 5%, was carried over from one calendar year to the next and by the end of 1970 amounted to a cumulative total of 148,700 tons, i.e., 21% of production.

## ii.

In terms of tonnage, this means that out of average annual exports of 666,300 short tons raw value over the 5-year period under review, Mauritius has sold an average of 195,000 short tons on the basis of world prices. Even with the added value of the preferential tariffs granted by the United Kingdom and Canada, the prices received were generally far below the cost of production of any world sugar producer. It also means that Mauritius has carried over from year to year an average of 139,000 short tons, with a minimum of 61,000 tons and a maximum of 192,000 tons.

As regards the present situation, Mauritius started the year 1971 with a carry-over from the previous crop of 148,700 short tons. The 1971 crop (which starts in June next and will end in November) is expected to reach 775,000 tons; total sugar available in 1971 will therefore amount to 923,700 tons, and will be disposed of as follows:

Special Arrangements (covering exports to U.K. and U.S.A.)	461,000 tons
World Market (I.S.A.)	219,300 "
Domestic consumption	<u>36,000 "</u>
TOTAL	<u>716,300 tons</u>

Subject to any upward or downward adjustments to I.S.A. export entitlements in the course of 1971, the surplus to be carried over to

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1972 will amount to 207,400 tons, which represents 58,700 tons more than as at 1 January 1971 and 68,400 tons more than the average carry-over of the past five years.

To sum up therefore, out of total estimated exports of 716,300 tons in 1971, 219,300 tons, or 31%, will have to be sold on the basis of the world price leaving an unsold balance of 207,400 tons to be carried over to 1972.

B. Mauritius Trade with the United States

1. Exports from the United States to Mauritius

As pointed out above, Mauritius is heavily dependent on imports from other countries, including the United States. During the period 1963-1965, the average value of United States exports to Mauritius was approximately \$2,152,000 (at post-devaluation rates of exchange). About 40% of these exports, or \$898,000 consisted of machinery and transport equipment; the other main items were chemicals (\$286,000), tobacco (\$170,000), and food (\$96,000). The balance was made up of various commodities including crude materials, fuels and lubricants, and miscellaneous manufactured articles.

Between 1966 and 1968 the average value of United States exports to Mauritius went down to \$1,407,000. During the period Mauritius imported

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on an average \$511,000 of machinery and transport equipment, \$384,000 of chemicals, \$158,000 of food, \$93,000 of tobacco, and \$261,000 of other crude materials, fuels and manufactured items. The total value of United States exports to Mauritius, which had remained at the level of about \$1.3 million in 1966 and 1967, rose to \$1.6 million in 1968.

During 1969, Mauritius imported \$1,076,000 worth of goods from the United States, including such items as agricultural machinery, sugar and business equipment, earth-moving equipment, refrigerators and air conditioners, chemicals and food products.

In 1970, exports from Mauritius to the U.S. amounted to \$3.5 million. Although import statistics are available through only the third quarter of 1970, Mauritius imported \$3.3 million of U.S. goods during that nine months. It is clear that the U.S. will have a net favorable balance of trade with Mauritius for the year of 1970.

Moreover, these figures do not take into account the indirect imports by Mauritius from the United States through the subsidiaries of American firms based outside the United States which, during the five years of 1964-68, amounted to more than \$80 million.

Furthermore, the new fertilizer company with 50% U.S. ownership will be importing its raw materials from U.S. sources.

In her trade with the United States, Mauritius has enjoyed no particular advantages. Although Mauritius must import a substantial

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part of her food requirements, her food purchases from the United States have been relatively insignificant. It is in this area that most countries have been able to obtain an advantageous price for commodities purchased from the United States. On the other hand, Mauritius has purchased manufactured goods and other products which do not benefit from any discount price or advantageous terms. Though unusually dependent on a single export crop to sustain her level of imports, Mauritius has always managed to pay her own way, by meeting expenditure on her recurrent budget out of local revenue. But, to finance her development plan, she is compelled to supplement local resources with assistance from Great Britain and international institutions, such as the International Bank for Reconstruction and Development. She has not in the past sought any preferential treatment in her trade relations with the United States.

2. Exports from Mauritius to the United States

Mauritius is dependent on sales of virtually one product, sugar, to pay for its imports from the United States. Mauritius began to export sugar to the United States for the first time in 1962. The quantity exported in that year was 13,474 short tons raw value, and the value of the sugar exported was approximately \$1,932,000 or, roughly, \$0.0563 per pound after deducting duty, freight and insurance.

Public Law 87-535, known as the "Sugar Act Amendments of 1962" became effective on July 13, 1962. The Act made no provision for the

allocation of any sugar quota for Mauritius. The House Agriculture Committee had recommended, and the House of Representatives had approved, an allocation of 10,000 tons basic quota and 100,000 tons re-allocation from the Cuban reserves. After extensive hearings in the Senate Finance Committee, the recommendations of the House were modified with the result that the quotas proposed in the House were reduced for all foreign suppliers, and in addition, no quota allocation was made for Mauritius and Argentina.

Subsequently, a provision was enacted to accommodate Argentina by means of an amendment to the Sugar Act which gave the President authority to allocate up to 150,000 tons from the former Cuban reserves to any country within the western hemisphere (7 U.S.C. § 1112(c) (4)(B)). As a result of this legislation, Mauritius was the only significant foreign supplier excluded from the provisions of the Sugar Act Amendments of 1962.

Notwithstanding the fact that Mauritius was not allowed a statutory quota, in an endeavour to demonstrate her good will and ability to meet the requirements of the United States sugar market, Mauritius availed herself of the provision in the Act establishing a global quota to be allocated to foreign suppliers on a first-come, first-served basis (7 U.S.C. § 1114(e)). In the second half of 1962, pursuant to the provisions of this section, Mauritius shipped 13,474 tons of sugar to the United States. In the second half of 1963, she shipped 66,617 tons. At



vii.

that time, the world market price was higher than the price obtainable on the United States market. Nevertheless, Mauritius was one of the first countries to ship all her uncommitted reserves to the United States even though it was not to her economic advantage to do so.

Later in 1963, the Secretary of Agriculture invited applications for global quota sugar in 1964 in the amount of 1,000,000 tons. In announcing this allocation, the Secretary indicated that priority would be given to suppliers able to ship sugar to the United States during the first seven months of the year. Because of her shipments in the latter part of 1963, Mauritius at that time had no uncommitted sugar left over from her 1963 crop and was unable to export any sugar to the United States for the first 7 months of 1964 because the Mauritian crop was not harvested until late in the year. Under these circumstances, Mauritius was unable to apply for a sugar quota set-aside. Nevertheless, by letter dated January 14, 1964, the Mauritius Chamber of Agriculture apprised the Department of Agriculture of the fact that Mauritius would be able to supply about 60,000 short tons of sugar in the second half of 1964 and was willing to enter into a commitment to do so subject only to the condition that the 1964 crop was not damaged by a cyclone. The application was not entertained, and by January 27, 1964, the extra requirement was fully subscribed. Mauritius had no further opportunity to make a substantial shipment to the United States in that year.

## viii.

The foreign quota section of the 1962 Sugar Act was due to expire on December 31, 1964, and it was expected that legislation would be enacted before that date to allocate the quotas of foreign suppliers for a number of years. When it became clear that the legislation would not be adopted before the date of expiration of the 1962 Act, the Secretary of Agriculture made an administrative determination of quotas valid for the year 1965 only. In so doing, he adopted a formula which gave single weight to imports in 1963 and double weight to imports in 1964. Although Mauritius had shipped the comparatively large amount of 67,000 tons of sugar to the United States in 1963 (in fact, it was the largest amount of global quota sugar sold by a country without a basic quota and the eighth largest amount of all territories having supplied sugar to the United States in that year), she was unable, for the reasons given above, to export any sugar to the United States in 1964.

Thus, the formula of applying a double weighting to sugar exported to the United States in 1964 as compared to that exported in 1963, when the U.S. need was just as great, has operated unfairly in respect to Mauritius, which was eventually given a 1-year quota of only 13,898 short tons. Mauritius has been penalized for her readiness to supply sugar to the United States at a time when sugar was scarce in the world and badly needed in the United States. Had Mauritius decided to deprive the United States of part of this sugar which she shipped in 1963 in order to reserve it and offer it subsequently against the first half-year

requirements of 1964, she would, under the formula adopted, have obtained a larger quota in 1965. Mauritius believed at the time, however, that the 1965 provision was intended to apply for one year only, and that it would have been difficult for the Department of Agriculture to make exceptions. She therefore did not press her case.

When the present Sugar Act was enacted in October 1965, Mauritius requested a quota more in line with her importance as a world sugar exporter and with her needs as a developing country. Unfortunately, quotas were eventually determined on the basis of the same formula as had been adopted for 1965. Mauritius was once again given the very inadequate quota of 14,985 short tons, subject to small upward adjustments to take account of increased consumption in the United States.

The Mauritius quota in effect for 1970 amounted to about 18,909 short tons and it might be useful to compare this with the quotas of some other countries which occupy a position in world sugar which is much less important than that of Mauritius.

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(1) Countries	(2) Average annual Exports (1965-1969)	(3) 1970 U.S. Export entitlement	(4) (3)% of (2)
<b>(a) <u>Commonwealth</u></b>			
India	258,583	82,508	31.91
West Indies & Gulana	1,219,768	211,170	17.31
Fiji	357,301	45,265	12.67
Australia	1,826,173	206,270	11.30
Swaziland	152,549	7,448	4.88
<b><u>MAURITIUS</u></b>	<b><u>665,535</u></b>	<b><u>18,909</u></b>	<b><u>2.84</u></b>
<b>(b) <u>Other Foreign</u></b>			
Costa Rica	68,672	73,234	100
Haiti	26,530	34,559	100
Thailand	37,945	18,909	49.83
Taiwan	757,471	85,946	11.35
South Africa	711,809	60,735	8.53

(Source: ISO Year Book 1969 &amp; USDA Statistics)

The CHAIRMAN. The next witness will be Mr. Lawrence J. Sherman. Is he here? He has had a problem. Mr. Sherman will be offered an opportunity to testify later if he cannot be here—he as a personal problem.

Mr. Albert Prosterman on behalf of the private sugar producers of Madagascar.

The CHAIRMAN. Will you proceed, now, Mr. Prosterman, under the same rule that Senator Bennett put into effect.

**STATEMENT OF ALBERT PROSTERMAN, PRIVATE SUGAR PRODUCERS OF MADAGASCAR, ACCOMPANIED BY WALTER STERLING SURREY**

Mr. PROSTERMAN. Thank you, Mr. Chairman. My name is Albert Prosterman, and I appear here together with Mr. Walter Surrey on behalf of the private sugar producers of Madagascar.

Mr. Chairman, we have prepared detailed testimony and I would request that that be entered in the record and I would like here to summarize the more important points.

The CHAIRMAN. That will be done.

Mr. PROSTERMAN. Thank you. The Malagasy Republic became an independent country in 1960. Throughout my statement I shall refer to it as Madagascar, which is the more familiar name for that country.

On behalf of the Madagascar sugar producers we are seeking a U.S. sugar quota of 30,000 tons. On June 10, 1971 the House of Representatives granted Madagascar a quota of 15,000 tons, this quota is identical to those granted new quota countries such as Malawi and Uganda, notwithstanding the fact that Madagascar has demonstrated during emergency shortage periods and in quota years that it is a responsive and reliable sugar supplier.

Swaziland which had a smaller quota than Madagascar, received a recommended quota of 30,000 tons, a fourfold increase. We consider that Madagascar had been treated unfairly in comparison to other countries; that its records, its need, it has no other preferential markets, and its close relationship with and consistent diplomatic support for, the United States has not been recognized.

The years 1963 and 1964 seem a long time ago, but in those years the world sugar price rose several times to more than 3 cents a pound over the U.S. price. In November 1963, one of the peak periods of the emergency, our State Department sent a letter to the Malagasy Government asking for sugar. The letter stated that the response would be given consideration in establishing new quotas under future sugar legislation. Madagascar responded by shipping 11,569 tons in 1964. The other countries listed above did not ship in those years nor did others who were treated better in the House bill.

We then come to the question how much consideration did the United States actually give to Madagascar's willingness to take a lesser profit, a sacrifice of some importance to a developing country? The answer seems to be less consideration than was given to other countries who did not make the effort. Whatever the reason, Uganda, Malawi, Swaziland, Honduras, Thailand and the Bahamas did not respond or ship in those shortage years.

The first two have been given equal treatment to Madagascar, the last five have been accorded better treatment than Madagascar. Another country, British Honduras, shipped 7,700 tons in those years as compared to Madagascar's 11,569. The House bill granted that country a 33,000-ton quota.

Mr. Chairman, we have no objection to the quotas granted the other countries mentioned. We do ask that Madagascar be given comparable treatment to that given Swaziland, British Honduras, and Mauritius, all three of which have alternative preferential markets.

Madagascar as I said before does not. I should like to refer now to the considerations set forth in the chairmen's statement of June 10. The first point referred to, the extent to which the benefits of participation in the U.S. sugar program flow through to the workingman and serve to improve the standards of living in the Nation.

Unlike most sugar-growing countries, or for that matter other agricultural industries in Madagascar, 80 percent of the sugar workers are guaranteed year round employment. Sugar field and factory wages are 50 to 100 percent higher than the minimum wage levels established by the government. Sugar industry wages generally are approximately 65 percent higher than the average wage for other agricultural enterprises.

In addition, the sugar industry provides free housing, premium overtime rates, sick leave, vacation benefits, hospital and school facilities and on-the-job training.

Of the gross income derived from sugar sales, 90 percent remains in or is expended in Madagascar.

The above demonstrates that anything that helps the sugar industry in Madagascar also helps the wage earner and the small farmer.

The second point referred to trade. Trade between Madagascar and the United States has increased significantly in the quota years. Between 1964, the first year of Madagascar's sugar sales to the United States, and 1969 the U.S. export sales to Madagascar tripled, going from approximately \$4 million to, in 1964 to approximately \$12 million in 1969. The United States is now Madagascar's second largest trading partner. Madagascar's export sales to the United States during the same period also increased but at a much lower rate. During the same period, trade between France and its former colony, Madagascar, has been either static or declining.

The export value to Madagascar of all of its U.S. sugar entitlement in 1964 through 1969 totaled \$7 million. The dollar value of the export gain to the United States during the same period was almost \$13 million.

The very small Madagascar quota has paid off in increased U.S. exports.

It is evident also that an increase in sugar quotas will serve to continue and expand this favorable trend in U.S. exports to a country that wishes to continue and has demonstrated its support for the United States.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Are there any questions, gentlemen?

Senator FANNIN. I would just like to ask what are the principal imports that you have from the United States? Are they listed in here?

Mr. PROSTERMAN. They are listed in our testimony but they run the entire spectrum, sir. There are some agricultural products, machinery.

Senator FANNIN. You say they are in your testimony?

Mr. PROSTERMAN. Yes.

Senator BENNETT. Can you identify the page?

Senator FANNIN. You show on table 2, U.S. trade—no, that is not it. It is on table 3, thank you, it is on table 3.

Mr. PROSTERMAN. Thank you.

Senator FANNIN. Thank you. That is all I desire.

Mr. PROSTERMAN. Thank you.

(Mr. Prosterman's prepared statement follows:)

STATEMENT  
ON BEHALF OF  
THE PRIVATE SUGAR PRODUCERS OF MADAGASCAR  
BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
JUNE 21, 1971

ALBERT M. PROSTERMAN

WALTER STERLING SURREY



POLITICAL PROPAGANDAInformation Required by Section 4 of the  
Foreign Agents Registration Act

1. Agents:       Albert M. Prosterman  
                  818 - 18th Street, N. W., Suite 230  
                  Washington, D. C. 20006  
  
                  Surrey, Karasik and Greene  
                  1156 - 15th Street, N. W., Suite 1200  
                  Washington, D. C. 20005
2. Agents have filed with the Registration Section,  
Department of Justice, Washington, D. C., a  
registration statement which is available for  
public information.
3. Distribution of this material is made on behalf  
of the Private Sugar Producers of Madagascar.
4. A copy of this material has been filed with the  
Registration Section.
5. The filing of a registration statement with the  
Registration Section is not to be regarded as an  
indication that the United States Government has  
approved this material.

STATEMENT OF REPRESENTATIVE FOR  
THE PRIVATE SUGAR PRODUCERS OF MADAGASCAR

I appear here today on behalf of the Private Sugar Producers of Madagascar.

For details on the geography, general economy and the governmental establishment of the Malagasy Republic, I refer you to Annex A attached hereto, and to a map of the island, the fourth largest in the world. (Annex B). For convenience sake I will refer throughout my testimony to Madagascar, rather than to the Malagasy Republic.

The objective sought is a 30,000 ton quota, comparable to the quotas received by Swaziland and Mauritius - countries which like Madagascar, are existing quota recipients. For the reasons hereinafter set forth, we believe the quota established by the House of Representatives should be increased if the legislative history of establishing quotas is to be given some degree of recognition.

Today, you have the opportunity, through trade, to help people who live in far less fortunate circumstances than we do. In the particular case of Madagascar, it offers an opportunity for you to recognize the needs of a friendly African country, and to make clear the overall close relations that the United States seeks to establish with friendly countries in Africa. I would now like to proceed with Madagascar's special situation.

In presenting our testimony, we propose to follow the considerations as set forth in the Chairman's statement of June 10, 1971, which set forth the criteria to be employed by this Committee in determining quota allocations. In addition, we are presenting additional information which we believe may be useful to the Committee in its deliberations.

I. Extent To Which The Benefit Of Participation In The United States Market Benefit Farmers And Workers

The benefits provided by the sugar industry to its workers are among the highest provided by any private industry in Madagascar. As the sugar industry continues to grow and expand, these benefits will be increased. On the other hand, if the sugar industry is forced to contract, the benefits to the workers will suffer correspondingly.

The sugar industry in Madagascar is unique in that a very high percentage of the workers in the industry, both in the factories and in the fields, are guaranteed permanent year-round employment. Over 80% of the workers in the sugar industry are guaranteed year-round employment. In 1969, the sugar industry employed over 8,700 people and of that amount, over 7,000 were guaranteed year-round employment.

The government of Madagascar has established minimum wages for both agricultural and factory workers. However, the sugar industry pays on the average, hourly wages 50% in excess of the minimum wages set by the government.

While the wages paid in the sugar industry (See Table VII) may not appear high by United States standards, in terms of local purchasing power they are reasonable for a country at the stage of development of Madagascar.

The average hourly wage paid by the sugar industry for those workers in more skilled positions such as workshops, factories and harbors is nearly 100% in excess of the minimum figure established by the government. It is important to know also that these figures do not include wage rates paid to supervisory personnel.

The sugar industry pays overtime rates on a basis of 30% additional pay for work in excess of 48 hours in the field, and 46 hours in the factories and workshops, for work performed during the day. If the overtime work is at night, a 50% overtime premium rate is paid. Workers in the field and in the factories and workshops are also paid regularly hourly wages during all work stoppages caused by plant breakdowns or as a result of rain or bad weather.

The sugar industry provides sick leave and vacation benefits for its employees. Sick leave is granted to all employees based upon the length of service, with a person becoming eligible for sick leave upon the completion of three months of work. Paid vacations are also granted to the employees based upon the amount of time worked, averaging 1-1/2 days of vacation for each month of employment.

Each factory in the sugar industry maintains hospital facilities, with a minimum of one-full-time physician on duty along with at least two registered nurses. These private hospitals range in size from 60 to 200 beds. Each hospital performs surgical procedures and provides full health care to the workers and their families. Regular physical examinations are required of the workers with special attention directed toward the children of the workers. Anti-malarial drugs and anti-toxins are furnished on a regular basis for both workers and their families. All medical and hospital facilities are provided free of charge for the worker and his family. It should be pointed out too that these private health care benefits are in addition to the government operated hospital and medical facilities which are also available to the worker, at no cost.

Each factory in the sugar industry also provides schooling facilities for the dependents of all workers. These private schooling facilities are available up through the primary grades. Like the medical facilities referred to above, these private schools are in addition to schools provided by the government.

Each company in the sugar industry also has a program of on-the-job training for employees working in the field, factories and workshops. This program enables the workers to improve their working skills and to move to more complex work with consequent increases in salary. These on-the-job training

programs also allow local workers to qualify for supervisory positions in the sugar industry. The success of the on-the-job training programs can be seen from the fact that in the past ten years the number of out-of-the-country supervisory personnel has decreased by 75%.

The sugar industry also provides separation pay if an employee leaves the industry. These lump sum payments are based on the length of time worked for a particular company, with the average rate of payment equal to one week's pay for each three-month period worked.

The sugar industry also provides all permanent workers and their families with company housing adjacent to the work site location. These housing facilities, for the most part, are reinforced concrete structures and include utilities.

Various companies within the industry also provide various other types of benefits for their workers. Examples of these additional benefits are: supplying the worker and his family with rice and meat and allowing the employee to purchase additional food stuffs at discount prices from the companies. These discounts range to as high as 30% below the cost price.

## II. Trade Relations Between Madagascar And The United States Have Increased Significantly In The Quota Years

The history of Madagascar's total trade relations reflects a growing interdependent relationship with the United States. Historically, Madagascar's foreign trade, both imports

and exports, was primarily with France arising out of its former colonial status.

As a former colony of France, it was inevitable that Madagascar's foreign trade would be oriented principally toward France and the European Common Market. Moreover, as a policy generally followed by the enlightened former colonial powers toward their newly independent African states at the time of independence, France initiated a program providing a protected French market at subsidized prices in return for Madagascar's giving preferential status, through import controls, to certain goods originating in France and other European Community countries. Such favored status in the French and the European Community does not, however, apply to sugar.

The system of reciprocal preferential arrangements between a former colonial power and its former colonial territory is not uncommon. While such arrangements are opposed by the United States, and negotiating efforts are constantly being undertaken to eliminate such arrangements, certain realities must be clearly recognized:

1. Such a system is not unique; the United States-Philippines arrangement testifies to our own adoption of preferential arrangements in a comparable situation.

2. At the time of independence, such reciprocal arrangements often provide the minimal required assurance to the newly independent country of a secure market for its limited export availabilities.

3. The elimination of reciprocal preferential arrangements, whatever their justification may have been in origin, is not best achieved through cutting off other trade outlets for the products of the less developed country in that such action is self-defeating

The whole trend of Madagascar's trade development reveals the certainty of the need in these situations for opening up, not curtailing, trade outlets.

Thus, despite the commercial ties with France after independence, Madagascar began to look increasingly to the United States as a principal trading partner. In actual fact, the United States is Madagascar's second largest trading partner. However, both France and the United States have an unfavorable balance of trade with Madagascar. In large part, so far as the United States is concerned, this has been accounted for by the exports of coffee under the International Coffee Agreement. On the other hand, United States export sales to Madagascar between 1961 (the first full year of independence) and 1969 increased by 528%. This aggregate increase represents a steady year-by-year increase and encompasses manufactured goods, raw materials and agricultural products.

Between 1964 (the first year of Madagascar's participation in sugar sales to the United States) and 1969, United States export sales to Madagascar increased by 200%. Madagascar's export sales to the United States during the same period also increased, but by the much lower rate of 52%. (See Tables II and III). During these same periods, trade between France and



Madagascar has been either static or declining (See Table IV).

The export value to Madagascar of all of its United States sugar entitlements, 1964 through 1969 inclusive, was \$6,981,000. The dollar value of the export gain to the United States during the same period was almost \$13,000,000. (See Table V). To anyone viewing sugar quotas as properly justifying a resulting trade benefit to the United States, the very small Madagascar quota has "paid off". An increased sugar quota for Madagascar will further substantially increase its imports from the United States.

### III. The Quota Established By The House Of Representatives Should Be Increased

On June 10, 1971, the House of Representatives passed H.R. 8866 (hereinafter referred to as the "House Bill") which would grant to Madagascar a quota of 15,000 tons. This quota is identical in amount to those given to the new quota countries of Malawi and Uganda, notwithstanding the fact that Madagascar has already had a quota and has demonstrated during the quota period, as well as before that time, that it is an extremely reliable sugar supplier in normal times as well as in emergency periods.

A comparison of the quota received by Madagascar under the House Bill with those received by other quota countries shows very clearly that Madagascar has been treated unfairly, and its close relationship with and support for the United States has not been recognized.

Swaziland, which had a final quota of 7,448 tons for 1970, received a quota of 30,000 tons under the House Bill -- a more than fourfold increase. Madagascar, whose final quota for 1970 (9,740 tons) was greater than that of Swaziland, received an increase of less than 6,000 tons. This is despite the fact that Swaziland has access at a preference price to the Commonwealth sugar market to the extent of 85,000 long tons, while Madagascar has no access to any preferential market except that of the United States. It should also be noted that the sugar production capacity of these two countries is not significantly different. Notwithstanding all of this, Swaziland is given a quota which is twice that of Madagascar.

Malawi received a quota for the first time of 15,000 tons despite the fact that Malawi has been a net importer of sugar and would not be able to commence filling its quota until 1973. It would appear patently unfair to treat Madagascar, a historically reliable supplier, in a manner identical to a country whose capacity to supply has yet to be demonstrated.

The quota for Mauritius was also increased from 18,909 tons for 1970 to 30,000 tons under the House Bill. Again, this increase is notwithstanding the fact that Mauritius has access at a preference price to the Commonwealth sugar market to the extent of 380,000 long tons, while Madagascar has no access to any preferential market except that of the United States.

Uganda, also a new quota recipient, received a 15,000 ton quota and is therefore being treated identically to Madagascar,

even though Madagascar has a history of being a dependable supplier to the United States, a supplier in times of need at a serious reduction of profits, as contrasted to Uganda's untested ability to supply or meet emergency needs at a sacrifice.

Thus, Madagascar received the smallest increase in its quota of the African countries. It is being treated similarly to the new quota countries of Malawi and Uganda instead of being treated like Swaziland and Mauritius with whom it shares the status of an existing quota recipient.

IV. Madagascar's Proven Dependability As A Source Of Sugar Supply, Its Maintenance Of Sugar Inventories And Its Potential For Supplying Additional Sugar Upon Call During Critical Periods Of Short Supply Is Ignored By The House Bill.

Madagascar, since the allotment of its first United States sugar quota in 1964, has been a dependable supplier of United States sugar needs. Madagascar has fulfilled its quota each year since it was allotted a quota in 1965.

This dependability, and Madagascar's potential for supplying additional sugar upon call during critical periods of short supply, is dramatically established by the activities which occurred in 1963 and 1964. Prior to 1964, Madagascar was not permitted to export sugar to the United States. However, in 1963, the world price of sugar began to increase and exceed the United States price. As the world price continued to increase over the United States price it became increasingly disadvantageous

for foreign countries to sell sugar in the United States market. In November of 1963, the world price rose to 3.23 cents a pound above the United States price.

This disparity in price threatened to cause a critical shortage in the amount of available sugar in the United States market. As a result, in November, 1963, the United States Department of State sent letters to most sugar producing countries, including Madagascar, asking for sugar shipments to the United States in 1964. The State Department letter indicated that the amount of sugar offered and shipped as a result of the request would be given consideration in the establishment of new sugar quotas.

The response of Madagascar to the United States request was speedy and generous. This contrasts to the negative response from many countries even though they had been beneficiaries of past United States sugar quotas and were, at least morally, obligated to respond to the United States request for help in a time of need.

In December of 1963, Madagascar offered 11,500 tons of sugar to the United States. In April of 1964, at a time when the world price still exceeded the United States price, Madagascar offered an additional 5,500 tons of sugar. This total commitment of 17,000 tons by Madagascar was a major diversion of its export sugar sales.

The importance of this redirection and commitment of more than what was then one quarter of the country's sugar

exports may unfortunately be obscured by the passage of time since the crisis periods of 1963 and 1964. However, it clearly indicates the dependability of Madagascar as a sugar supplier and, equally if not more importantly, it gives irrefutable evidence of the willingness of Madagascar to cooperate with the United States even though such cooperation would be economically disadvantageous.

For the most part, other foreign sugar producing countries did not respond in the same manner as Madagascar. Prior to that time, thirty-one countries had exported sugar to the United States at prices above the world price. Of these thirty-one countries, the majority decreased exports, some substantially, to the United States in 1964. Of the eight countries that increased their exports, only two countries substantially increased their 1964 shipments over 1963. This is in market contrast to the action of then non-quota Madagascar.

The past actions on behalf of Madagascar again raise the question of a proper United States response. In the years 1965 to 1970, Madagascar has never been allocated an annual basic quota even approximating half the amount of sugar it furnished to the United States in 1964. This is to be contrasted to the treatment of all Western Hemisphere countries which were permitted to ship sugar to the United States subsequent to 1964 in amounts greater than their respective 1964 shipment -- for some countries as much as 300,000 tons more. (See Table I).

It is ironic that the method of allocating foreign quotas used in 1965 and later years places Madagascar at a disadvantage not only with those countries which had previously enjoyed the benefits of participation in the United States sugar market, but also with the five countries who did not supply any sugar in 1964 or any prior years. Presumably all were requested to supply in that crisis year.

This discriminatory result arose because of a formula which was used to allocate quotas in 1965 when the foreign quota portion of the Sugar Act was not operative. Shipments made in 1963 were averaged with those shipments made in 1964, giving greater weight to 1964 performance. Since Madagascar could not have shipped in 1963, zero performance in 1963 (when no quota was available) was averaged with volunteered performance in 1964 (at an economic loss to Madagascar) to produce a lower average figure. This lower figure was then used for the quota determination for 1965 which also formed the basis for the legislative determination of Madagascar's quota for 1966 and later years.

Thus, in 1965, Madagascar was granted an entitlement to ship 7,871 tons to the United States. In 1966, Madagascar's quota (including its temporary allocation of the Cuban holdback which represented about 50% of its quota) totalled a mere 8,867 tons, less than one cargo shipment. Since then the quota has slightly increased by reason of Madagascar's limited participation in deficits and growth, totalling 9,740 tons in 1970.

This result is to be contrasted with the results obtained by, for example, Thailand, Swaziland, Honduras, Bolivia, and the Bahamas. Not one of these countries shipped in 1963 and 1964 and none had ever shipped before, and therefore had no historical basis. But somehow other methods were used resulting in the award of a larger sugar allowance which was then used for both giving and determining their quotas for 1966 and subsequent years.

The disappointments experienced in 1965 are being compounded by the action of the House of Representatives. Rather than reward a country which came to the assistance of the United States in time of need, the House Bill would treat Madagascar as a new quota recipient with no previous record of delivery. As for countries such as Swaziland, Honduras, Bolivia and the Bahamas, which did not come forward when the United States needed them in 1963 and 1964, not only were they rewarded with quotas in 1965, but they would now be rewarded even further by receiving quota increases under the House Bill substantially in excess of that received by Madagascar.

The record could encourage the speculation that Madagascar should have followed a course of conduct other than generously offering its assistance in 1964, in order to receive a higher quota. This situation should at long last be corrected.

The reasons for a significant correction are many:

First, to seek and gain assistance from one of the least developed countries in the world, and then to reward it with a gesture does not serve well the image of the United States;

Second, should another such emergency occur, this record of almost total nonreward does not create a history where future requests to any and all countries in future emergencies will elicit the needed responses;

Third, the action, in particular, serves poorly United States interests in Africa. Certainly it is not consistent with the "Report of the Special Study Mission to West and Central Africa" wherein it is stated: "We desire economic relations on a basis of mutual benefits and respect" (p. 67), and that we "should do our fair share in support of the independence and growth of African Nations" (p. 68).

#### Potential for Supplying Additional Sugar

Since 1963, annual sugar production in Madagascar has averaged around the 115,000 short ton level. During that same period domestic consumption averaged around 40,000 short tons annually; yearly exports averaged 72,000 short tons. Because of improved production and harvesting techniques and improved cane varieties, production during the next five years is expected to reach the 150,000 short ton level with an estimated 100,000 short tons available for export.

In addition to this increased amount of sugar available for export because of an increased production capability, there is also additional sugar available for export to the United States because of the failure of certain existing sugar



markets of Madagascar. This subject is further discussed under Section Six.

Madagascar has always complied with the provisions of the Sugar Act which, in effect, requires foreign quota countries to hold inventories of sugar sufficient to supply an additional 15% over the prior year's quota.

#### Timing of Deliveries

With the United States quota providing for less than one cargo ship to the United States, the mechanics of delivery have required that Madagascar withhold that shipment until it ascertains whether any deficit allocations or year end changes in the consumption estimates will be added to its quota to increase the total shipment. Thus in 1968, deficit allocations totalled 339 short tons, raw value, in 1969 nothing, and in 1970 nothing. Increases in Madagascar's quota resulting from changes in the consumption estimates totalled 386 short tons, raw value, in 1968, 151 short tons, raw value, in 1969 and 490 short tons, raw value, in 1970.

However, the Private Sugar Producers, realizing that the critical period of United States requirements is during the summer months, are prepared to provide for their deliveries to arrive in the United States during this critical period. Such a procedure is necessarily premised on a meaningful quota. A letter making this offer, dated March 13, 1971, on behalf of the Private Sugar Producers was sent to the Director of the Sugar Division, United States Department of Agriculture.

The Private Sugar Producers of Madagascar, recognizing the critical need for delivery of sugar to the United States in the peak consumption summer period, are prepared and willing to supply up to 45,000 - 50,000 tons of sugar to the United States as follows:

First, to arrange for the first shipment to be provided from the previous crop out of storage facilities, so that shipment of 15,000 short tons would arrive on the East Coast of the United States on June 1 or earlier;

Second, to provide out of the new harvest, which begins on June 1st, the loading of a 15,000 cargo ship, which together with a 28-day transit time, will take overall from loading to delivery a total of 46 days, with arrival in New York around July 16th;

Third, to provide similarly out of the new harvest, a loading completed by July 8th, and a delivery (using the same time schedule) to the East Coast of the United States on August 4th. (See Chart I).

Thus, despite distance, the Private Sugar Producers of Madagascar are prepared to commit their deliveries to meet United States needs. With storage facilities of 90,000 tons being expanded by 20,000 additional tons, and storage facilities dockside at the port of loading of 15,000 tons (see Chart II), the availability of sugar to meet this schedule is unquestionable.

To go a step further, while present loadings are carried from docks to ship by lighter (15,000 tons in 18 days), bulk loading from roading facilities is feasible. This, if

necessary, would reduce the loading time if for any reason an emergency requires quicker delivery.

Thus, distance and loading factors can be surmounted; the Sugar Producers of Madagascar can deliver 45,000 to 50,000 tons in our peak summer months.

Insofar as subsequent emergency deliveries are concerned, the storage facilities enable the sugar producers to maintain more than adequate required stocks for emergency use. Their willingness to meet such an emergency is not to be played down by reason of distance and time. Their deliveries of one quarter of their production in 1964 testifies fully to the fact that their willingness will be translated into effective assistance in case of an emergency.

To respond to a past history of meeting our requirements and to present arrangements to assure deliveries when most needed, by treating Madagascar as a newcomer in meeting United States needs, is indeed unjust. A two cargo quota of 30,000 tons is the only rational way the United States can recognize its own sugar standards on establishing quotas.

#### V. Friendly Relations Between The United States And Madagascar

Certain facts should be clearly borne in mind in considering Madagascar's relations with the United States. As a former French colonial area, achieving its independence in 1960, Madagascar's political and economic ties were necessarily closely dependent on France. However, with the passage of time, this dependence has been significantly lessened and the

relationships with the United States have become closer.

Thus, since Madagascar declared its independence, there has been an increasingly close political relationship with the United States. Madagascar has endeavored to identify itself with the hopes and aspirations of the United States as the leader of the free world.

This is signified in many ways:

1. In the view of a Special Study Committee of the United States Congress: "The Malagasy Republic . . . stands with us on Vietnam" (See Report of a Special Study Committee, conducted by Congressman Barrett O'Hara, 91st Congress 1st Session, page 17, dated December 31, 1968).

2. Madagascar has also supported and defended the United States within the Organization of African Unity.

3. In the United Nations, Madagascar has voted with the United States on key issues.

4. Similarly, Madagascar supported the United States position on the Atomic Test Ban Treaty, to which it is a signatory.

5. Madagascar authorized the United States government to build and man a satellite tracking station complex on the island of Madagascar. This complex is a vital part of the tracking network for the United States space program in a part of the world where it has not always been possible for the United States to obtain cooperation. Madagascar, despite then

predictable local opposition, unhesitatingly granted this right to the United States, promptly and when requested. Further, despite the country's urgent needs for foreign exchange, the land for the tracking station has been provided to the United States without charge and all equipment, supplies and materials for the station were and are permitted to enter Madagascar duty-free. Thus, not only did Madagascar cooperate with the United States in the establishment of the station, but it refrained from making a profit out of this cooperation.

The original Tracking Station Agreement was entered into in 1966. The Agreement was again amended and extended by an exchange of notes signed on December 11 and 21, 1967. As recently as December, 1970, both countries agreed to another extension of this Agreement, effective through 1972.

6. The Madagascar Government has recently signed the INTELSAT Agreement. Thus, Madagascar's signing of the INTELSAT Agreement carries with it the significant factor of its rejection of any association with the Communist bloc tele-communications system.

7. The current Economic, Technical and Related Assistance Agreement between the United States and Madagascar was effected by an exchange of notes signed on June 22, 1961. There is also an Investment Guarantee Agreement between the United States and Madagascar which was effected by an exchange of notes signed on July 26, 1963. Unlike several substantial quota

recipients under the House Bill, foreign investors in Madagascar are not operating under continuous threats, let alone acts, of expropriation. Indeed, no United States citizen-owned property has ever been expropriated or threatened by expropriation.

Clearly, the Government of Madagascar has supported the United States and its policies in many ways. Good relations are a matter of reciprocity. As established below, Madagascar seeks not aid, but a more realistic recognition of its role as a significant and dependable supplier of sugar to the United States.

VI. Need of Madagascar For A Premium Priced Market In The United States

A. Absence of Alternative Markets For Madagascar's Sugar

Madagascar does not have access to alternative premium priced markets. Consequently, an increased sugar quota is of the utmost importance to Madagascar. Unlike many other sugar-producing countries, Madagascar, apart from its small quota to the United States, does not have a preferred or guaranteed market for its sugar exports. During the period 1965 to 1969, Madagascar's sugar exports to the United States averaged 11% of its total sugar exports.

Unfortunately, this compares unfavorably with the sugar suppliers from the Western Hemisphere. In 1969, in thirteen out of nineteen Western Hemisphere countries, sugar exports to the

United States represented more than 70% of their total sugar exports and in eight out of those countries 90% or more of their exports went to the United States. Moreover, most of the other sugar quota countries in the Eastern Hemisphere either ship a large portion of their total exports to the United States market or have access to other premium markets, such as the British Commonwealth.

In the past, the sugar industry of Madagascar relied upon France as a recipient of its exports. However, since Madagascar's independence, sugar exports to France (bound by the agricultural complexities of the common market) decreased and, in 1969, were eliminated. (See Chart III). As reliance upon France necessarily declined, reliance upon the United States (and overall trade with the United States) necessarily increased.

Madagascar is a member of the African and Madagascar Sugar Agreement. The Agreement came into existence on June 27, 1966. It was hoped that the African markets would provide Madagascar with a continuing market for its sugar, since at that time only one other member of the Agreement was an exporter of sugar. Unfortunately, because of recent developments, a continued reliance upon this market will not be possible. The price for sugar sold to members in many instances has been forced below the cost of production. Further, since many of the African members are now starting to produce sugar, this market is decreasing and in a few years will be minimal.

The case of Senegal strikingly bears out this fact. Senegal for the past several years has been the principal destination for Madagascar sugar exports within Africa. However, in June of 1969, Senegal announced that it was withdrawing from the Agreement. These developments have been a severe blow to Madagascar's sugar industry capacity to plan for orderly and profitable marketing in the future.

The severity of the situation is compounded by the combination of a minimal United States quota and the loss of an expected long-term market. Countries which were to be consumers, and devote their economic energies to development of other products, introduced the development of a sugar industry and became or are becoming self-sufficient in sugar. Madagascar, the country encouraged to place its sugar in the African market, now finds that market disappearing, and the former consumer may well become a competitor for the United States quota. This is not to question nor deny such development by any other country, but only to highlight that there is some order of rational priority to be given now in allocating sugar quotas.

It should be noted that Madagascar, unlike most other foreign suppliers, did not participate in the reallocation of the quota withheld from Southern Rhodesia, or from the deficits of the domestic beet areas, those declared by Puerto Rico, the Virgin Islands, Haiti, Peru, Nicaragua and Panama, and the redistribution arising out of the Philippines' inability to share in deficit



allocations. While Madagascar did receive its pro rata share of a deficit declared by Thailand in 1968 and earlier by India in 1966, its participation in the growth of the United States market has been limited to approximately 50% of its pro rata share, as compared with the 100% participation of most other foreign suppliers.

B. The Role of Sugar In The Economy

Sugar is one of the principal cash crops on the Island and accounts for up to 9% of Madagascar's total foreign exchange earnings. Moreover, during the past three years, the sugar industry of Madagascar has paid over 14 million dollars in taxes to Madagascar. Of this amount, more than 1-1/2 million dollars was paid to the Government in social security taxes which are subsequently used by the Government directly to benefit the people of the country. These Governmental social security benefits are in addition to those supplied by the individual companies which were discussed previously. The remaining 12-1/2 million dollars was applied to the country's general budget.

Nearly 90% of the gross income derived by the sugar industry is expended in the economy of the country by way of tax payments, wages, employee benefits and local purchases of supplies and services. An additional 4% of the gross income is spent on purchases of items and supplies which cannot be purchased in Madagascar and the remaining 6% represents a modest return on investment, much of which also remains within Madagascar's economy.

One might compare this to the return on investment in the sugar industry in the United States of 8% to 9%. While the mills are foreign owned, the plantations are both foreign and locally owned. The sugar industry itself provides social security benefits to its workers and their dependents over and above those benefits provided by the government

C. Need For Greater Economic Development

Madagascar's economy is still only in the early stages of development and growth in recent years has been slow. In 1967, Madagascar had a per capita gross domestic product (GDP) of only \$103 which was among the three lowest of all the United States sugar quota countries. The annual growth rate of the total GDP is estimated to be less than 3% which is not high for a developing nation.

Madagascar's economy is predominantly agricultural with five main crops, of which sugar is one, making up 80% to 90% of the value of the country's exports. Over 80% of the labor force is employed in the agricultural sector. While the number of inhabitants per square mile is relatively low, the pressure of the population on the land is nevertheless great because only 5% of the total land area is arable with the rest in permanent meadows and pastures and forest. The soil is generally poor except in the valleys and on the high plateaus and in limited areas along the eastern and northwestern coast. Cattle raising, while extensive, is not yet commercially developed. Industry is

limited mostly to the processing of agricultural products, of which sugar is the principal agro-industrial commodity. Some minerals are found on the island but production is difficult. Roads and other surface transportation are inadequate.

Madagascar is fully aware of its economic posture and has embarked on an ambitious program to accelerate its economic growth. Important elements in the new and expanded development program, vital to continued economic growth, are such agricultural-linked industries as sugar, edible oils, jute sacks and beef canning. The plan envisions a coordinated effort involving substantial investments from both private and public funds. The objective, insofar as sugar is concerned, is to utilize net sugar earnings to aid first the development of the sugar industry and second to achieve diversification in both agriculture and agro-industry.

On the national budgetary level, the breakdown of the various expenditures reflects the attitude on behalf of the Madagascar Government that it is not only important but necessary to continue to aid agriculture, transportation, and other general services which are designed to benefit directly the people of Madagascar. Overall governmental spending stresses education, health, agriculture, and transportation and puts only a slight emphasis on military spending. (See Table VI)

## ANNEX A

## Certain Facts About Madagascar

Madagascar is the world's fourth largest island, located in the Indian Ocean lying, at the nearest point, 350 miles off the southeast coast of Africa.

Agriculture is the principal occupation in the Malagasy Republic. Over 90% of the population is engaged in agriculture, which accounts for approximately 54% of the gross domestic product. This importance of agriculture is somewhat striking in view of the fact that somewhat less than 5% of the total land in Madagascar is arable and permanently cultivated.

The most important export crop is coffee. However, sugar not only constitutes an important export crop but represents the largest agro-industrial activity in the economy of the island.

The Madagascar people in appearance, language and culture bear close resemblance to the first known non-African settlers of the island, presumed to have come from the Southwest Pacific in about the third century A.D. In 1885 a French Protectorate was imposed over Madagascar, and after World War II moves for independence of the island developed in a rational and harmonious way. Thus France in the beginning of the 1950s conducted a program designed toward Madagascar's achievement of independence in a peaceful manner. In 1958 the results of a referendum created the Malagasy Republic within the French

## ANNEX A

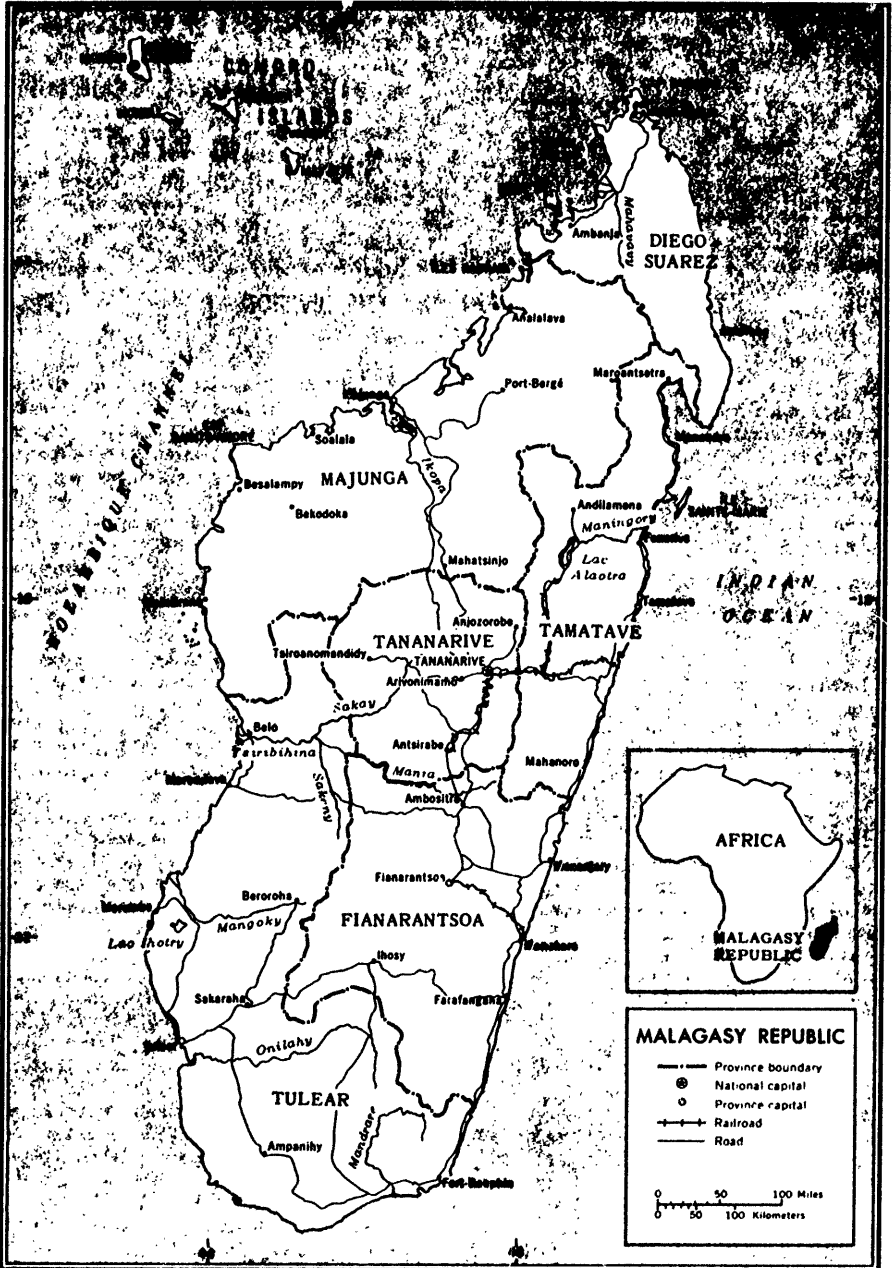
Community. Full sovereignty was attained on June 26, 1960.

Madagascar is headed by a President, Philiberte Tsiranana, who was elected on May 1, 1959, by direct universal suffrage for a term of seven years. He was reelected in March 1965 by an overwhelming majority vote.

The legislative branch of the government consists of a Parliament with two branches: the National Assembly composed of 107 deputies voted into office by direct election for five years and a Senate of 54 members, 36 elected by provisional electorate colleges and 18 appointed by the government from among representatives of economic, social and cultural groups, all for a term of six years.

President Tsiranana's party, the Social Democratic Party (ESD) has established stable political conditions since independence in 1960. The aim of the party has been to broaden the participation of people in government and to reinforce the sense of national unity. The government is a strong supporter of the West, staunchly anti-Communist, and devoted to the economic development of the country.

ANNEX B



U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 7469-70(1) ECONOMIC RESEARCH SERVICE

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**U.S. SUGAR QUOTAS FOR FOREIGN SUPPLIERS: FINAL ADJUSTED QUOTAS FOR 1966 to 1970 COMPARED WITH 1964 SHIPMENTS**  
(in short tons, raw value)

TABLE - I

Foreign Area	1964 Charges To Quota	Final Adjusted Quotas					Final Quotas		5 Year Avg. Is Of 1964	% 5 Year Avg.
		1966	1967	1968	1969	1970	5 Year Average	5 Year Avg.		
							(1966 to 1970)	Compared With		
Philippines <sup>2/</sup>	1,217,359	1,202,978	1,126,020	1,126,020	1,126,020	1,301,020	1,176,412 <sup>2/</sup>	-40,947	96.6 <sup>2/</sup>	
Mexico	480,120	488,896	524,181	633,819	655,044	652,559	590,900	+110,780	123.1	
Dominican Republic	398,462	602,931	618,131	707,030	693,068	678,209	659,874	+261,412	165.6	
Brazil	182,363	478,143	512,651	619,881	640,638	638,210	577,904	+395,541	316.9	
Peru	232,780	381,375	408,901	494,431	300,000	455,991	408,140	+175,360	175.3	
British West Indies	142,228	176,886	183,641	217,971	227,455	216,645	204,520	+62,292	143.8	
Ecuador	57,920	69,570	74,591	90,193	93,216	92,860	84,086	+26,166	145.2	
French West Indies	34,286	55,644	57,767	66,237	71,550	68,149	63,869	+29,583	186.3	
Argentina	19,751	58,820	63,064	76,255	78,809	78,509	71,041	+51,290	359.7	
Costa Rica	40,526	71,527	60,357	73,264	75,420	75,133	71,140	+30,614	175.5	
Nicaragua	50,340	19,000	52,889	54,835	71,925	75,133	54,756	+4,416	108.8	
Colombia	28,292	50,597	54,250	65,594	67,792	67,537	61,154	+32,862	216.2	
Guatemala	37,251	60,277	50,863	61,743	63,557	63,314	59,951	+22,700	160.9	
Panama	19,216	13,000	32,815	37,439	44,440	39,500	33,439	+14,223	174.0	
El Salvador	20,571	44,204	37,301	45,279	46,609	46,429	43,964	+23,393	213.7	
Haiti	14,957	26,564	28,480	27,420	17,419	26,176	25,212	+10,255	163.6	
Venezuela	0	24,033	25,767	31,156	32,200	32,079	29,047	+29,047	100.0	
British Honduras	5,988	12,884	13,378	15,880	16,568	15,782	14,898	+8,910	243.9	
Bolivia	0	4,681	6,102	7,103	7,625	7,599	6,622	+6,622	100.0	
Honduras	0	0	6,085	7,406	7,625	7,599	5,743	+5,743	100.0	
Australia	215,098	187,786	190,539	203,276	192,937	206,270	196,162	-18,936	91.2	
Republic of China	81,156	78,243	79,391	84,698	80,390	85,946	81,734	+578	100.7	
India	110,553	73,403	76,216	81,311	77,175	82,508	78,123	-32,430	70.7	
South Africa	119,960	55,292	56,103	59,854	56,808	60,735	57,758	-62,202	48.1	
Fiji	54,517	41,209	41,813	44,608	42,339	45,265	43,047	-11,470	79.0	
Thailand	0	17,213	17,466	0	17,686	18,909	14,255	+14,255	100.0	
Mauritius	0	17,213	17,466	18,633	17,686	18,909	17,981	+17,981	100.0	
Malagasy Republic	11,559	8,667	8,997	9,600	9,111	9,740	9,263	-2,296	80.1	
Swaziland	0	6,781	6,881	7,342	6,967	7,448	7,084	+7,084	100.0	
Ireland	0	5,351	5,351	5,351	5,351	5,351	5,351	+5,351	100.0	
Bahamas	0	0	0	0	10,000	10,000	4,000	+4,000	100.0	
<b>Total Foreign</b>	<b>3,575,253 <sup>1/</sup></b>	<b>4,333,368</b>	<b>4,437,457</b>	<b>4,973,629</b>	<b>4,853,430</b>	<b>5,189,514</b>	<b>4,757,430</b>	<b>+1,182,177</b>	<b>132.6%</b>	
<b>Total Quotas</b>	<b>9,109,207</b>	<b>10,375,000</b>	<b>10,800,000</b>	<b>11,000,000</b>	<b>10,800,000</b>	<b>11,600,000</b>	---	---	---	

<sup>1/</sup> Does not include quota sugar coming in from Belgium, France and Southern Rhodesia totalling 11,285 tons.

<sup>2/</sup> The Philippines could have shipped more but didn't have the sugar to participate in deficit allocations.

## CHART I

The Sugar Industry of the Malagasy Republic is Capable and Willing to Schedule Sugar Arrivals to Meet the Requirements of the U.S. Department of Agriculture

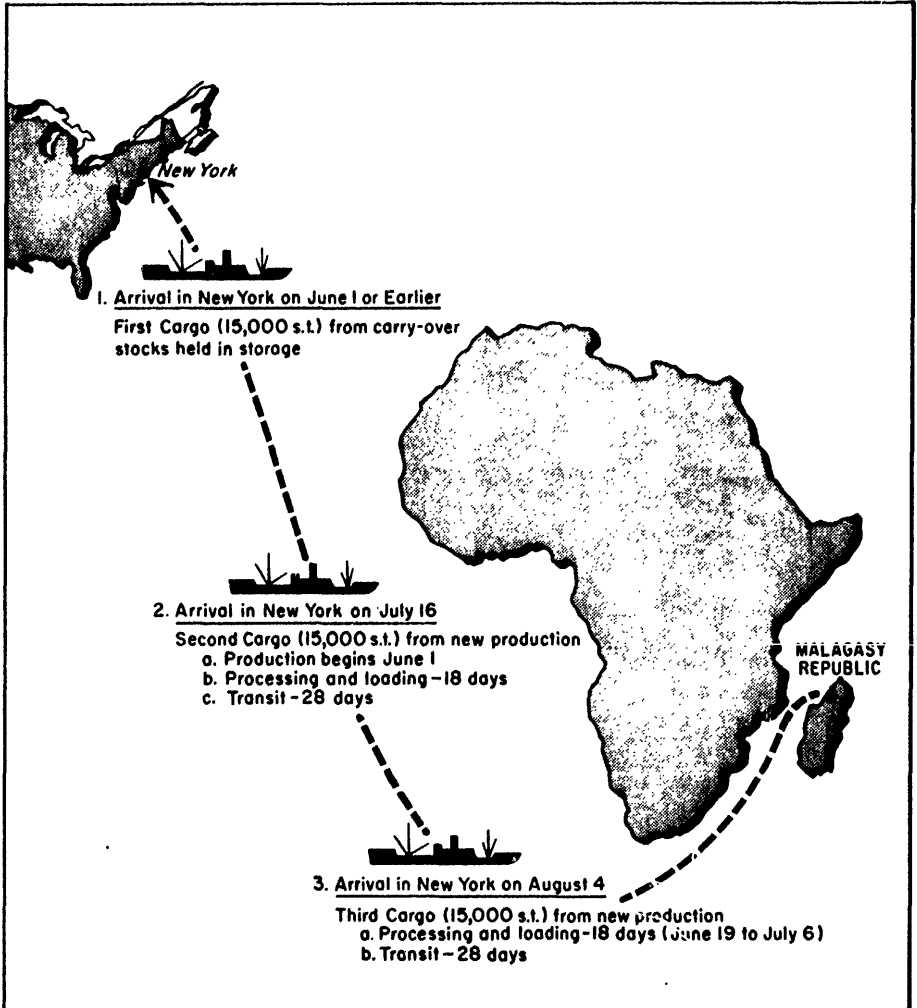




CHART II

The Malagasy Republic Has Ample Storage Facilities to Help Meet United States Sugar Requirements - Both Normal and Emergency

Metric Tons, Raw Value  
(in Thousands)

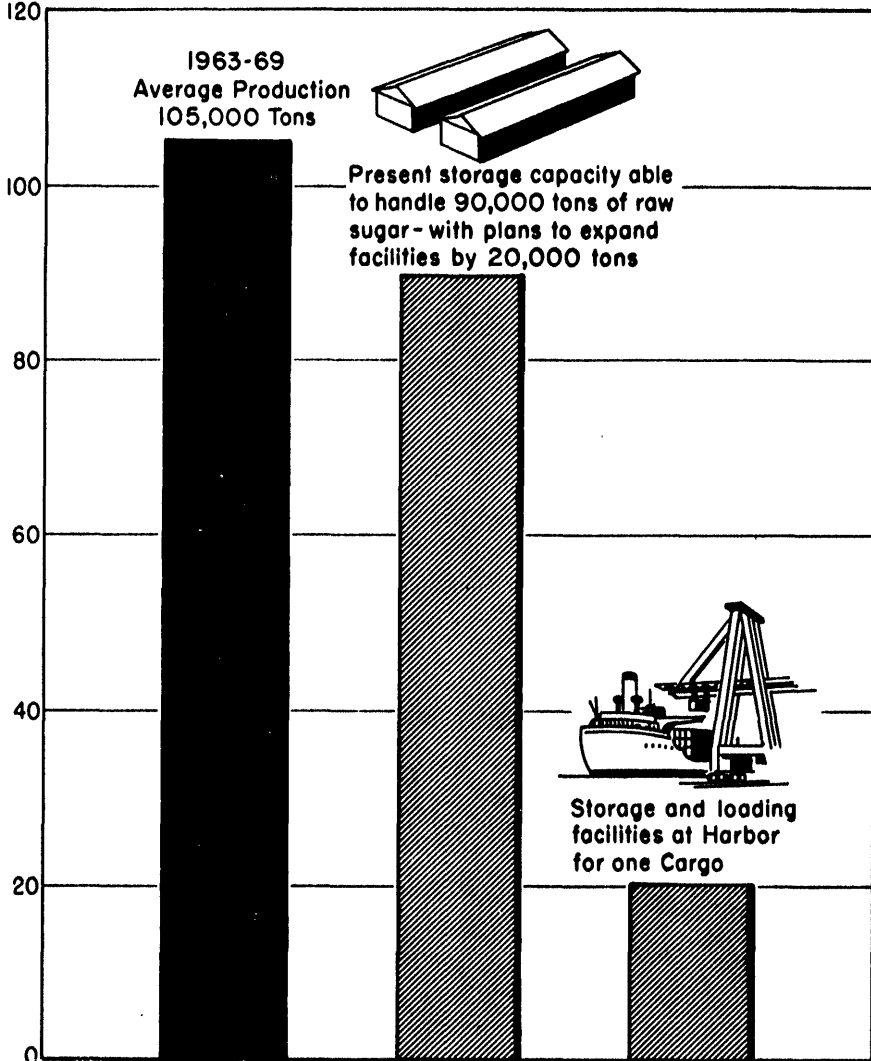


TABLE - IIU.S. TRADE WITH MALAGASY 1961-1969

(By Value)

<u>Year</u>	<u>Imports</u>	<u>Exports</u>
	\$	\$
1961	13,259,701	1,895,205
1962	15,787,533	2,757,732
1963	17,632,503	3,418,085
1964	18,242,253	3,950,436
1965	28,892,063	3,881,005
1966	22,452,504	4,189,690
1967	22,617,961	3,388,501
1968	37,414,342	5,976,775
1969	27,782,707	11,904,302
1969 % Change Over 1961	+109%	+528%
1969 % Change Over 1964	+52%	+201%

Source: U.S. Department of Commerce

TABLE - III

## U.S. DOLLAR EXPORTS TO MALAGASY REPUBLIC 1961 TO 1969

<u>ITEM</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>% Change</u> <u>1969 Or</u> <u>1964</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
<u>FOOD AND LIVE ANIMALS</u> including milk and cream, cereal preparations and fruit preparations	62,348	187,530	206,929	322,318	944,264	249,726	283,245	110,536	416,305	+29%
<u>TOBACCO AND BEVERAGES</u>	39,306	46,943	89,539	131,685	95,484	29,494	37,255	23,852	91,631	-30%
<u>CRUDE MATERIALS, INEDIBLE</u> mostly textile fabric waste	209,285	192,966	120,073	18,302	25,576	107,055	39,104	117,686	181,651	+89%
<u>MINERAL FUELS, LUBRICANTS AND RELATED PRODUCTS</u> (mostly petroleum)	40,150	358,703	113,693	220,885	266,021	297,613	367,279	454,890	311,284	+41%
<u>OILS AND FATS - ANIMAL AND VEGETABLE</u>	0	0	0	0	167,885	222,643	93,740	---	286,619	+71%
<u>CHEMICALS</u> including paints and drugs	20,809	43,366	77,554	52,693	252,677	172,557	49,102	194,519	136,199	+15%
<u>MANUFACTURED GOODS</u> including hand tools, rubber products, made-up textiles, and iron and steel products	85,567	45,072	78,682	174,377	237,267	112,915	72,253	1,314,613	1,024,516	+48%
<u>MACHINERY AND TRANSPORT EQUIPMENT</u> including agricultural machinery, machinery for special equipment, road motor vehicles, aircraft and electrical machinery	1,344,238	1,675,012	2,485,664	2,468,844	1,518,336	2,397,173	2,064,515	3,364,058	8,756,240	+25%
<u>MANUFACTURED ARTICLES</u> including furniture, instruments and printed matter	45,366	44,113	48,150	49,237	267,107	229,252	323,247	305,681	560,480	+103%
<u>SPECIAL SHIPMENTS</u>	<u>48,136</u>	<u>164,027</u>	<u>197,801</u>	<u>512,095</u>	<u>106,388</u>	<u>371,262</u>	<u>58,761</u>	<u>90,940</u>	<u>139,377</u>	<u>-73%</u>
Total U.S. Exports to Malagasy	\$1,895,205	\$2,757,732	\$3,418,085	\$3,950,436	\$3,881,005	\$4,189,690	\$3,388,501	\$5,976,775	\$11,904,302	+201%

TABLE - IV

MALAGASY IMPORTS  
FROM FRANCE AND OTHER - 1964-1969

(By Value)

<u>Source</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1969 Percent Change Over 1964</u>
	<u>-----Million Dollars-----</u>						
France	97.4	86.4	89.3	93.6	106.5	96.6	-0.8%
Other	<u>37.8</u>	<u>51.7</u>	<u>52.0</u>	<u>51.1</u>	<u>63.0</u>	<u>89.7</u>	+137.3%
Total	135.2	138.1	141.3	144.7	169.5	186.3	+37.8%
% From France	72.0%	62.6%	63.2%	64.7%	62.8%	51.9%	
% From Other	28.0%	37.4%	36.8%	35.3%	37.2%	48.1%	

MALAGASY EXPORTS  
TO FRANCE AND OTHER - 1964-1969

(By Value)

<u>Destination</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1969 Percent Change Over 1964</u>
	<u>-----Million Dollars-----</u>						
France	49.9	41.0	44.8	38.0	38.6	42.6	-14.6%
Other	<u>41.6</u>	<u>50.7</u>	<u>52.9</u>	<u>65.7</u>	<u>76.8</u>	<u>75.0</u>	+80.3%
Total	91.5	91.7	97.7	103.7	115.4	117.6	+28.5%
% to France	54.5%	44.7%	45.9%	36.6%	33.4%	36.2%	
% to Other	45.5%	55.3%	54.1%	63.4%	66.6%	63.8%	

Source: U.S. Department of Commerce

TABLE - V

MALAGASY SUGAR EXPORTS TO UNITED STATES COMPARED TO  
TOTAL UNITED STATES EXPORTS TO MALAGASY, 1963 to 1969  
IN DOLLAR VALUE

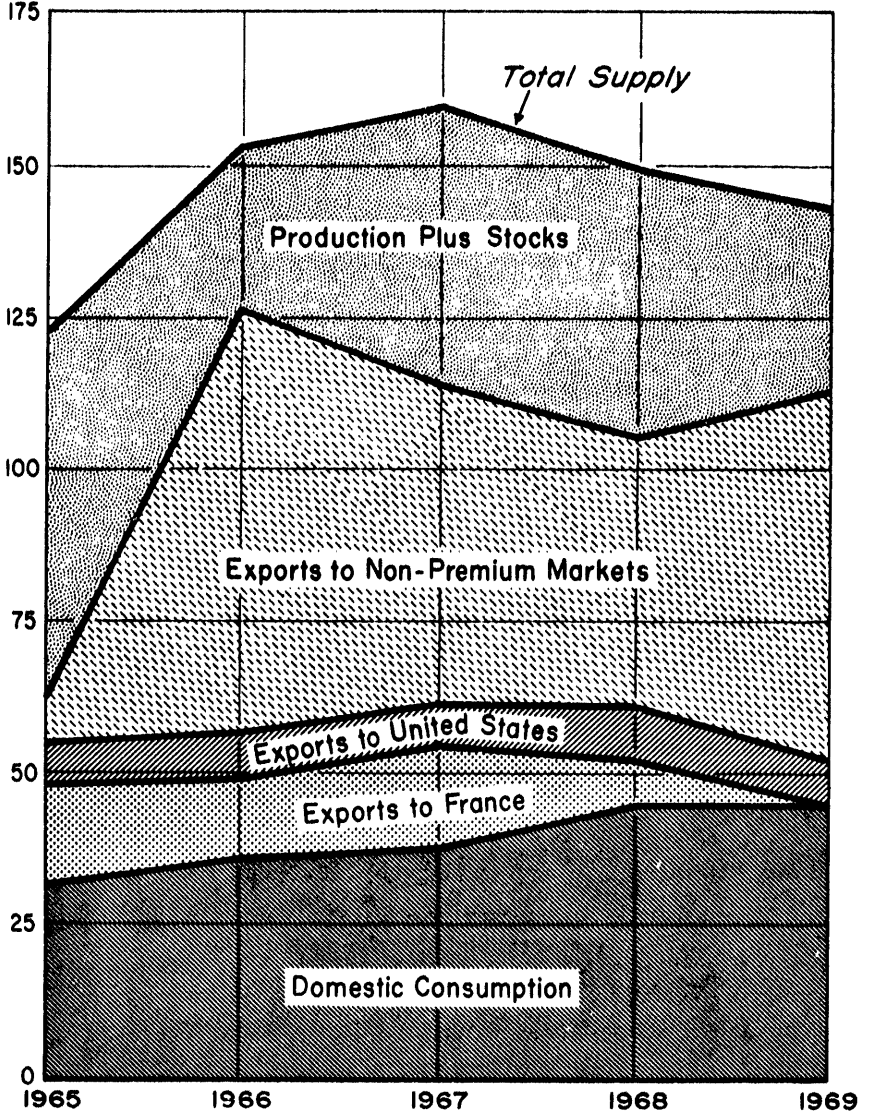
Year	Malagasy Sugar Exports to U.S.	U.S. Annual Exports To Malagasy	
		Total	Net Gain in U.S. Exports <u>1/</u>
1963	\$ 0	\$ 3,418,085	\$ ---
1964	1,300,000	3,950,436	+532,351
1965	759,000	3,881,005	+462,920
1966	1,120,000	4,189,690	+771,605
1967	1,200,000	3,388,501	-29,584
1968	1,331,000	5,976,775	+2,558,690
1969	<u>1,271,000</u>	<u>11,904,302</u>	<u>+8,486,217</u>
Total 1964-69	\$6,981,000	---	\$12,782,199

1/ Net annual gain over base year of 1963.

CHART III

**Malagasy Republic: Sugar Supply, Sugar Consumption and Sugar Exports to France, the United States and Other Markets**

Metric Tons, Raw Value  
(in Thousands)



Source: Figures from Sugar Year Book, 1969 - International Sugar Association

TABLE - VI

## THE BUDGET OF THE MALAGASY REPUBLIC

Category of expenditures	1969			1970		
	Operating	Investment	Total	Operating	Investment	Total
Civil services .....	10,290,301	584,100	10,874,401	10,462,171	514,000	10,776,171
Military services .....	1,495,746	57,170	1,552,916	1,472,905	-	1,472,905
<b>Total for general services</b>	<b>11,786,047</b>	<b>641,270</b>	<b>12,427,317</b>	<b>11,935,076</b>	<b>514,000</b>	<b>12,449,076</b>
Education .....	3,838,081	234,400	4,072,481	4,204,217	838,000	5,042,217
Health .....	2,001,382	103,900	2,107,282	2,118,656	7,000	2,125,656
Other services .....	814,484	143,000	959,484	811,990	33,100	845,090
<b>Total for social and community services</b>	<b>6,653,947</b>	<b>481,300</b>	<b>7,135,247</b>	<b>7,134,863</b>	<b>878,100</b>	<b>8,012,963</b>
General agriculture .....	3,634,317	4,488,246	8,122,563	3,631,905	2,484,800	6,116,705
Transportation and communication .....	2,337,762	6,618,960	8,976,722	2,207,639	3,187,300	5,394,939
Other services .....	1,769,327	843,020	2,612,347	1,880,303	1,066,600	2,946,903
<b>Total for economic services</b>	<b>7,761,406</b>	<b>11,950,226</b>	<b>19,711,632</b>	<b>7,719,847</b>	<b>8,738,700</b>	<b>16,458,547</b>
Debt .....	1,347,409	-	1,347,409	1,407,000	-	1,407,000
Miscellaneous .....	1,049,730	-	1,049,730	1,086,235	115,000	1,201,235
<b>Total for non-apportioned expenditures</b>	<b>2,397,139</b>	<b>-</b>	<b>2,397,139</b>	<b>2,493,235</b>	<b>115,000</b>	<b>2,608,235</b>
Transfer and order expenses	3,684,029	-	3,684,029	3,875,009	-	3,875,009
<b>Total of all expenses</b>	<b>32,282,568</b>	<b>13,076,796</b>	<b>45,359,364</b>	<b>33,258,430</b>	<b>10,046,200</b>	<b>43,304,630</b>

Source : Ministry of Finance and Commerce.

In thousand of FMG.

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TABLE VII

## MALAGASY REPUBLIC

## SUGAR INDUSTRY WAGE SCALES

Area and Country	Period	Wages		Exchange Rate (Currency Units per U.S. Dollar)	Supplementary Benefits	Weekly Hours		Length of Season
		Field	Mill			Field	Mill	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<u>AFRICA</u> Malagasy Rep.	1970	Minimum Set By Government: 16.50FMG per hr.  Industry Actually Paid: 25.50 to 28.30 FMG per hour	Minimum Set By Govern- ment: 18.50FMG per hr.  Industry Actually Paid: 28.80 to 51.50 FMG per hour	277.71 Malagasy francs	Sick leave; paid vaca- tion; free housing; free hospital service for employee and family; free seven kilos of rice and one kilo of meat per week plus additional food at discount rates; free schooling; and, periodic physical check- ups.  Above valued at approximately 25 to 30% of wages paid.	48	46	June 1 to Oct. 31. However 80% of the workers are guaranteed year-round employment.



The CHAIRMAN. The next witness will be Mr. George Bronz on behalf of the Irish Sugar Co.

**STATEMENT OF GEORGE BRONZ, IRISH SUGAR CO.; ACCOMPANIED  
BY MAX N. BERRY**

Mr. BRONZ. Mr. Chairman, my name is George Bronz. I appear on behalf of the Irish Sugar Co. With me at the table is Mr. Max N. Berry, also an attorney in Washington, who is associated with me in this representation.

Irish Sugar production consists of the growing of sugar beets by some 20,000 small farmers. The beets are normally grown as part of a crop rotation scheme, so that a particular plot of land is only used once in 4 years for sugar beets. These beets are processed in factories established by the Irish Sugar Co., which is a government-owned company, and the Irish Sugar Co. markets the sugar produced. Thus, the benefits of sugar culture in Ireland go entirely to the farmers who grow the product, and to the people of Ireland through their Government. There isn't any significant private profit interest in the sugar industry at all.

Ireland has produced sugar for a great many years. Its productivity is improving by improved agricultural methods, and a record crop is expected this year.

There has frequently been criticism of the Irish Sugar Co. and of the Irish sugar quota on the statement that Ireland is an importer rather than an exporter of sugar, and indeed the official statistics which are normally published on sugar movements do show Ireland to be an important country. However, these figures are deceptive. Ireland has a very substantial industry using sugar in making manufactured products, food products and confectionery primarily, which products are exported. The Irish Sugar Co. has worked out an arrangement to permit some cheaper imported sugar to be used by these export industries so that they remain competitive in world markets. We have exactly the same arrangement in the United States.

Under section 211 of the Sugar Act, and the section would be unchanged under the House version, imports may come into the United States outside the quota, provided they are used in export of products containing sugar. I have appended to the statement I filed with this committee statistical information showing that the quantity of sugar so imported into the United States and reexported in the form of manufactured products is considerably larger than in the case of Ireland. I have also included in this statement filed excerpts from testimony given by a witness on behalf of the Cane Sugar Refiners of the United States a few years ago, testifying to the importance of this arrangement for the industries in the United States which use sugar. In the same way, the Irish consider it important that their export industries using sugar have access to cheaper sugar in order to maintain their competitive position.

As far as domestic consumption is concerned, every pound of sugar consumed by the people of Ireland is grown in Ireland, every bit of sugar exported to the United States was grown in Ireland, and, indeed, Ireland also exports some to Northern Ireland under a quota established by the British Government.

This year, we have the figures in my statement, the Irish planting is expected, on the basis of recent experience in yields, to produce 165,000 tons of sugar. Of this amount 130,000 will be consumed in Ireland for domestic consumption; approximately 10,000 tons will be exported to Northern Ireland and the remaining 25,000 tons are available for export to the United States, if the Sugar Act should permit such exports.

Ireland originally had a quota of 10,000 tons back in 1962. It was reduced to 5,000 in 1965 because of an unfortunate experience that I describe in my written statement. If there was any delinquency on the part of the Irish in that instance they have certainly paid for it by their reduced quota in the last few years, and we hope that this committee will see fit to increase the Irish quota either to the full 25,000 tons which will be available for export, or to a larger figure than the House quota which would retain the 5,000 tons that Ireland has had for the last few years.

I ask, Mr. Chairman, that the full statement which I filed with the committee be incorporated in the record. I need only add that Ireland and the United States have always been on the friendliest of terms, that Ireland buys more from the United States than it sells to the United States, and that as to expropriation, which is occasionally mentioned before this committee, not only does Ireland not expropriate private property, but, indeed, there is a provision in the Irish Constitution which forbids the expropriation of private property.

We hope that the committee will see fit to recommend a larger quota for Irish sugar.

Thank you, Mr. Chairman.

The CHAIRMAN. Any questions, gentlemen?

Thank you very much.

Senator FANNIN. Mr. Chairman, you state that you have the excesses of imports over exports but I notice on your chart on page 9 that last year, 1970, was the lowest excess that you have had, you dropped from 14.4 to 4.2 million pounds I guess it is, but you consistently, well not consistently, you have varied quite a bit over the years, but this is the lowest that you have had.

Is there an explanation on that?

Mr. BRONZ. I am sorry Senator.

Senator FANNIN. On page 9.

Mr. BRONZ. Of my statement?

Senator FANNIN. On page 9 of your statement.

Mr. BRONZ. That is overall trade between Ireland and the United States.

Senator FANNIN. Yes; I realize that. But you said that you had consistently run an excess of imports over exports from the United States, and that is true in accordance with your own statement but there is quite a drop, 1969 to 1970, and this, 1970 happens to be the lowest import excess that you show in your chart from 1962. I am just wondering if there is an explanation to that change.

Mr. BRONZ. Senator, there may very well be. I am afraid I am not thoroughly familiar with the overall trade figures. I do note from this table that 1970 was not very much different from 1968 or 1963. The trade figures have gone back and forth. The import excess in 1970 is slightly lower than even those 2 years.

Senator FANNIN. It is the lowest of all the years you show.

Mr. BRONZ. I would be happy to submit a statement.

Senator FANNIN. I would appreciate very much if you could supply the information. I was just wondering if you had changed your purchasing to any great extent to any of the other nations of the world.

Mr. BRONZ. I will be happy to supply a statement, Senator.

Senator FANNIN. Thank you very much.

(Material supplied by the witness follows:)

STATEMENT ON THE IRISH TRADE BALANCE WITH THE UNITED STATES; SUBMITTED BY GEORGE BRONZ IN RESPONSE TO QUESTION BY SENATOR FANNIN

Senator Fannin, referring to the last table appended to my prepared statement, asked for an explanation of the sharp decline in the excess of Irish imports from the United States over exports to the United States between 1969 and 1970. Reference to published Irish trade statistics show that, in 1969, Ireland imported aircraft and parts from the United States valued at £15,896,000. In 1970, total Irish imports of aircraft and parts from all supplying countries aggregated £8,891,000, but the figure on imports of this category from the United States is not readily available. It is apparent that the decline in imports of this item from the United States must have amounted to at least £9,000,000 between 1969 and 1970. If we exclude the unusually high import figure for aircraft and parts in 1969 (which might have reflected the purchase of a single jet aircraft), the trade figures shown in the table referred to indicate a steady increase in Irish purchases from the United States.

Senator MILLER. I would like to ask you about page 3 of your testimony where you point out that under the procedures now applicable it was necessary to make an advance deposit because of an import fee of approximately \$120,000. This sum was never recovered and remains in the U.S. Treasury.

Mr. BRONZ. Yes, sir.

Senator MILLER. Is this merely a recital of facts or is there some contention that this was improper.

Mr. BRONZ. Well, the Irish Sugar Co. felt at the time that there was a situation of force majeure which justified the failure to supply the sugar, but we are not making any contention now before this committee as to the \$120,000. We simply want to offer this as an explanation of why the sugar quota was cut in 1965, and to express the hope that the quota will be increased this year, in this legislation.

Senator MILLER. Was that \$120,000 being contested.

Mr. BRONZ. I think an application was made at the time. I was not involved with it, but an application was made for a refund of the money on the ground that the difficulties arose from causes beyond the control of the Irish suppliers. I believe that the Department of Agriculture did not agree, and did not grant the application.

Senator MILLER. Thank you.

The CHAIRMAN. Thank you very much, sir.

(Mr. Bronz' prepared statement follows:)

UNITED STATES SENATE  
COMMITTEE ON FINANCE

Statement on behalf of the

IRISH SUGAR COMPANY

on H.R. 8866, Sugar Act Amendments of 1971

My name is George Bronz. I am an attorney practicing in Washington, D.C. I appear on behalf of the Irish Sugar Company to urge that the pending sugar legislation make provision for an enlarged quota for Irish sugar.

Sugar beets are grown in Ireland by some 20,000 farmers, approximately the same number as produce sugar beets in the United States. However, sugar production in Ireland is on a much smaller scale. The average planting is 3 1/2 acres. These plantings are carried out in a crop rotation scheme, so that sugar beets are normally grown on a particular plot of land only once in four years. Sugar beets, thus, give the farmer an additional cash crop, while enriching the soil for the grains planted in the intervening years. In addition, many of the farmers are employed to man the factories which process the beets, an arrangement which supplements their income in the winter season, when their work in the fields is over. This type of agriculture, with complementary factory employment, is considered highly desirable, and is encouraged by the Irish Government. A good picture of the significance of sugar culture to the small Irish farmer is given by an article, written by a farmer, which appeared in the Irish Sugar Company's monthly magazine about two years ago. A copy of this article is appended to this statement.

Ireland's sugar economy is managed by the Irish Sugar Company, a corporation whose ordinary voting shares of stock are all held by the government. The company allocates acreage to individual farmers, by contract, for processing of the harvested beets in the company's factories. The company markets the sugar thus produced both at home and abroad. Part of the capital of the company was supplied by the sale of preference shares and debentures to private investors. The company has operated successfully, paying fixed returns to private investors, and dividends on the ordinary shares to the government. More important, it provides 20,000 Irish farmers with expanded agricultural opportunities and many of them with supplemental winter employment.

Sugar beet culture in Ireland dates back many decades. In the last four years, there has been a remarkable improvement in

sugar beet yields as a result of better cultivation, better farm management and the use of improved seeds and fertilizer. Ireland is indebted to a number of American scientists who contributed to this development. It may be of particular interest to this Committee that the seed used in Ireland today for sugar beets is grown in Oregon, under arrangements made by the Irish Sugar Company. These superior seeds have been a major factor in the increase of more than 40 per cent in sugar yield per acre in the past four years, compared with the yield in the earlier years of the 1960's. For the current year, with increased acreage allotments, a record crop is expected.

The statistics usually published on sugar production and trade show Ireland to be a net importer of sugar. These figures are deceptive. They record only trade movements of sugar as such. They do not record the sugar which moves in international trade in the form of manufactured products. Ireland is a major producer and exporter of a variety of food products containing sugar, and its exports of such products have been very substantial factors in Irish export trade. Certainly in the most recent years, Ireland is plainly a substantial net exporter of sugar, taking account of its direct shipments of sugar as well as of the sugar content of food products exports. A table appended to this statement gives the statistical details.

The Irish Sugar Company has made purchases of cheap raw sugar in world markets, primarily to permit Ireland's manufacturing industries using sugar to remain competitive in world markets. I call the Committee's attention to the fact that our own Sugar Act, in Section 211, a provision retained in H.R. 8866, gives similar recognition to the need of manufacturing industry to have cheap sugar for its export products. Imports under bond for use in manufacturing for export are exempted from the quota provisions of the Sugar Act, just as the drawback provisions of the Customs law exempt them substantially from Customs duty. American exports of quota-free and substantially duty-free sugar as constituents of manufactured food, beverage and confectionery products are considerably larger than those of Ireland. Appended hereto is a statement showing the magnitude of U.S. exports of such sugar, as well as testimony by a spokesman for the American sugar industry to their importance. Exports of food and confectionery products containing sugar are important components of Ireland's export trade, and Ireland cannot afford to require these commodities to move into international trade at a competitive disadvantage.

Ireland was first permitted to ship sugar to the United States in 1962, and an Irish quota has been in effect since

that time. The quota, originally 10,000 tons per year, was reduced in 1965 to the current quota figure of 5,351 tons per year, as a result of an unfortunate event which occurred in 1964. In that year, shipments were delayed, but the entire quota was scheduled to go forward late in the year for arrival in the United States before the end of 1964. Unfortunately, a shipping strike developed in December, with the result that it was simply impossible to move the quota tonnage before the quota expired at the end of the calendar year. Under the procedure then applicable, it was necessary to make an advance deposit of an import fee imposed under the 1962 Sugar Act. Approximately \$120,000 provided by the Irish Sugar Company was so deposited to cover sugar which never arrived in the United States; this sum was never recovered, and remains in the United States Treasury. In the enactment of the 1965 Sugar Act, Ireland was penalized for not filling its 1964 quota, and the quota was reduced to its present figure of 5,351 tons.

Ireland, for many years, has produced all the sugar its people use, with a surplus which is exported. This year, 75,000 acres are being planted in sugar beets. On the basis of the average yield of the past three years, the crop is expected to produce 165,000 tons of sugar. Domestic consumption in Ireland will take 130,000 tons of this crop, leaving 35,000 tons available for export. Of this quantity, 10,500 tons will be sold in Northern Ireland under a fixed quota. The remaining 25,000 tons will be available for export. Apart from sales to Northern Ireland, Ireland has sold sugar, as such, only to the United States. Ireland has never joined in the scramble of selling sugar at the disastrous world market prices which have prevailed for many years.

The present Irish quota, unchanged in H.R. 8866, is the smallest assigned to any foreign country. Ireland expects to have 25,000 tons available for export to the United States this year, with every expectation that a stable export surplus of this magnitude can be provided regularly in future years. It is hoped that this Committee would recommend an increased quota for Ireland to permit the shipment of all, or a greater part of, the available 25,000 tons.

It is hardly necessary to say that relations between Ireland and the United States have always been warm and friendly. Ireland welcomes Americans as visitors, as traders and as investors. The question of compensation in cases of expropriation simply does not arise, because Ireland simply does not expropriate. The Irish Constitution forbids the expropriation of private property.

The trade balance between the United States and Ireland given in official Irish statistics shows a consistently favorable total balance in favor of the United States, with Ireland showing, in recent years, a favorable balance in agricultural trade. A table summarizing reciprocal trade between the two countries from 1962 through 1970 is appended to this statement. All of this trade is on commercial terms; no aid is being extended to Ireland. It should be noted that Ireland's principal agricultural exports, meat, dairy products, confectionery and sugar are all subject to quota in the United States. The principal American agricultural exports to Ireland have been tobacco and animal feeds. An expanded sugar quota would provide Ireland with the wherewithal to buy more American products.

June 21, 1971

[George Bronz is registered as an agent of the Irish Sugar Company, Ltd., a foreign principal, under the Foreign Agents Registration Act.]

# Beet In Farm Economy

## Farmer's View

J. Cronin

PRIOR to the introduction of beet growing on a wide scale by the erection of three factories at Mallow, Thurles and Tuam, in addition to the one already in existence in Carlow, the economy of the tillage farmer was very lopsided. Whilst a rather uncertain market existed for grain crops, a market for root crops was practically non-existent. It was to remedy this situation that the then Government decided to extend beet growing by setting up additional factories and to form the Irish Sugar Company with the Minister for Finance holding 51% of the share capital. To say that this step revolutionised tillage farming in Ireland would be an understatement.

Where previously one saw whole tracts of countryside completely gone over to grass through want of a proper market for tillage crops, there appeared acre after acre of beet, followed by vigorous crops of wheat, oats or barley.

In a short time it came to be recognised that not alone was beet a remunerative and guaranteed cash crop, but it had a cleaning and life giving effect on the rotation. Also the by-products such as tops, pulp and molasses were a valuable cattle feed and enriched and supplemented winter rations. Factory or sludge lime has also become very popular with farmers. This latter by-product has worked wonders in tillage fields and has proved invaluable in meadow and grazing land.

Whilst the shortage of labour on the land has created some problems, especially as regards the singling of the crop, this has been largely mitigated by the migratory labour scheme, initiated and operated by the Beet Growers' Association. Under this scheme groups of men travel from the West each year to help local labour to single the crop. The advent of monogerm seed, assisted by a most effective weed-killing spray has, and will to a greater extent in the future, done away with the problem of thinning.

A highly skilled and most efficient agricultural advisory service has been built around the beet industry and a research and development centre is in operation in Carlow, which is second to none in any part of the world. Much of the fruits of the work of the advisory service and of the labour of the centre has been passed on to the farmer and he has benefited thereby, not alone as regards beet growing but in every sphere of agricultural activity.

Many of the smaller farmers find lucrative employment in the factories during the campaign period which is normally a slack time in their own holdings. The money thus earned has enabled many a small-holder to pay his outgoings, rent, rates, etc., and provide him with some much-needed capital to improve his farm.

It is being stated in some quarters at the moment that

beet growing is no longer an economic proposition having regard to the world price of sugar. It is pointed out that imported sugar could be made available to the consumer at a much cheaper rate than the home-produced article. To my mind this is unsound reasoning. The older generation will tell of the difficulty and I might say impossibility of obtaining adequate supplies of sugar during the 1914-18 war and of the inferior quality of the substitutes that had to be put up with. The same situation would have obtained and to a greater degree during the second world war upheaval, 1939-45, but for the introduction of beet growing in the meantime. Though the factories operated under difficulties during this period, and rationing had to be introduced to ensure equitable distribution of supplies, no real hardship was felt. As an encouragement to growers to keep in production, an allocation of 4 stones of sugar was made to each grower, based on the first four tons of beet produced.

The vast amount of money put in circulation through the operation of the beet industry, both directly and indirectly, has been of immense benefit to the farming community and the country as a whole. Finally it can be said without fear of contradiction that the measure of prosperity which the agricultural industry enjoys today is due in no small measure to the advent of beet growing.



## IRISH SUGAR STATISTICS

<u>Year</u>	<u>Beet Acreage '000 Acres</u>	<u>Sugar Production '000 Tons</u>	<u>Imports of Raw Sugar '000 Tons</u>	<u>Exports of Sugar and Sugar in Goods '000 Tons</u>
1962	78.1	124.5	50.5	20.6
1963	88.3	131.4	43	48.4
1964	78.5	128	45	35.9
1965	65.5	106	37	39.4
1966	52.7	101	93	50.8
1967	63.2	131.6	90	52.3
1968	63.6	146.7	50	51.8
1969	61.2	135.7	33.4	47.3
1970	65.5	138	30	52.6 (1)
1971 (Est.)	75	165 (2)	11	52

(1) Exports of sugar as such amounted to about 15,600 tons.

(2) Production estimate for 1971 based on the average beet yield and sugar content obtained in the period 1968-70.



"The value of 113,000,000 pounds of refined sugar in 1967 was approximately \$10 million. According to a U.S. Department of Agriculture study made in 1964, the sugar content in the three leading exported sugar-containing products was: canned peaches, 13%; canned fruit cocktail, 13%; and canned pineapple, 9%. In some other sugar-containing exports, the sugar content goes as low as 5%. To be on the conservative side, we have assumed an average sugar content of 10%. Thus, if the value of the sugar ingredient is \$10 million, the total aggregate value of the products involved would be \$100 million. . . .

"We attach a table showing items exported by the U.S. canning industry in 1968 on which drawback for the sugar content may be claimed. The total value of these exports alone is \$59,160,556. Taking into consideration the overseas sales of the baking, bottling, confectionary and other sugar-using industries, we believe the \$100 million figure is "within-the-ballpark"-- and reiterate our conviction that drawback on sugar is an important factor in promoting the export trade of the United States.

"On page 26 the Report indicates that the drawback is incidental to the saving afforded by exemption from quota. This is misleading. Competing foreign manufacturers of food products also can buy sugar at the world market price, and therefore, American industry has no advantage over its foreign competitors in this respect. If drawback were not available American manufacturers would have the burden of a substantial customs duty on sugar. This would be a severe handicap, and would force them to increase their bids on export business, thereby losing many potential sales. Already they are at a disadvantage in some cases as they must compete with foreign manufacturers receiving a bounty on the export of sugar-containing products."

## IRISH - UNITED STATES TRADE

£ Million

<u>Year</u>	<u>Total Irish Imp. from U.S.</u>	<u>Total Irish Exp. to U.S.</u>	<u>Import Excess</u>	<u>Irish Agri. Imp. from U.S.</u>	<u>Irish Agri. Exp. to U.S.</u>
1962	20.9	14.0	6.9	6.1	10.6
1963	18.5	13.9	4.6	4.5	10.4
1964	26.8	9.9	16.9	7.0	3.2
1965	29.8	8.7	20.1	10.4	2.8
1966	34.5	16.9	17.6	10.9	8.3
1967	31.6	25.9	5.7	7.2	14.4
1968	36.6	31.9	4.7	7.3	14.6
1969	52.5	38.1	14.4	6.3	17.8
1970	45.7	41.5	4.2	6.6	18.4

The CHAIRMAN. Now the next witness is Mr. Edward L. Merrigan in behalf of the Sugar Industry of Venezuela.

**STATEMENT OF EDWARD L. MERRIGAN, SUGAR INDUSTRY OF VENEZUELA; ACCOMPANIED BY DR. MARCEL CARVALLO, GENERAL MANAGER, VENEZUELAN SUGAR DISTRIBUTING ASSOCIATION**

Mr. MERRIGAN. Thank you, Mr. Chairman. Mr. Chairman, my name is Edward L. Merrigan and I appear here today on behalf of the sugar industry of Venezuela. I am accompanied by Dr. Marcel Carvallo, general manager of the Venezuelan Sugar Distributing Association. Dr. Carvallo is a graduate of Penn State University, he has managed the Venezuelan Sugar Association since 1956; and he is recognized as an outstanding authority in the sugar industry. With your permission he will assist me in answering any questions regarding Venezuela and its sugar industry which the committee might wish to ask.

Briefly, Mr. Chairman, Venezuelas quota under the 1965 House bill is among the smallest in Latin America. Under the House bill, Venezuela's quota of 36,000 tons is only 7 percent of the quotas assigned to Mexico, Brazil, and the Dominican Republic, 9 percent of the quota assigned to Peru, less than 50 percent of the quotas assigned to Argentina and Ecuador; 50 percent of the quota assigned to Colombia, its next door neighbor, and 60 percent of the quota assigned to countries such as Costa Rica, Nicaragua, and Panama. This quota assignment is truly inequitable in light of the following facts: Under the heading "Trade with the United States and Balance of Payments," Mr. Chairman, during the period from 1963 through 1969 Venezuela has been first in Latin America in the purchase of agricultural products from the United States, and I really would appreciate the committee looking at the charts on pages 19 and 20 of our statement which show this in great detail. Its total agricultural purchases from us during that period have totaled \$561 million and, of course, that does not include any Public Law 480 sales or any AID.

By way of comparison during the same period Brazil has bought only \$121 million, Peru \$124 million, Ecuador \$48 million, Argentina \$34 million.

During that same period 1963 through 1969 Venezuela was second only to Mexico in the purchase of all types of products from the United States. Its total purchases from us during that period have amounted to \$4.3 billion. By way of comparison during the same period Brazil has had, has purchased \$3.5 billion, Peru \$1.6 billion, Ecuador \$590 million, Costa Rica \$450 million and, Nicaragua \$431 million. Again, all of these figures, Mr. Chairman, are found in the charts at pages 19 and 20 of our statement.

Simultaneously Venezuela has served as this country's principal and most dependable foreign source of oil supply and of course in times of national emergency its supplies have been vital to us and to our allies.

The U.S. private investments in Venezuela have grown in recent years from \$1.7 billion to \$3 billion, that is over the last 15 years; and from 1959 through 1969 U.S. firms have repatriated profits on

investments totaling \$5.3 million from Venezuela; and in this connection, I direct the committee's attention to appendixes E-1 and E-2 which is the balance-of-payments chart between Venezuela and the United States that shows how these repatriated profits, principally by the oil companies, and services in Venezuela by United States companies have left Venezuela a balance-of-payments deficit over the past 10 years with the United States of approximately \$2 billion.

Regarding labor conditions and profit sharing in Venezuela, Mr. Chairman, and this is in response to the committee's request for comments on that subject, it is remarkable that the sugar industry in Venezuela employs roughly three times more employees than the oil industry and therefore the sugar industry is the largest employer in Venezuela.

The average per capita income in Venezuela is first in Latin America. The wages paid by the sugar industry in Venezuela are among the highest in Latin America. Field workers earn \$1,800 per year on the average, while millworkers on the average earn \$2,500 per year.

The industry's collective bargaining contract was adopted by the Organization of American States as a "model for Latin America." It provides fringe benefits—40 percent of base salary; night and overtime pay; paid vacations, et cetera.

(e) The industry has carried out a housing program where practically every worker in the industry can buy his own home.

Venezuela has filled all of its quota obligations under the Sugar Act without fault or failure. It has had no deficits whatever. Its existing mill capacity, which is shown in the charts on pages 14 and 17 of our prepared statement, shows that they have been meeting a constantly increased local consumption of sugar while meeting all of their exports to the United States and can meet the quota which they ask this committee to provide, plus maintaining a sugar reserve of 67,000 tons a year.

At the present time a new \$23 million mill is under construction and pretty soon, by 1975, Venezuela's sugar production capacity will be 1 million tons.

It is remarkable too, Mr. Chairman, just briefly to note that Venezuela's mill prices for sugar in the U.S. are less here than they are in the domestic market, that is at home in Venezuela.

Venezuela has no other preferential market. It sells all of its sugar to its local consumers and to the United States. Any surplus has to be sold on the world market, as Venezuela has been doing during recent years.

Regarding the government of Venezuela and its attitude toward the United States, the Venezuelan government, of course, is a democracy modeled after the U.S. Federal Government. Friendly relations between the two countries go back to 1824. President Caldera of course, addressed a joint session of our Congress in 1970.

Venezuela has not expropriated U.S. property although I think one of the Senators did refer to a press story which appeared in one of the Washington newspapers last Friday, which I hope to be able to explain in answer to any questions which may be put by the committee.

And, of course, Venezuela has supported United States in times of war and national emergency not only, with its oil deliveries but in declarations of war and so forth.

Venezuela's legislative proposal, Mr. Chairman, is of course to extend the Sugar Act and to give Venezuela a quota, going back to page 1 of my summary, which would put Venezuela in a position of parity with its Latin American neighbors, Brazil, Peru, Ecuador, Argentina, and Colombia. In other words this nation, being first in the purchase of agricultural products by many millions and millions of dollars, being first in the purchase of all products and trade with the United States by billions of dollars, asks that instead of being down at the bottom of the totem pole that it be placed on a parity with its neighbors, Peru, Brazil, really Colombia, Ecuador, and these other countries in Latin America.

Thank you very much, Mr. Chairman.

If I could, ask for permission, Mr. Chairman, that our prepared statement be printed in its entirety in the record, and I would like very much to file at this time, Mr. Chairman, with the committee, as a supplement to our statement, a letter dated June 18, 1971, from the American Chamber of Commerce in Venezuela (which consists of all of the various American companies doing business there) which urge this committee to grant Venezuela the quota relief it seeks before this committee.\*

Thank you, Mr. Chairman.

The CHAIRMAN. I was somewhat surprised to find that notwithstanding Venezuela's large shipments of oil to this country that Venezuela still has a big deficit in its balances of payments with this country. I take it that is because American firms are making a large amount of money selling oil not only here but selling it around the world and they are repatriating a great deal of those profits. Is that why the oil does not give Venezuela a favorable balance of payments with us?

Mr. MERRIGAN. Yes, Mr. Chairman. That is true, and if the committee would direct its attention to appendix E of this statement which is the foldout chart, you will see that while Venezuela sells about \$1 billion worth of exports, mostly to this country in the form of oil, and while it imports about \$700 million worth of goods from this country (it will increase to about \$800 million this year), that it suffers a balance-of-payments deficit on those trade transactions because you go then to the service accounts, and the U.S. firms take out in insurance and freight and other services and profits on investments about \$600 million a year. So that in profits alone the American companies are taking out about a half billion dollars in profits from Venezuela. I think that fact, and that chart, explains the problem with which Venezuela is trying to come to grips with the oil companies now, and which was the matter that I think Senator Hansen referred to a few minutes ago in this story that was in the Washington papers last Friday.

The CHAIRMAN. They apparently have a favorable balance of payments with Europe, do they not; in other words, the oil sales into Europe probably help to offset the unfavorable balance with the United States.

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\*See p. 418.

Mr. MERRIGAN. I am told that is correct, Mr. Chairman, although I must confess I didn't have that figure at my fingertips or that information at my fingertips.

The CHAIRMAN. Well, that on balance Venezuela is running a favorable or unfavorable balance of payments against all the world, how does it work out when you have all of the countries who are trading with it?

Mr. MERRIGAN. It is favorable to Venezuela with the world, Mr. Chairman. But it is unfavorable with the United States.

The CHAIRMAN. By how much is it favorable so far as the world is concerned?

Mr. MERRIGAN. I will be very glad to supply that, Mr. Chairman, if we do not have it here.

(The witness subsequently supplied the following information:)

Venezuela's overall balance of payments with the world as a whole ranges in excess of about \$200 million a year, perhaps more, but again, after services accounts are taken into consideration, that figure changes.

Senator FANNIN. Mr. Chairman, did they have a unfavorable balance of trade in 1969?

Mr. MERRIGAN. In 1969 was the first year they have had a favorable balance of payments.

Senator FANNIN. Yes, favorable balance of payments; yes, \$91 million.

Mr. MERRIGAN. That is correct. In every other year going back to 1959, Senator Fannin, they have had an unfavorable balance of approximately a quarter of a billion, about \$200 million.

Senator FANNIN. I apologize but I did notice they had a favorable balance and that was brought about on your short-term capital, quite a change there from 1968 to 1969.

Mr. MERRIGAN. That is correct, Senator Fannin.

Senator FANNIN. That was the great variation.

Mr. MERRIGAN. That is correct. Of course, Senator, just further on this particular point, if you will look at appendix F you will notice that Venezuela in 1969 and 1970 has been borrowing a substantial amount of money from American banks here for their public works projects in that country, and I must confess that I am not a total expert on balance of payments. It is one of the most confusing subjects that you can get into but I do think that the chart will show in fine detail just how their adverse balance of payments has developed over the last 10-year period.

The CHAIRMAN. Well, import statistics are set up on a f.o.b. basis, and it would seem to me that—particularly in view of the fact that those imports are probably coming in somebody else's bottom they could very well be set up on a c.i.f. basis. If that were so that would give a larger minus figure than you have.

Are most of those imports coming in Venezuelan ships or in ships owned and manned by someone else?

Mr. MERRIGAN. In my own experience, I think it is by ships owned by someone else. Venezuela has a very, very small merchant marine.

The CHAIRMAN. Thank you.

Any further questions?



Senator MILLER. Maybe you have got this covered elsewhere in your statement but when we look at these percentage ratios within a country, and then we look at what the House has done, and the House has cut some of the quotas for these other countries, the question arises as to how did this all start. In other words, the House actually cut the quotas in some of these countries, but the small percentage ratio between Venezuela shipments to the United States and some of these other countries must have started several years ago. How did it happen that they got off to such a low base originally? Is there anything in the history of this that can account for it?

Mr. MERRIGAN. Well, of course, Senator Miller, Venezuela in the 1950's was a sugar-importing nation, it was not a sugar-exporting nation; in other words, it had to import sugar to meet its own domestic needs. Then, of course, in an effort to become just not a one-commodity country, they have tried to diversify and they have put an awful lot of investment into the sugar industry since the 1950's in order to build that industry up.

When the 1965 act was before this committee, this committee, by and large, used one criterion basically to set its quotas and that was the historical base of 1963-64, with the result that Venezuela, which then did not have a quota under the Sugar Act, was given a very small quota. In fact, the House committee in 1965 gave them a quota of 31,000 tons. Then this committee, using that historical base, gave them a quota of only 2,000 tons. We are talking about base quotas now, and then when it got into conference they got a basic quota of 10,500 tons. Now had they retained the quota the House committee gave them on performance, on trade, and on their position with the United States, over the past 7 years they would have been shipping here roughly equivalent to that which Ecuador and Colombia have been shipping here. But, because of the Senate committee applying the one criterion, the historical base, they have shipped only about half of what they would have shipped totally. In other words, they have shipped about 180,000 tons less than they would have under the 1965 House quota.

Senator MILLER. Thank you.

Mr. MERRIGAN. Thank you, Senator Miller.

The CHAIRMAN. Thank you very much.

Senator Hansen.

Senator HANSEN. I do have some questions.

Mr. Merrigan, I did indeed make mention sometime ago about my desire to insert in the record a couple of stories, one from the Evening Star of June 18, 1971,\* one from the New York Times, the same date.\*\* I have a further insertion, if I may, I would like to ask unanimous consent that it may be made a part of the record, Mr. Chairman.

The CHAIRMAN. Agreed to.

Senator HANSEN. Of the Oil Daily as of today, Monday, June 21,\*\*\* may I read just a little bit of that in order that Mr. Merrigan may be familiar with the article:

The law now only grants the state the right to take over the equipment, installations and machinery of the oil companies directly used for exploring, exploiting and producing oil and its byproducts.

\*See p. 414.

\*\*See p. 412.

\*\*\*See p. 415.

But, in its fifth clause, the law specifies the state has the right to control and inspect the present installations and obtain all necessary information about such installations.

This clause ensures the companies do not sell or ship their equipment out of the country before the end of their concession period. It also gives the Mines Ministry the power to compile an inventory on current installations which must be handed over by 1983, sources said.

That same story begins with these two statements :

A new law passed by Venezuela's Chamber of Deputies would give Venezuela the tool to nationalize most of the oil reserve concessions held by foreign companies here within the next 36 months.

A clause with a 3-year exploitation limit was included at the last moment, shortly before passage by the Chamber.

As passed by the Chamber of Deputies, the law grants the right to the state to nationalize and reallocate, without payment, those concession areas unexploited by the companies within the next three years.

My question is that we have been considering the so-called energy crisis in this country, and as a person who is familiar with the people of Venezuela, on the basis of this story here, does it seem to you that it would be the prudent role for the United States to place implicit confidence and dependence upon Venezuela that those supplies of energy which have been coming here, which I think have redounded to the benefit of Venezuela could be depended upon no matter what came about ?

Mr. MERRIGAN. I think, Senator Hansen, in answer to that question, first of all, we have to take the situation in proper perspective. These stories have to do with the termination of oil concessions. In other words oil concessions are, as you know, like leases. In other words, in Venezuela all of the oil, gas, all of the minerals, historically have been owned by the Government, and in 1983, 1984, some 15, 16 years from now, let's start over on that, 12 or 13 years from now these concessions will be expiring, and under the terms of those concessions, as they were granted, when the concessions are at an end they will either be renewed or they won't be renewed and if they are not renewed, under the terms of those agreements or those concessions, any equipment, any oil drilling equipment, and so forth, which has been but on the property then becomes the property of the Venezuelan Government.

Venezuela has had its own oil company for some years now going back now into the 1950's, I believe it is, and has been a rather dependable supplier of oil, fuel oil, to the east coast of the United States during that period. I think what we are dealing with here, and what makes this such a troublesome thing, and it is a troublesome thing with what I believe is one of our best friends in Latin America now, Venezuela—

Senator HANSEN. You represent that friend, do you ?

Mr. MERRIGAN. Yes, I represent that friend here and, of course, I am registered to represent Venezuela here. But what I am trying to say to you, Senator Hansen, is this, that that country, on the basis of its trade with the United States which I have referred to, that country on the basis of its dependable oil supplies to the United States, and to our allies over all of the wars during recent years, is now in the grips of trying to determine what is best for itself. I think that is the way we have to look at it, and the oil companies have had these concessions for 40 years, and they have made investments in that country on which they have taken out billions of dollars of profits, and Venezuela is now at the point where it is trying to say :

Are we going to renew the concessions in 1983 or aren't we going to renew them? If we are not going to renew them with your company we will then have the right to renew them with some other company.

Just recently, while all of this was going on in the Congress of Venezuela, Occidental Oil Co. has signed new prospecting concessions with Venezuela. In other words, this new law does not mean there won't be private American companies doing this prospecting or doing their oil business there. The question is which one and which company is going to give Venezuela the better deal. I think that is what they are getting to; and I think, relating all this to the sugar program, when you are dealing with a good friend such as this country has been, when it buys first in agricultural products from the United States by millions of dollars over, and it is at the bottom of the list, I think we promote a bad atmosphere and I think we have promoted it in the Sugar Act; and I suggest it has been promoted in the oil business by the American companies' repatriating of huge profits from there and not reinvesting them there.

Senator HANSEN. I might point out, Mr. Chairman, that this last year—I presume it would be 1970, but I am not certain about that—Venezuela profited to the extent of \$1.7 billion, and I think you said, Mr. Merrigan, that you thought what Venezuela would do what it considered in the best interests of that country. With that I completely agree, and I think that that point needs underscoring. Mexico expropriated a number of oil properties that belonged to the United States some years ago and we know now if we were trying to depend upon that country for oil supplies we would be whistling Dixie because we don't get much oil from down there.

I just say and conclude, Mr. Chairman, with this observation, I think we are skating on pretty thin ice any time we think we can depend upon any foreign country without any equivocation or reservation whatsoever as being able and willing and determined to supply first of all the needs of this country, and that is the point I wanted to make. I take it, it seems to me, that some of the things that are happening in Venezuela are not unlike some of the things that happened as reported in the Evening Star.

The measure provides that when the 40-year concessions end in 1983-84, all equipment, installations, and even intangibles such as technical data used to exploit concessions go to the state without compensation.

Mr. MERRIGAN. Well, Senator Hansen, may I just answer for the record very briefly that the profits to Venezuela have not been \$1.7 billion. The article itself says that the companies have had a larger share of profits, which rose from \$54,000 in 1917 to \$1.7 billion this year.

Senator HANSEN. You are right; I misread that.

Mr. MERRIGAN. Yes. So these are the profits of the oil companies we are talking about not the profits of Venezuela.

The second thing about it is that of course, I can't possibly get into an argument whether it is better for the United States to rely on domestic oil supplies than foreign. Certainly I think, with the chairman from Louisiana, I certainly would be foolish to argue that we should go foreign when we can get our oil domestically. The point is where do we get oil when we need it and when we can't get it domes-

tically such as in time of war, which has been the case, and in those adverse times, Venezuela has been a dependable source of supply. I think the problem the Evening Star addresses itself to, or the problem that the New York Times addresses itself to can be solved between now and 1983 if we continue to work with Venezuela. But if you take Venezuela and cut Venezuela off or leave it the very low sugar quota position it presently has, you lessen its potentiality as a dependable supply of oil for the United States.

You take the Mideast, which is the other big oil supply source, when the Arabs and Israelis are at war, it is not a dependable source of oil supply. In times of submarine warfare or other types of warfare, it has not been, but we have been getting our oil from Venezuela when we have needed it and I think it will continue in the future. I don't think there is any intention on the part of the Venezuelan Government to make any sharp turns left or to depart from its relations with the United States. This is an internal struggle between the oil companies and the Venezuelan Government, and I would think that by 1983, when the problem really is going to arise, that hopefully that it will have been settled by that time.

Senator HANSEN. Mr. Chairman, Mr. Merrigan is able to predict the future and political course of Venezuela far better than I, I would not dare predict what might happen. I hope we will not leave unnoted the actions of that country and the implications that I think it calls to our attention as we try to chart a course which will guarantee the security of our country. Thank you.

(Articles referred to follow:)

[From the New York Times, June 18, 1971]

#### VENEZUELA NEARING TAKE-OVER OF OIL OPERATIONS

(By H. J. Maidenberg)

CARCAS, Venezuela, June 17—The Venezuelan Congress, in an unusual display of unity, is rushing legislation that would place all foreign petroleum companies under effective Government control. And when the present concessions expire, starting in 1983, they would revert to the state without compensation to the companies.

The Hydrocarbons Reversion Law, as the measure is termed, is expected to be approved by Congress and signed by President Rafael Caldera in a few days. The bill is not contested by any important political group in Venezuela.

Under the terms of the proposed legislation the operation of foreign oil companies will be under the direction and review of the Government until the concessions expire. For example, the state would have the right to tell the companies where and when to drill to replenish existing reserves.

The foreign oil concerns would be required to place money in a fund created by the Venezuelan central bank to guarantee that the properties would be maintained in perfect condition up to the day they revert to the state. It is estimated that this could cost the companies \$500-million to \$1-billion, at today's prices, between now and 1983. The monies placed in the special fund would not be deductible from Venezuelan income taxes.

Another important clause in the legislation would consider all properties related to oil production, such as office buildings and even employe bowling alleys, to be part of the concession—not just the actual oil fields. This could affect the flow of dividends and other funds normally repatriated by foreign concerns to their home countries.

Intensive efforts by the petroleum industry to soften the law are being hobbled in large part by Washington's apparent disinterest in the fate of the largest single United States investment in Latin America, according to frustrated foreign oil men interviewed here today.

While no value can be placed on Venezuelan petroleum below ground, the replacement value of the wells, pipelines, refineries and other properties is estimated between \$5-billion and \$10-billion. Overall, the United States direct investment in Latin America is estimated at roughly \$13-billion.

Venezuela is one of the world's leading petroleum exporters. About 60 per cent of the 3.7 million barrels pumped each 24 hours is shipped to the northeastern United States. Petroleum also represents 90 per cent of Venezuela's foreign-exchange earnings each year, and it has given this country of 10 million people the highest standard of living in Latin America.

After tax increases earlier this year, the Venezuelan Government receives roughly 80 per cent of the oil industry's income.

Almost all major United States and European oil producers have operations here. The largest producer is the Creole Petroleum Corporation, a subsidiary of the Standard Oil Company (New Jersey). Creole accounts for about 45 per cent of total Venezuelan production.

Passage of the Hydrocarbons Reversion Law, moreover, is expected to pave the way for other pending legislation concerning foreign investments here. These range from cornflakes factories to automobile plants and are valued further at several billion dollars.

Most foreign oil concerns had long expected to lose their properties after the 40-year concessions end, starting in 1983. "That is what we agreed to, and that is what we expected," one oil executive said today. "What we did not expect was to be placed in a position of becoming janitors of our own companies until the concessions expire."

#### "A LOYAL SUPPLIER"

"We understand the Venezuelan position. They have been a loyal supplier of petroleum in war and peace and have traditionally been a good host to foreign investors, particularly those from the United States.

"What the Venezuelans, in their present anger at Washington, don't seem to understand, however, is that Washington's attitude of indifference to them is not unique. It is part of their studied indifference to all Latin America nowadays. We get the same treatment up there and often wonder if the policy makers, assuming there is a policy, know where Latin America is."

As for the Venezuelans, President Caldera told his countrymen in a television broadcast last week: "We are tired of trying to seek a fair share of the United States market for our oil. Considering the shortage of energy in North America, they need us more than we need them."

#### RUNAWAY CONGRESS

Venezuela's President, who is head of the moderate Christian Democratic party, faces a runaway Congress that he does not control.

In any event, the legislation was introduced on March 29 by leftist congressmen outwardly to define the process by which the concessions were to revert to the state in 1983. At the time it was not considered unusual because almost all previous governments had said that the concessions would not be renewed.

Consequently, President Caldera announced he would support the measure. So did almost all other important political figures. The political leaders thought it would also serve to remind Washington of Venezuela's discontent over United States oil import quotas.

Once the political support was obtained, however, a flood of clauses and amendments were inserted and added to the bill by its promoters. The clauses are what is presently considered to be a short step toward outright Government take-over of the foreign oil companies by the industry.

Few oil men here doubt that the measures will pass. The precise day will depend on legal technicalities.

This was confirmed by the secretary general of the Christian Democratic party, Aristiees Beaujon, the other day when he said: "What we are after is to make the law invulnerable to attack and criticism, and therefore we are seeking to clear up some aspects that could fall under the category of dubious legality."

#### ANTI-U.S. FEELING

Although many Venezuelan leaders privately have voiced doubts about the law, the rising tide of nationalism and anti-Washington sentiment throughout Latin America inhibits open opposition.

One Venezuelan businessman said today: "I received a call from the North American Chamber of Commerce a short while ago. While we were talking, a voice came between us and shouted: 'Yankees, go home.'

"That is unfortunately the sentiments that we are hearing more and more these days in Venezuela. It is unfortunate, but Washington shares a lot of the blame for the growth of anti-Yankee feeling here."

Many people in the foreign business community here believe that, if the Hydrocarbons Reversion Law passes in its present form, many foreigners will indeed be going home.

#### COMPANIES REMAIN SILENT

The Standard Oil Company (New Jersey), parent company of Creole; the Asiatic Petroleum Company, representing the Royal Dutch Shell Group in New York; the Mobil Oil Corporation; Texaco, Inc., and the Gulf Oil Corporation all declined yesterday to comment on the situation in Venezuela.

[From the Evening Star, June 18, 1971]

#### FOREIGN OIL FIRMS AWAITING CONFISCATION BY VENEZUELA

CARAOAS (UPI)—The suspense has ended for foreign oil firms with facilities in Venezuela.

For years officials of the firms have wondered where they'd be when their 40-year concessions ended in the 1983-84 period.

Now they know where they'll be—out in the cold.

The way things look now, Venezuela is going to take over all the oil company installations without any compensation to the companies.

A bill along these lines is now under consideration in Congress with chances fair that it will become law by the end of the month.

Nationalization has always been a forbidden word in Venezuela, which owes much of its spectacular growth in oil to the vacuum caused when Mexico nationalized its industry in 1938 and saw it dwindle into relative oblivion.

#### LARGER SHARE GOAL

A larger share of profits, which rose from \$54,000 in 1917 to \$1.7 billion this year, always has been the goal of successive governments, but nationalization was vigorously rejected.

As a matter of fact, the country's oil, as well as other subsoil wealth, has been owned by the state, making nationalization a meaningless term in Venezuela.

Venezuela's role as a tax collector and overseer of the industry, however, did not satisfy many political sectors of the nation, most notably Accion Democratica, the country's grassroots party that began to challenge oil company power here as early as the 1940's, when most of the concessions due to expire were signed.

#### DICTATORSHIP REIGNS

When Accion Democratica came to rule in 1945 through a military coup, it announced no further concessions would be granted.

Three years later, a dictatorship under Gen. Marcos Perez Jimenez took over.

Output doubled in 1955 and again in 1957 when annual production topped a billion barrels. Perez Jimenez granted the nation's last concessions in 1956-57.

When Perez Jimenez was overthrown in 1959 and Accion Democratica's founder, Romulo Betancourt was subsequently elected in free presidential elections, the call for no further concessions was renewed.

During the 10 years in which Betancourt and successor Raul Leoni, ruled they laid the groundwork for tipping the balance of power between the oil companies and the state.

Taxes were increased, a state oil company established and new system of service contracts posed to replace the discarded concessions.

When Social-Christian Rafael Caldera defeated Accion Democratica candidate Gonsalo Barrios in the 1968 presidential elections, it was believed that a more moderate stand could be expected on oil.

Under Caldera however, latent nationalism finally found its voice in almost all political sectors.

In December, Venezuela increased oil income taxes. It also gave the chief executive unilateral powers to fix price levels used for taxing the companies.

## Oil Reversion Bill

Early this year, a former mines ministry expert who had studied the problem of reversion for years, finished the draft of an oil reversion bill which was submitted to Congress by the "Movimiento Electoral del Pueblo" party, an offshoot of Accion Democratica.

The bill lay in the 266-man parliament until last week when it came to life as it was put under debate with overwhelming possibilities of approval before the end of the month.

The measure provides that when the 40-year concessions end in 1983-84, all equipment, installations and even intangibles such as technical data used to exploit concessions go to the state without compensation.

The bill stipulates, moreover, the government may immediately inspect and control the properties to assure they revert in good working order. Additionally, to guarantee the companies will comply, they must deposit a special fund in the central bank.

The companies have called the bill confiscatory and "defacto nationalization."

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[From the Oil Daily, June 21, 1971]

## VENEZUELA POSES NEW LAW TO SET UP TAKEOVER BY '74

CARACAS.—A new law passed by Venezuela's Chamber of Deputies would give Venezuela the tool to nationalize most of the oil-reserve concessions held by foreign companies here within the next 36 months.

A clause with a three-year exploitation limit was included at the last moment, shortly before passage by the Chamber.

As passed by the Chamber of Deputies, the law grants the right to the state to nationalize and reallocate, without payment, those concession areas unexploited by the companies within the next three years.

Since foreign oil companies here only exploit an estimated 20 percent of their entire concessions, and are unlikely to step up their activities in view of recent measures cutting their profits, Venezuela could control 80 percent of its oil riches by 1974, political sources said.

As originally proposed, the law provided for nationalization of the goods and properties of oil companies without payment after their concessions expire in 1983.

The bill now goes to the Senate and the combined Congress for ratification within 30 days.

The chamber did soften the law at the last moment by rewriting a clause that would have given the state the right to take over all the "personal and impersonal" goods owned by the oil companies, such as their investments in other industries, buildings or shares, the sources said.

The law now only grant the state the right to take over the equipment, installations and machinery of the oil companies directly used for exploring, exploiting and producing oil and its byproducts.

But, in its fifth clause, the law specifies the state has the right to control and inspect the present installations and obtain all necessary information about such installations.

This clause ensures the companies do not sell or ship their equipment out of the country before the end of their concession period. It also gives the Mines Ministry the power to compile an inventory on current installations which must be handed over by 1983, sources said.

The CHAIRMAN. Thank you.

Well, let me just add this or to put into the record, I think that this record indicates that the United States has made out as well doing business in Venezuela as in any Latin American country. We may have done better trading with somebody; and if so I just don't know who it is. Venezuela has permitted American companies, as the witness has testified, to repatriate and bring back to this country large amounts of profits that have been made in Venezuela mainly off Venezuelan oil.

Now I can understand how the Venezuelans want to do better by Venezuela and get more for Venezuela if they can. That is nothing new. They are not the ones who started that trend but I do think that this country has every right to do business with regard to oil quotas the same as I propose to do business with regard to sugar quotas. When somebody starts confiscating your investments or fixing it so you can't do business in his country, I think you ought to take his quota away whether it is a sugar quota, oil quota or anything else, because I just favor that kind of trading.

I don't think the witness here was advocating anything different than that. We would hope that Americans are never treated unfairly in Venezuela and if they are, I think we ought to do something about it, and not go around complaining to somebody else how badly they treat us when we have within our power to do to them what they do to us, and if we don't do it we ought to blame ourselves.

I know the Senator from Wyoming generally agrees with that philosophy.

Senator HANSEN. Yes, indeed.

The CHAIRMAN. Thank you very much.

Mr. MERRIGAN. Thank you, Mr. Chairman.

In just closing I would like to say what we are talking about here basically are the procedures to be followed under written concession contracts and this taking of equipment at the end of a 40-year concession or at the end of a 40-year lease is not too much unlike a lease for office space. If I put improvements in, they go with the space at the end of the lease. In this regard, I call the committee's attention to this letter of June 18, 1971, which was written on the same day these articles appeared, from the American Chamber of Commerce in Venezuela which includes most of the American oil companies, in fact all of them, down there asking this quota relief be granted to Venezuela, but I certainly understand the problem which concerns you, Senator Hansen.

Senator HANSEN. It might be your problem too and I think it is a problem of vital interest to this country.

Mr. MERRIGAN. It is everybody's problem, I understand. Thank you very much.

Senator MILLER. I would like to ask one further question either of you or your colleague, and that is, in their consideration of various actions in your Congress has the relatively low quota Venezuela has of our sugar market in comparison with some of these other countries, like Brazil and Mexico and Ecuador and Colombia, been an issue?

Mr. MERRIGAN. It has been an issue in the Government. You see, the Venezuela sugar mills are half private and half Government-owned, and, of course, it is a matter of great concern to the Government and the industry as a whole. It is a matter of tremendous concern.

Colombia is directly next door to them. Colombia has a quota twice the size of theirs. Argentina has a quota twice the size of theirs, and they can't understand basically how this happens when they are buying, as the chart shows on pages 19 and 20 of my statement, that Venezuela with a population of only 10 million people buys \$90 million of agricultural products from the United States, whereas Brazil with a much, much larger quota, many, many times, has agricultural purchases of only \$32 million in 1969; Argentina \$12 million; Colombia



\$18 million; Peru \$12 million; and so it is a matter of great concern; am I correctly stating it, Dr. Carvallo?

Mr. CARVALLO. Yes.

Senator HANSEN. In other words, you are saying it has become something of a political issue in the Congress.

Mr. MERRIGAN. It is part of this great big picture they are looking at down there to see whether they have been treated fairly or unfairly.

Senator HANSEN. Right.

The CHAIRMAN. All right. Well, thank you very much.

Mr. MERRIGAN. Thank you very much.

(Mr. Merrigan's prepared statement, with a letter referred to during testimony, follows:)

STATEMENT OF EDWARD L. MERRIGAN  
REPRESENTING  
THE VENEZUELAN SUGAR DISTRIBUTING ASSOCIATION  
10:00 A.M. - JUNE 21, 1971

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Mr. Chairman, my name is Edward L. Merrigan. I appear here today on behalf of the sugar industry of Venezuela. I am accompanied by Dr. Marcel Carvallo, General Manager of the Venezuelan Sugar Distributing Association. Dr. Carvallo is a graduate of Penn State University; he has managed the Venezuelan Sugar Association since 1956; and he is recognized as an outstanding authority in the sugar industry. With your permission, he will assist me in answering any questions regarding Venezuela and its sugar industry which the Committee might wish to ask.

I.

VENEZUELA'S BASIC LEGISLATIVE POSITION

Under the present Act and under the House bill now before this Committee, Venezuela's quota allocation is among the smallest in Latin America and among those granted to nations outside the Western Hemisphere. That fact is demonstrated by the following charts taken from the Sugar Act itself (7 U.S.C. §1112) and from H.R. 8866:

WESTERN HEMISPHERE SUGAR QUOTA ALLOTMENTS

<u>Country</u>	<u>1965 Act Quota Percentages</u>	<u>H.R. 8866 Quota Percentages</u>
Cuba	50.00	23.74
Mexico	7.73	11.38
Dominican Republic	7.56	11.13
Brazil	7.56	11.13
Peru	6.03	8.87
British West Indies	3.02	4.07
Ecuador	1.10	1.71
French West Indies	.95	-0-
Argentina	.93	1.61
Costa Rica	.89	1.38
Nicaragua	.89	1.38
Colombia	.80	1.56
Guatemala	.75	1.17
Panama	.56	1.35
El Salvador	.55	0.85
Haiti	.42	.65
<u>Venezuela</u>	<u>.38</u>	<u>.78</u>
British Honduras	.22	.71
Bolivia	.09	.36
Honduras	.09	.65
Paraguay	-0-	.32

SUGAR QUOTA ALLOTMENTS OUTSIDE  
THE WESTERN HEMISPHERE

<u>Country</u>	<u>1965 Act Quota Percentages</u>	<u>H.R. 8866 Quota Percentages</u>
Australia	3.60	4.92
Republic of China	1.50	2.05
India	1.44	1.97
South Africa	1.06	1.44
Fiji	.79	1.07
Thailand	.33	.45
Mauritius	.33	.72
Malagasy Republic	.17	.36
Swaziland	.13	.72
South Rhodesia	.13	.36
Malawi	-0-	.36
Uganda	-0-	.36

For example, under the 1965 Act, Venezuela's quota of approximately 32,000 tons a year is only —

5% of Mexico's quota of 652,559 tons

6% of Brazil's quota of 638,210 tons

6.4% of Peru's quota of 455,991 tons

13% of the British West Indies' quota of 216,645 tons.

Indeed, quota allocations substantially greater than Venezuela's are presently enjoyed under the 1965 Act by Ecuador, Argentina, Costa Rica, Nicaragua, Colombia, Guatemala, Panama, El Salvador and Haiti.

Outside the Western Hemisphere, quota allocations ranging from 3 to 9 times larger than Venezuela's are held by South Africa, Taiwan, India and Australia. Even Fiji has a quota allocation more than twice the size of Venezuela's, while the distant Island of Mauritius is possessed of a quota nearly the size of that assigned to Venezuela.

This situation is truly inequitable. As I shall now demonstrate, according to any reasonable criteria, whether they be those specified earlier this year by the House Committee or those set forth by this Committee in its hearing announcement, Venezuela should, in fairness, have a larger portion of the Western Hemisphere quotas.

## II.

THE GOVERNMENT OF VENEZUELA, PATTERNED AFTER  
THE UNITED STATES GOVERNMENT, IS A BULWARK  
OF DEMOCRACY IN LATIN AMERICA AND IS AMONG  
THE UNITED STATES' CLOSEST FRIENDS AND ALLIES  
IN THE WESTERN HEMISPHERE

The Government of Venezuela is a free, constitutional, democratic form of government, patterned closely after the federal

government here in the United States. The President and Congress of Venezuela are elected by the people in free, open elections, and the Supreme Court of Venezuela consists of Justices elected by the Congress. The Venezuelan constitution safeguards the basic rights and privileges of the people of that country, and when the current President, Dr. Rafael Caldera, was inaugurated, he pledged that "the great objectives of his Administration would be peace, human understanding, liberty and justice".

Your Committee also undoubtedly knows, Mr. Chairman, that Venezuela is a member in good standing of the United Nations, the Organization of American States, the Alliance for Progress, the International Bank for Reconstruction and Development, the International Monetary Fund, the International Finance Corporation, the Inter-American Development Bank, the International Labor Organization and the International Civil Aviation Organization.

The record also shows that for more than a century and a half the United States and Venezuela have enjoyed close, friendly relations. As early as 1824, the two countries entered into a Treaty of Friendship, Navigation and Commerce. The ensuing years witnessed a long series of commercial and reciprocal trade agreements, and today our country and Venezuela continue to enjoy sound, friendly, profitable business and trade relations.

You will undoubtedly recall, Mr. Chairman, that just recently, on June 2, 3, 1970, President Caldera of Venezuela visited Washington and in the course of his stay, he addressed a joint session of the Congress. Upon his arrival at the White House, President Nixon described the close relationship between our country and Venezuela as follows:

"In welcoming you, we think of many things. We remember the fact that we have one of the longest relationships of peace and friendship with your country as with any country in the world...

"We think also in commercial terms, because we in America, particularly our business people, recall the fact that Venezuela is our major trading partner in all the Americas."

Similarly, in the course of his endeavors to build upon and strengthen the close relationship which has historically existed between the United States and Venezuela, the late President John F. Kennedy visited Caracas in 1961, at which time he stated:

"Here, in Venezuela, that principle — the achievement of social and economic justice under democracy — is being carried forward... This liberal, progressive democracy... is the best hope of the Alliance for Progress."

In times of war and international tension, Venezuela has always been a staunch ally of the United States. Immediately after Pearl Harbor was attacked in 1941, Venezuela declared war on Japan and Germany. During that war and those that followed, it has been a continuing vital source of supply of oil, both to the United States and to our allies overseas. During the Cuban missile crisis, Venezuela steadfastly supported the United States. Today, it is one of the strongest bulwarks of democracy against Communism in Latin America.

Finally, the record shows that Venezuela has not discriminated against citizens of the United States and it does not follow policies of expropriation. Industry in Venezuela is predominantly privately owned and operated, and because the investment climate and opportunities have been so good and so sound, private U. S. investments in Venezuela have grown from \$1.3 billion in 1955 to approximately \$3 billion in 1970. <sup>1/</sup>

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<sup>1/</sup> U. S. Department of State, Background Notes on Venezuela, May, 1970, pg. 5.



## III.

VENEZUELA IS A NEARBY, DEPENDABLE SOURCE OF SUGAR SUPPLY AS REFLECTED BY ITS HISTORY IN SUPPLYING THE U. S. MARKET, ITS MAINTENANCE OF SUGAR INVENTORIES AND ITS POTENTIAL FOR SUPPLYING ADDITIONAL SUGAR UPON CALL DURING CRITICAL PERIODS OF SHORT SUPPLY

Geographically, of course, Venezuela, located on the northern coast of South America in the Caribbean, is a dependable, natural, nearby source of sugar supply for the United States, and it stands ready to prove in sugar what it has already proved in oil -- it can and will, upon call, supply additional quantities to the United States during critical periods of short supply.

Historically, Venezuela has not only fulfilled its basic sugar import quota commitments under the Sugar Act -- it has also filled all of its allocations each year under the "Temporary Quota" and "Deficit Proration Quota" provisions of the Act. Based on statistics of the U. S. Department of Agriculture, Venezuela's performance from 1966 through 1970 has been as follows:

<u>YEAR</u>	<u>BASIC QUOTA ALLOCATION</u>	<u>TEMPORARY QUOTA PRO- RATION QUOTA</u>	<u>DEFICIT PRO- RATION QUOTA</u>	<u>TOTAL QUOTA</u>	<u>UNUSED QUOTA BALANCE</u>
1966	10,511	11,053	2,469	24,033	0
1967	10,929	11,650	3,188	25,767	0
1968	11,426	12,301	7,429	31,156	0
1969	11,126	11,902	9,172	32,200	0
1970	12,362	13,542	6,175	32,079	0

Thus, while some other nations with substantially larger quota allocations under the Sugar Act have failed to meet their assigned annual allotments under the Sugar Act, Venezuela's performance has been perfect. <sup>2/</sup>

Local sugar consumption in Venezuela simultaneously increased during the period from 1966 through 1969 from 384,000 tons a year to 428,000 tons. The Venezuelan industry thus demonstrated its ability not only to keep pace with those growing requirements at home, but also to fulfill, without deficit, whatever it was permitted to supply to the United States market under the Sugar Act.

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<sup>2/</sup> In 1969, Peru had a deficit of 65,420 tons; in 1968, Nicaragua and Thailand were deficit countries. In 1966, Bolivia, India, Nicaragua and Panama suffered deficits (Organization of American States Sugar Statistics, pg. 41). And, as the Committee knows, Puerto Rico and the Virgin Islands suffered serious deficits from 1965 through 1970.

This past performance by the Venezuelan industry and its future potential as a major, reliable source of sugar supply for the United States is best understood in the light of the following facts:

1. The industry is managed and technically supervised by Venezuelans who were educated in some of our leading American colleges and universities.

2. The Venezuelan mills are modern, up-to-date automated facilities, equipped to a large extent by machinery and equipment manufactured here in the United States. Venezuela's investment in sugar mill equipment purchased from the United States is about \$70 million.

3. The industry consists of 15 mills, which presently have a production capacity of 620,000 short tons a year. Eight of the mills are privately-owned, and they produce roughly 60% of the Venezuelan production. Six of the mills are Government-owned, and another is jointly owned by private interests and the Government. The sugar industry processes over 5,500,000 short tons of cane per year, produced

on approximately 2,000 privately owned farms. A map setting forth the locations of the various mills and cane growing areas is annexed to Appendix A to this statement.

4. All of the mills are located in regions having the best agricultural characteristics in Venezuela; and all are close to modern, active port facilities which are easily accessible over first-class paved roads. In times of urgent need here in the United States, therefore, Venezuelan sugar will always be readily available on short notice.

5. Production on existing sugar cane areas in Venezuela has steadily increased over the years and a recent study indicated that present production capacity is capable of doubling.

6. The Venezuelan Sugar Distributing Association, the industry's trade and marketing association, constantly conducts economic studies and does research to guarantee that the industry will remain modern, efficient and highly productive.

7. In 1970, the industry entered a new phase of mill production growth and productivity. Most of Venezuela's 15 mills are being expanded and the small Santa Maria Mill is being replaced by a modern mill and by installation of the new River Yaracuy Mill. <sup>3/</sup> These new mills will involve a total investment of \$23 million.

8. Accordingly, mill production capacity of the Venezuelan industry will increase 61% by 1975, from its present level of 620,000 short tons (raw value) to 1,000,000 short tons a year.

9. Consequently, as a result of the industry's growth and those new mill installations, Venezuela will be able, starting in 1972 (the first year of the new Sugar Act) to fulfill a U.S.

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<sup>3/</sup> See Appendix A, "Description of Venezuelan Sugar Industry", which includes a map showing the location of the Venezuelan mills, planting areas etc.

quota of 125,000 short tons a year; by 1975, it will be capable of supplying a quota of 171,000 short tons a year; and by 1977, it will have U. S. quota capacity of 183,000 short tons. <sup>4/</sup>

During the proceedings before the House Committee, we filed detailed charts to prove that Venezuela is presently ready and able to fill without fault or failure an annual quota under the Sugar Act of 125,000 short tons. These charts also served to supply correct information regarding Venezuela's present mill production capacities and future mill production capacities. With your permission, Mr. Chairman, we will make those same charts available to your Committee at this time as follows:

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<sup>4/</sup> This growth in Venezuela's U. S. quota capacity has been computed on an extremely conservative basis. The computation provides for a larger-than-expected continuing increase in Venezuelan domestic consumption; and for the maintenance of increased year end refined sugar stocks each year from 1970 - 1977. In other words, a surplus of sugar is contemplated each year to meet any critical periods of short supply which might develop.

Chart APresent Production Capacity,  
Sugar Mills of Venezuela

<u>Sugar Mills</u>	<u>Sugar Production Capacity (Short Tons, Raw Value, per Year)</u>
Rio Turbio	109,740
El Palmar	118,000
Matilde	74,340
Portuguesa	47,200
Cumanacoa	49,560
Yaritagua	42,480
Tocuyo	47,200
Tacarigua	31,860
Venezuela	25,960
Motatan	16,520
Urena	21,830
La Pastora	23,600
Tuy	7,670
Merida	5,074
Sta. Maria	3,186
	<hr/>
Total Present Mill Capacity	624,220

Chart BProduction Capacity, 1975,  
Sugar Mills of Venezuela

<u>Sugar Mills</u>	<u>Sugar Production Capacity (Short Tons, Raw Value, per Year)</u>
Rio Turbio	115,640
El Palmar	130,980
Matilde	87,320
Portuguesa	81,420
Cumanacoa	54,280
Yaritagua	66,080
Tocuyo	62,540
Tacarigua	31,860
Venezuela	38,940
Motatan	17,110
Urena	25,370
La Pastora	64,900
Tuy	8,260
Merida	5,900
Sta. Maria	59,000
Rio Yaracuy	59,000
	<hr/>
	908,600



Chart CCrop Year Sugar Production  
Sugar Mills of Venezuela

<u>Crop Year</u>	<u>Production</u>
1966-1967	422,000 Short Tons, Raw Value
1967-1968	399,000 Short Tons, Raw Value
1968-1969	423,000 Short Tons, Raw Value
1969-1970	488,000 Short Tons, Raw Value
1970-1971	533,000*Short Tons, Raw Value

\*Estimated

Chart D <sup>5/</sup>Sugar Stocks, Beginning of  
Grinding Season, Venezuela  
(Short Tons, Raw Value)

<u>Date</u>	<u>Average</u> <u>1960-61</u> <u>through</u> <u>1964-65</u>	<u>1966-67</u>	<u>1967-68</u>	<u>1968-69</u>	<u>1969-70</u>
Sept. 1	66,000	174,000	190,000	148,000	126,000

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<sup>5/</sup> The sources for the figures contained in all of the charts hereinabove set forth are the Ministry of Agriculture of Venezuela and Venezuela's Sugar Distributing Association.

In summary, therefore, Venezuela's existing mills, with a total production capacity of 620,000 short tons (raw value) each year, are fully capable and able of meeting —

(i) local sugar consumption in Venezuela, which, in 1969, was 428,000 short tons (raw value);

(ii) exports to the United States of 125,000 short tons (raw value); while

(iii) continuing to accumulate sugar stocks of approximately 67,000 short tons (raw value) each year.

Mr. Chairman, there is one other remarkable fact which should be mentioned here. Venezuela actually sells its sugar to the United States market at prices which are lower than its sugar prices at home in Venezuela. In 1969, Venezuela's price to the United States was about 8¢ per pound (f.a.s. U. S. port), 7.3¢ per pound (f.o.b. Venezuelan port), whereas Venezuela's retail domestic price was 10.2¢ per pound. <sup>6/</sup>

For all of these reasons, Mr. Chairman, I respectfully submit that Venezuela should be permitted on the basis of past performance and present ability, to supply 125,000 short tons a year to the United States market under the Sugar Act, i.e., approximately 90,000 tons more than it is presently licensed to supply.

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<sup>6/</sup> By comparison, Mexico, Colombia and Peru sell at prices to the United States market which are 50% higher than their local prices at home (See pg. 9, Committee Study, 1970).

## IV.

VENEZUELA RANKS FIRST IN LATIN AMERICA IN THE PURCHASE OF AGRICULTURAL PRODUCTS FROM THE UNITED STATES. IT RANKS SECOND IN LATIN AMERICA AND THIRD AMONG ALL COUNTRIES IN THE WESTERN HEMISPHERE IN IMPORTS OF ALL TYPES FROM THE UNITED STATES. WORLDWIDE, IT IS AMONG THE 10 MOST IMPORTANT IMPORTERS OF U. S. GOODS AND SERVICES. OVER THE PAST DECADE, VENEZUELA HAS SUFFERED A \$2 BILLION DEFICIT IN ITS BALANCE OF PAYMENTS WITH THE UNITED STATES PRINCIPALLY BECAUSE OF THE REPATRIATION OF PROFITS BY AMERICAN COMPANIES DOING BUSINESS THERE. AND, VENEZUELA HAS NEVER RECEIVED ANY SUBSTANTIAL AID PAYMENTS FROM THE UNITED STATES

As stated above, when President Nixon welcomed President Caldera of Venezuela to the United States in 1970, he referred to Venezuela as "our major trading partner in all the Americas". Statistics contained in the following charts taken from the House Agriculture Committee's publication entitled "The United States Sugar Program (12/31/70)" certainly confirm and support that description in every respect.

TABLE 26.—SUGAR QUOTA COUNTRIES: VALUE OF U.S. EXPORTS, TOTAL AND AGRICULTURAL BY TYPE OF SALE, COMMERCIAL OR AID-SPONSORED, 1963-69

[In millions of dollars]

Country and area	1963			1964			1965			1966			1967			1968			1969			1970				
	Agricultural			Agricultural			Agricultural			Agricultural			Agricultural			Agricultural			Agricultural			Agricultural				
	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID	Total	Com- mer- cial	AID		
<b>Western Hemisphere countries: 1</b>																										
Mexico.....	781	74	9	1,026	63	12	1,056	80	7	1,131	72	2	1,190	70	0	1,334	81	0	1,404	91	0					
Dominican Republic.....	91	12	9	113	17	12	75	14	11	87	7	15	96	3	19	114	13	18	124	13	12					
Brazil.....	376	17	85	386	4	143	328	6	53	565	11	90	546	8	102	705	43	45	667	32	36					
Peru.....	193	11	9	220	19	17	280	25	9	303	18	19	256	21	21	195	18	4	167	12	3					
British West Indies 2.....	140	30	2	163	36	3	203	32	6	227	41	4	243	46	6	263	50	3	295	53	2					
Ecuador.....	56	4	4	83	8	5	77	7	3	80	8	4	99	4	8	98	11	1	97	7	4					
French West Indies.....	7	1	(?)	11	1	(?)	12	2	(?)	12	2	(?)	13	2	(?)	13	2	(?)	13	2	(?)					
Argentina.....	188	2	NA	261	6	2	265	3	5	239	4	(?)	229	3	-2	281	4	0	377	12	0					
Colombia.....	239	12	14	245	13	14	195	9	21	282	12	21	217	7	17	318	13	20	302	18	13					
Panama.....	109	11	(?)	110	12	(?)	124	14	1	137	15	2	137	14	2	135	15	(?)	163	15	1					
Haiti.....	21	8	1	23	8	1	21	8	2	21	6	2	22	6	2	24	7	2	24	6	1					
Venezuela.....	504	64	4	597	80	4	621	72	4	592	79	3	583	87	4	651	89	2	704	90	1					
British Honduras.....	7	2	(?)	8	2	(?)	8	2	(?)	10	2	(?)	8	2	(?)	9	2	(?)	9	2	(?)					
Bolivia.....	37	1	13	45	6	10	41	1	9	46	3	6	59	-1	13	55	3	7	59	2	6					
Bahama Islands.....	77	9	NA	95	11	NA	106	14	NA	133	18	NA	151	22	0	163	26	0	177	28	0					
Subtotal 1.....	2,826	258	150	3,386	286	223	3,412	289	131	3,865	298	168	3,849	294	192	4,358	377	102	4,582	383	79					
<b>Central American common market countries:</b>																										
Costa Rica.....	53	5	1	60	6	1	61	5	1	62	5	1	63	5	3	74	6	(?)	77	6	1					
Nicaragua.....	45	3	1	57	6	1	68	6	1	70	7	1	70	4	2	62	9	(?)	59	5	(?)					
Guatemala.....	73	9	2	83	8	2	95	9	2	89	10	3	90	8	6	93	12	3	83	8	2					
El Salvador.....	50	6	2	66	6	2	60	6	2	69	8	2	60	6	2	61	7	1	58	8	2					
Honduras.....	44	4	(?)	49	4	(?)	53	4	1	67	5	1	71	6	2	75	6	1	75	5	1					
Subtotal.....	265	27	6	315	30	6	337	30	7	357	35	8	354	27	15	365	40	5	352	32	6					

PURCHASES OF U. S. GOODS  
BY LATIN AMERICAN COUNTRIES - 1969  
(EXCLUSIVE OF AID SHIPMENTS)

Comparative Position	Latin American		Commercial Agricultural	Total Purchases	Comparative Position
<u>Trade with U. S.</u>	<u>Country</u>	<u>Population</u>	<u>Purchases from U.S.,</u>	<u>From U.S.</u>	<u>U. S. Sugar Quota</u>
1	Mexico	49,000,000	\$ 91,000,000	\$ 1,404,000,000	2
2	Venezuela	10,000,000	90,000,000	704,000,000	17
3	Brazil	91,000,000	32,000,000	667,000,000	4
4	Argentina	24,000,000	12,000,000	377,000,000	9
5	Colombia	21,000,000	18,000,000	302,000,000	12
6	British West Indies	4,000,000	53,000,000	295,000,000	6
7	Peru	13,000,000	12,000,000	167,000,000	5
8	Panama	1,400,000	15,000,000	163,000,000	14
9	Dominican Republic	4,100,000	13,000,000	124,000,000	4
10	Ecuador	5,900,000	7,000,000	97,000,000	7
11	Guatemala	5,000,000	8,000,000	83,000,000	13
12	Costa Rica	1,700,000	6,000,000	77,000,000	10
13	Honduras	2,500,000	5,000,000	75,000,000	20
14	Nicaragua	1,900,000	5,000,000	59,000,000	11
15	Bolivia	4,800,000	2,000,000	59,000,000	19
16	El Salvador	3,400,000	8,000,000	58,000,000	15
17	Haiti	4,800,000	6,000,000	24,000,000	16
18	French West Indies	655,000	2,000,000	13,000,000	8
19	British Honduras	120,000	2,000,000	9,000,000	20

Moreover, and perhaps more succinctly, the House Committee's Study demonstrates:

(1) At page 55, that in 5 out of 7 years from 1963 - 1969, Venezuela was first in Latin America in imports of agricultural goods and products from the United States. In the other two years, it was second only to Mexico.

(2) At page 55, that from 1963 - 1969, Venezuela was second only to Mexico in Latin America in imports of all types of goods from the United States.

(3) Indeed, at page 51 of the House Committee study, it appears that in 1969, Venezuela's population was just 10,000,000, whereas Mexico's was 49,000,000. So clearly, on a per capita basis, Venezuela is far and away the leading Latin American purchaser of all U. S. goods and services.

(4) Furthermore, among the other Big Four Latin American sugar quota holders under the Sugar Act, the statistics developed by the House Committee, at page 55 of its study, show that in 1969, Brazil bought only \$32 million of agricultural products from the U. S. and received AID of \$36 million; Peru bought only \$12 million and received AID of \$3 million; the Dominican Republic bought only \$13 million of agricultural products from the U. S. and received AID of \$12 million. By comparison, Venezuela bought \$90 million of agricultural products from the U. S. and received only \$1 million in AID. Yet Venezuela enjoys a sugar quota equal to only 5 to 6% of those held by each of the Big Four.

(5) At page 57, while the Committee's study shows that from 1963 - 1969, Venezuela has enjoyed a favorable balance of trade with the United States (Exports over Imports), the Balance of Payments chart set forth below shows that during the same period, Venezuela has simultaneously suffered a Balance of Payments deficit with the United States of approximately \$1.2 billion. Indeed, during the decade from 1959 - 1969, Venezuela's deficit in balance of payments has been \$2.2 billion. The relevant statistics for the period 1963 - 1969 are as follows:

U. S. Balance of Trade with Venezuela						
<u>(Exports Over Imports in Millions of Dollars)</u>						
<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<u>-\$434</u>	<u>-\$359</u>	<u>-\$403</u>	<u>-\$433</u>	<u>-\$400</u>	<u>-\$298</u>	<u>-\$237</u>
Venezuela's Balance of Payments with U. S. <sup>7/</sup>						
<u>(In Millions of Dollars)</u>						
<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
<u>-\$241</u>	<u>-\$242</u>	<u>-\$199</u>	<u>-\$209</u>	<u>-\$172</u>	<u>-\$182</u>	<u>+\$91</u>

The chart entitled "Venezuela's Balance of Payments With the United States", annexed hereto as Appendix E, demonstrates even more specifically why Venezuela has simultaneously enjoyed a favorable balance of trade with the United States but has suffered an unfavorable balance of payments in its transactions with this country — and why that phenomenon has been especially beneficial to the United States. That chart shows that in our dealings with Venezuela over the past decade, we have not only sold Venezuela goods totalling more than \$6.5 billion, but in addition, American companies doing business in Venezuela have repatriated in profits more than \$5.3 billion.

In addition, the United States has earned more than \$750 million on insurance and freight transactions with Venezuela.

The overall result for the United States, therefore, has been favorable to the extent of more than \$2.2 billion over that 10 year period. For Venezuela, the result has been a shortage of capital for necessary public projects at home. As Appendix F

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<sup>7/</sup> Source: Central Bank of Venezuela

hereto shows, during 1969 and 1970, Venezuela found it necessary to borrow \$185 million from American banking syndicates in order to be able to proceed with some of its most pressing public works projects in that country.

Moreover, other statistics not contained in the House Committee Study show that Venezuela ranks third in the Western Hemisphere and tenth in the entire world among the purchasers and importers of goods and services from the United States.<sup>8/</sup> And, of course, while Venezuela has been deprived of a fair share of the foreign sugar quotas under the 1965 Act, the record shows that Venezuela's purchases from the United States have continued to increase steadily from \$583 million in 1967 to a projected \$811 million in 1971.<sup>9/</sup> This record has been attained without the acquisition by Venezuela of any goods under Public Law 480.

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<sup>8/</sup> Source: U. S. Department of Commerce, Commerce Today, January 11, 1971, pp. 37, 39, 41, 43, 45 and 46 (imports CIF, 1969).

<sup>9/</sup> Source: Same as Footnote 7 above, at page 37.



Finally, as the House Committee's Study shows, Venezuela over the years has received only extremely small amounts of AID from the United States, "small" certainly in comparison to that received by other countries in Latin America and elsewhere which hold large import quotas under the Sugar Act. At page 55, the Committee's study shows that Venezuela over the years from 1963-1969 received only \$22 million in AID from the United States, whereas Brazil has received \$354 million, and Colombia \$120 million. In other words, Venezuela's percentage of our AID to Latin America from 1963 to 1969 has been about 2%.

We respectfully submit, Mr. Chairman, that in light of this record, Venezuela, our leading trading and business partner in Latin America, is entitled to a far better position than 17th in the division of the Western Hemisphere's share of our sugar quotas. On the basis of performance, Venezuela patently should be among the five or six leading Latin American sugar quota countries, not among the last few.

V.

VENEZUELA RELIES ENTIRELY ON ITS EXPORTS TO THE UNITED STATES FOR THE FOREIGN SALE OF ITS SUGAR AND IT MAKES NO SHIPMENTS TO ANY OTHER PREFERENTIAL MARKET. IT IS THUS CLEAR THAT IF VENEZUELA IS TO REACH ITS GOAL OF A DIVERSIFIED ECONOMY, NOT TOTALLY DEPENDENT ON OIL, IT MUST BE ALLOWED TO INCREASE ITS SUGAR EXPORTS TO THE UNITED STATES.

The House Committee Study with reference to the United States Sugar Program shows, at page 53, that Venezuela enjoys no "exports to other preferential markets", and that it depends entirely on its exports to the United States for the foreign sale of its sugar.

Thus, while Venezuela presently enjoys an import allocation only 13% the size of the quota held by the British West Indies and approximately 1/3 the size of the quota held by the French West Indies, the House Committee Study shows, at page 53, the following with reference to the sugar exports of those British and French islands to "other preferential markets":

Other Preferential Market Exports In Thousands of Tons

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>
British West Indies	1,035	1,008	1,001	921
French West Indies	170	127	101	92

Therefore, in 1969 alone, while Venezuela was restricted by the Sugar Act to the shipment of only 32,000 tons of sugar to the United States (including all deficit prorations), the British and French West Indies, with huge exports to other guaranteed preferential markets, were licensed simultaneously to ship a total of 279,000 tons of sugar to the United States market.<sup>10/</sup>

The seriousness of this situation is magnified by the facts discussed in Section IV above. Venezuela clearly requires an increase in its sugar exports to the United States to reduce, in small part at least, its longstanding balance of payments deficit with this country. Because it is the largest purchaser of U. S. agricultural goods in Latin America, it is only fair and just that it should be permitted by the Congress to reduce its balance of payments deficit with the United States by granting it every possible consideration when it comes to the division of agricultural import quotas such as those involved under the Sugar Act.

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<sup>10/</sup> The inequity for Venezuela is even more striking when its total 1969 sugar exports of 32,000 tons to the United States, its only foreign market, are compared with those of Australia, Fiji, India and Mauritius. Those countries had 1969 sugar exports as follows:

	<u>To United States Under Sugar Act</u>	<u>To Other Prefer- ential Markets</u>	<u>Total Prefer- ential Sales</u>
Australia	195,000 tons	881,000 tons	1,076,000 tons
Fiji	44,000 tons	293,000 tons	337,000 tons
India	80,000 tons	29,000 tons	109,000 tons
Mauritius	17,000 tons	674,000 tons	691,000 tons

Also, Mr. Chairman, the relief sought here is vitally necessary if Venezuela is to be allowed to pursue its national policy of economic diversification. President Caldera has stated repeatedly that if Venezuela is to continue strong, politically and economically, in the midst of the dramatic challenges now abroad in Latin America, it must diversify its domestic production of goods and its foreign exports. It must not base its whole economic and democratic existence on an "oil economy" alone. Our Congress thus has the unique power in this instance to assist a close friend and ally in its critically vital effort to preserve and extend its democratic system through economic self-help and diversification, and to do that in a most effective way without any cost to the American taxpayer.

## VI.

VENEZUELA SHARES THE BENEFITS OF PARTICIPATION IN THE U. S. SUGAR MARKET WITH THE SUGAR FARMERS AND SUGAR WORKERS; AND SINCE THE SUGAR PRODUCTION FORCE IS THE LARGEST WORK FORCE IN VENEZUELA, ITS WELFARE IS OF PRIME IMPORTANCE TO THE DEMOCRATIC GOVERNMENT IN VENEZUELA.

One of the most important aspects of the Venezuelan sugar industry is the magnitude of employment it generates. In 1969, there were 29,450 persons permanently employed in the industry — 5,250 in the mills and 24,200 in the cane fields — and another 30,800 persons were temporary employees during the sugar harvest.

Accordingly, this industry which employs more than 60,000 persons, is the largest employer in Venezuela. By comparison, the oil industry in Venezuela employed only 23,759 persons in 1969.

Labor relations in the Venezuelan sugar industry have been excellent and have produced outstanding benefits for the workers. The work force is represented by a strong union (FETRACADE) and as bargaining agent for the employees, the union has negotiated model collective bargaining contracts for their benefit. In addition to relatively high daily rates of pay for both the industrial and agricultural employees, these contracts provide —

- (i) fringe benefits which amount to 40% of the base industrial salary;
- (ii) increased wages for night and overtime work;
- (iii) paid days off for sickness;
- (iv) paid vacations;
- (v) medical assistance; and
- (vi) numerous other miscellaneous benefits.

Moreover, mill owners in Venezuela have long ago established, financed and operated Consumer Cooperatives among their employees and have carried out a program whereby practically every worker in the industry has been allowed to purchase and own his own home, and have contributed to life insurance programs for the employees.

Finally, the industry has established a profit-sharing system whereunder the sugar workers share in the mill owners' profits, and thus may receive up to 1/6th of their salary as their share of operating profits.

## VII.

AMENDMENTS TO H.R. 8866 PROPOSED BY VENEZUELA

As we said at the beginning of this statement, Venezuela favors an extension of the Sugar Act, but with amendments required to remedy the inequitable position in which Venezuela has been left by both the 1965 Act and the House bill.

All factors considered, Venezuela, on the basis of the record discussed above, certainly should occupy no less than a position of relative parity in our quota system with the other nations of Latin America.

Under the House bill, Venezuela's closest neighbors and sugar industry competitors in Latin America — Brazil, Peru, Ecuador, Colombia and Argentina — all have continued to enjoy quotas which are 2 to 15 times larger than the 36,000 ton quota assigned to Venezuela.

Venezuela thus urges your Committee, Mr. Chairman, to adopt amendments to Section 4, subsection (3) of H.R. 8866 which would grant Venezuela a percentage of the Western Hemisphere quota which would, in justice, place Venezuela, our leading South American trading partner, near the top rather than the bottom of the quota allocations.

Appendix AThe Venezuelan Sugar Industry

Venezuela is the seventh largest country in Latin America with an area of 352,000 square miles, having a coastline of 1,750 miles on the Caribbean Sea and Atlantic Ocean and is bounded on the west by Colombia, on the south by Brazil, and on the east by British Guiana.

Venezuela's population in 1969 was 10,035,000 and has been increasing at an estimated average annual rate of approximately 3.9% .

Sugar has been produced in Venezuela for 400 years, but the first mills were not installed until 1905. The industry was small until the mid-1950's when both the Venezuelan Government and private capital began an intensive development of the country's sugar resources.

A Government sugar program was developed to strengthen the agricultural economy of the country, insure employment in the underdeveloped areas and provide domestically an essential food product for which large amounts of foreign exchange had been required in earlier years. Several sugar mills were built through Government financing. The Government plan was to develop these sugar mills into financially sound businesses and then make it possible for the cane farmers who supplied the mills to purchase

the milling facilities. At the present time, the Venezuelan Government owns six sugar mills, while eight are privately owned and another is jointly owned by private interests and the Government. The sugar industry processes over 5,500,000 short tons of cane per year, produced on 2,000 privately owned farms. A map showing the location of the various mills and cane growing areas is annexed hereto for the Committee's information.

The total investment in sugarcane farming, involving land, irrigation, farm machinery, housing, storage, and other facilities, amounts to approximately \$55 million. The working capital employed by the industry is about \$10 million. The total investment in American mill equipment is approximately \$70 million. Total investment in the sugar industry amounts to \$80 million after depreciation. The net return on investment capital is a little less than 7% per year.

It is obvious that the survival of the cane sugar industry of Venezuela depends on a fair price for the sugar producers. In spite of increased productivity in the fields and the high efficiency of the mills, Venezuela, like most other countries, cannot lower its production costs sufficiently to sell at current world market prices.

The average production cost of raw sugar in Venezuela is about 5-1/2 cents per pound. Refined sugar, which retails at 10.2 cents per pound, is sold at the mills for 8.3 cents per



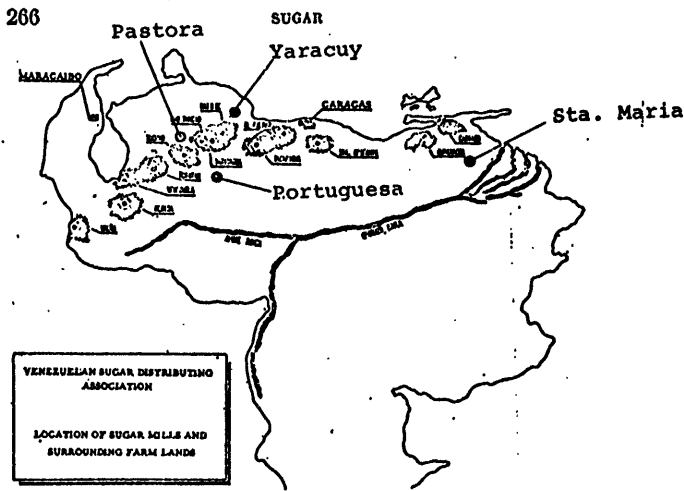
pound or about 7/10ths of a cent over the manufactured cost. This domestic price structure has permitted the growth of a modern, efficient industry and has encouraged the search for increased productivity. The surplus now being produced is the result of this increased productivity in field and mill.

The importance of the Venezuelan sugar industry to the development of a stable agricultural base for the economy of Venezuela has been demonstrated by the following facts:

- (i) The industry employs more than 60,000 persons in areas that otherwise would have no important economic activity.
- (ii) It has been proved that sugar cane produces the best economic return of any large volume crop suitable for Venezuelan agriculture.
- (iii) The sugar industry is now the most important agricultural industry of Venezuela; it contributes substantially to the country's Gross Agricultural Product and shows a productivity per individual employed seven times greater than any other agricultural endeavor of the country. It has been growing at a rate of 10% per year whereas the economy as a whole has been growing at 6% yearly during recent years.

Thus, the sugar industry has created a tremendous economic stimulus for the interior, rural areas of Venezuela, and has

thus served in the dynamic development of Venezuela outside the main cities which account for 93% of Venezuela's economic activity. Hence, the sugar industry has assisted in the attainment of a more balanced growth for Venezuela's economy and it is serving to alleviate many social problems which are of paramount importance to that nation.



Appendix BThe Venezuelan Sugar Distributing Company (DVA)

The Venezuelan Sugar Distributing Company (DVA) was organized in Venezuela on March 19, 1956 as a limited liability association under the pertinent provisions of the Venezuelan Commercial Code. The financial interests of the participants in a limited liability association are represented by units, each unit equal to a fixed percentage of the capital; and not, as corporations, by individual shares of stock evidenced by certificates.

DVA represents the interests of 15 sugar mills, comprising 95% of the sugar produced in Venezuela.

DVA was created for the purpose of having a single clearing house for the sale and distribution of Venezuela's sugar. It grew out of the need for a central agency to manage efficiently the distribution of the nation's sugar.

Each of the sugar mills is represented on DVA's board of directors. An advisory committee, comprised of equal representation for the mills and the cane growers, has jurisdiction over all sugar matters pertaining to selling prices, exportation, terms and conditions of contracts between DVA and the mills.

The principal functions of DVA may be summarized as follows:

- (i) to provide for the distribution of sugar to domestic consumers at the lowest possible price;
- (ii) to receive on consignment sugar produced by associated mills;
- (iii) to sell the sugar thus received;
- (iv) to obtain loans for its associates; and
- (v) to stimulate the consumption of sugar.

To assure efficiency in the management of the sugar industry, DVA maintains complete data and is recognized by both the Government and private industry as having the most accurate industrial sugar statistics in Venezuela.

DVA has benefited the canegrowers by stabilizing their income and making credit sources available; also by making available very valuable information on sugar yields, varieties and productivity.

DVA has benefited the mills by rationalizing their sales and distribution system; it has kept sales and distribution costs to a minimum and has provided for easy and timely financing of sugar stocks.

DVA has benefited the consumers and the sugar industry of the United States by maintaining a plentiful and stable supply of sugar at reasonable prices.

Appendix CStatus of the Venezuelan Sugar Worker

As indicated in our main statement, labor relations in the sugar industry have been excellent and have produced outstanding benefits for the workers. The fine labor-management relations in the sugar industry have been an important factor in the industry's increased productivity.

The millowners have carried out a far reaching social program for all workers in the industry. They have provided housing for all industrial workers who want to buy homes for their families. They have contributed to a collective life insurance program and to a system of credit cooperatives. A group insurance policy covers all home purchasers against total or partial loss of earning power and insures full home ownership against all risks.

Cooperative stores have been organized by a cooperative society which operates them on its own responsibility, with the workers buying stock according to their means, on a voluntary checkoff basis. Workers willing to invest in the co-ops may get loans from the sugar companies for as much as 90% of their commitments, without interest. The expansion of the sugar business has shown the need for a wholesale cooperative to

centralize purchasing for all sugar mill cooperatives, which could be made available to other supermarkets in Venezuela.

The average base salary of the industrial sugar worker is \$2,500 per year, that of the agricultural worker is \$1,800 per year. Fringe benefits amount to 40% of base industrial salary. Child labor is prohibited under Venezuelan law. Venezuela's labor laws prescribe 8 hour days; 48 hour weeks; the right of collective bargaining; the right to strike; and social security benefits.

Every sugar industry worker has the option to buy a house valued at 10 times his monthly wage, up to 40% of the value of such housing is paid by the sugar mill owners. The balance can be financed through the mills or through Government agencies for 20 years without interest. The program involves a contribution of some \$4,000,000. on the part of the mill owners.

The sugar worker shares in the profits of his company and may receive up to 1/6th of his salary as his share.

The sugar worker receives free medical assistance and medicines for himself and the members of his family.

All of the mills have training programs and schools for their employees. The training runs from that for laborers to university educations for the higher level employees.

The object and result of the sugar industry labor policy are to provide stability for the industry and incentive for the workers. The sugar industry worker is now the most productive and best paid employee in Venezuelan agriculture.

Appendix DForeign Agents Registration Act

Edward L. Merrigan of the law firm of Smathers and Merrigan is duly registered as the representative of the Venezuelan Sugar Distributing Association (DVA) under the Foreign Agents Registration Act, and a copy of his registration statement under that Act has been submitted to this Committee.

Appendix E-1  
**VENEZUELA'S BALANCE OF PAYMENTS WITH THE UNITED STATES**  
(Millions of U.S. Dollars)

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
<b>A. GOODS AND SERVICE ACCOUNT</b>	-293.48	-69.02	-0.69	52.69	-63.84	-175.94	-231.25	-129.53	-91.91	-307.06	-233.36
<b>I. Merchandise Account</b>	364.42	571.82	575.06	665.19	593.37	530.46	522.14	588.84	582.01	512.59	535.29
1. Exports (FOB)	1,101.13	1,120.07	1,084.53	1,133.37	1,100.24	1,124.96	1,144.76	1,189.40	1,168.72	1,167.24	1,241.49
2. Imports (FOB)	-736.66	-548.25	-509.47	-468.18	-506.87	-594.50	-622.62	-600.56	-586.71	-654.65	-708.20
<b>II. Service Account</b>	-657.92	-640.84	-575.75	-612.50	-637.21	-706.40	-753.39	-718.37	-673.52	-819.65	-766.85
1. Insurance & Freight	-99.48	-74.05	-68.82	-63.25	-68.46	-80.39	-84.20	-81.18	-79.27	-88.42	-88.42
2. Other Services	-198.08	-93.14	-81.60	-93.16	-91.77	-129.83	-125.05	-126.20	-90.77	-179.31	-135.52
3. Profits on Investment	-360.41	-473.65	-425.33	-456.09	-476.98	-496.18	-544.14	-510.99	-503.99	-551.92	-542.91
<b>B. CAPITAL ACCOUNT</b>	61.67	-65.46	-266.63	-328.64	-197.62	-66.50	32.10	-80.19	-81.03	125.05	324.71
<b>III. Long Term Capital</b>	53.02	-43.09	-204.33	-287.20	-122.03	-114.84	26.01	-18.84	-71.32	126.02	160.27
1. Direct Investment	58.73	-237.63	-29.41	-161.51	7.52	-62.42	6.80	-21.42	-56.36	127.10	76.28
2. Loans to private Sector	8.35	11.82	-12.25	13.10	-0.40		12.00	11.60	21.38	-0.70	-0.70
3. Loan to Public Sector	5.35	187.48	-14.08	-11.67	-33.21	-37.35	24.80	7.53	-14.94	-5.90	85.43
4. Other Private Transactions	-19.41	-4.76	-148.79	-126.72	-75.94	-15.07	-17.59	-16.55	-21.40	5.52	-0.74
<b>IV. Short Term Capital</b>	8.65	-22.37	-62.10	-41.44	-75.59	48.34	6.09	-61.33	-9.71	-2.97	164.44
<b>BALANCE OF PAYMENTS TOTAL</b>	-231.81	-134.48	-267.32	-275.95	-241.46	-242.44	-199.15	-209.72	-172.54	-182.01	91.15

Source: Central Bank of Venezuela.



Appendix E-2

## VENEZUELA'S BALANCE OF PAYMENTS WITH THE UNITED STATES

Annual average 1959 to 1969

(Millions of U.S. Dolares)

A.	GOODS AND SERVICE ACCOUNT	- <u>138.47</u>
	I. <u>Merchandise Account</u>	<u>549.02</u>
	1. Exports (FOB)	1.143.26
	2. Imports (FOB)	- 594.24
	II. <u>Service Account</u>	- <u>687.49</u>
	1. Insurance & Freight	- 79.63
	2. Other Services	- 122.22
	3. Profits on Investment	- 485.64
B.	CAPITAL ACCOUNT	- <u>49.32</u>
	III. <u>Long Term Capital</u>	- <u>45.14</u>
	1. Direct Investment	- 26.59
	2. Loans to private Sector	5.84
	3. Loan to Public Sector	15.77
	4. Other Private Transactions	- 40.16
	IV. <u>Short Term Capital</u>	<u>4.18</u>
<hr/>		
	<u>BALANCE OF PAYMENTS TOTAL</u>	- <u>187.79</u>
<hr/>		

Source: Central Bank of Venezuela.



Appendix F  
**THE CHASE MANHATTAN BANK, N.A.**  
 Public Relations Division 1 Chase Manhattan Plaza New York, N.Y. 10015

**release:** AMMUNITION

Robert S. Cole (552-4407)

**SYNDICATE HEADED BY CHASE MANHATTAN LENDS \$100 MILLION TO REPUBLIC OF VENEZUELA**

16 Banks Participate in 5-Year Loan Program;  
 Venezuelan Finance Minister and Central Bank  
 Officer Here to Sign Agreement at Chase Today

A 16-bank syndicate, headed by The Chase Manhattan Bank, N.A., today made a five-year, \$100 million loan to the Republic of Venezuela for financing public works projects in that country.

The agreement was signed at Chase Manhattan today, Tuesday, March 31, by Dr. Pedro R. Tinoco, Venezuela's Minister of Finance, and representatives of the participating banks. Dr. Carlos Rafael Silva, First Vice President of the Central Bank of Venezuela, also attended the signing.

Under the terms of the agreement, the Republic of Venezuela will make repayments in eight semi-annual installments beginning September 30, 1971. The interest rate is equivalent to 7/8% over prime, which is now 8%.

Chase, as agent for the group, and five other banks will provide \$10 million each, while the remaining 10 institutions will lend sums ranging from \$0.5 million to \$5.5 million.

The banks that are lending \$10 million, in addition to Chase Manhattan, are First National City Bank, Chemical Bank, Morgan Guaranty Trust, Manufacturers Hanover Trust and Bank of America.

The other members of the group, and the amounts of their participation in the loan, are: Bankers Trust, Continental Illinois National Bank of Chicago, Irving Trust, Marine Midland, Royal Bank of Canada and Bank of Nova Scotia, \$5.5 million each; First Wisconsin National Bank of Milwaukee, \$2.5 million; National Bank of North America, \$2.25 million; J. Henry Schroder Banking Corporation, \$1.75 million, and Girard Trust, \$0.5 million.

The \$100 million arrangement is the second major loan a Chase Manhattan-headed syndicate has advanced the Republic of Venezuela in the past year. Chase and 17 other banks combined to make a five-year, \$85 million loan to the South American government last August. (1969)

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March 31, 1970

AMERICAN CHAMBER OF COMMERCE OF VENEZUELA,

Hon. RUSSELL B. LONG,  
Chairman, Senate Finance Committee, U.S. Senate,  
Washington, D.C.

DEAR MR. CHAIRMAN: We understand that you are presently studying a revision of the United States Sugar Act and the foreign sugar import quotas contained in that Act. We also understand that the Venezuelan sugar industry, which has had a pitifully small quota since 1965, is currently seeking a reasonable increase.

The American Chamber of Commerce of Venezuela, led by its honorary President, Honorable Robert McClintock, United States Ambassador to Venezuela, is composed of some 530 members of which 70% are American corporations with sizeable investments in Venezuela. Among such American corporations are Creole Petroleum (New Jersey Standard affiliate), Orinoco Mining Corporation (U.S. Steel affiliate), Kraft Food Corporation, the Coca-Cola Corporation, Sears and a large number of other firms engaged in all areas of manufacturing, commerce, and finance. The principal objectives of our Chamber of Commerce are to promote trade between the two countries and to foster improved relations between their people.

The Chamber of Commerce wishes to go on record as fully supporting Venezuela's very valid request to increase its sugar quota to the United States.

As you know, Mr. Chairman, American investment in Venezuela presently totals more than \$3 billion, and all the members of our Chamber of Commerce are vitally interested in the continuous welfare and growth of the Venezuelan economy. Venezuela obviously depends on the United States for most of its foreign exchange. Venezuela has experienced a \$2 billion deficit in its balance of payments with the United States over the past ten years. Therefore, any steps which the Congress can take to increase the sugar quota to Venezuela will directly strengthen Venezuela's purchase of agricultural exports and alleviate this serious balance of payments deficit.

A quota increase would also directly benefit the Venezuelan sugar industry which employs more workers than any other industry in Venezuela. Furthermore, it would assist in a program of trade diversification which would ultimately benefit both the United States and Venezuela.

For all of these reasons our membership wishes to go on record in full support of Venezuela's proposal before your Committee.

Sincerely,

WILLIAM F. COLES,  
President.

The CHAIRMAN. The next witness is the Honorable Harold Cooley, well known to us here, former chairman of the House Committee on Agriculture, appearing for Liberia and Thailand. We are pleased to have you with us, Mr. Cooley.

**STATEMENT OF HAROLD D. COOLEY, ATTORNEY AT LAW, ON  
BEHALF OF LIBERIA AND THAILAND**

Mr. COOLEY. Mr. Chairman, and members of the committee, first I want to thank the members of the staff, and members of your staff, Senator, for the courtesies which have been accorded me in arranging for my appearance here. I was supposed to testify tomorrow but because of some very sad news from home, it is necessary for me to return to North Carolina tonight to attend the funeral of one of my dearest friends, a former law partner and former judge May.

For many long years I have been subjected to the "5-minute rule"—I know what it means, but always have despised it. At any rate, I shall try not to offend the rule.

I indulge the hope that what I say here before this committee will have more effect than what I said before the House Committee on Agriculture. Both the chairman and the ranking member of that committee are "hard of hearing," and sometimes they are both just naturally hard-headed. For many years, the present chairman sat on my right, and I could speak into his good ear on the left. As strange as it may seem, when I came up to testify, the chairman "turned over the chair" to some new member—and the chairman turned his wrong ear to me. I am not certain whether the ranking member turned his bad ear to me, or whether he just took out his hearing aid. The fact remains, however, what I said didn't go in—it went over their heads. They are both long-time friends of mine and are distinguished and dedicated public servants. I shall, of course, forgive them. I am glad that none of you gentlemen are wearing hearings aids, and I hope that you will hear some of the things I say.

I want to tell you a little something about Liberia. The country was settled by Negroes, many of whom were emancipated slaves from America. Our country has made many great and grand contributions to the creation and to the prosperity of Liberia. America was present and active when the little country was born. America was the midwife and also the godfather. The capital of the country was named Monrovia after President James Monroe. The official language is English. The official currency is the American dollar. The flag is a variation of our own American flag. The little republic was modeled after the United States, and when it became a republic, it was the only free nation in Africa. Liberia has always been a friendly nation, has never discriminated against American citizens, has never expropriated American property, and I am certain that it never shall.

Dependability. Liberia does not now have a quota in the American sugar market. A feasibility study—a copy of which was left with the clerk of the committee—clearly indicates that Liberian soil and climate is ideal for the production of sugar. If granted a quota, necessary sugar processing plants will be financed by private capital. If given a quota in the American market, Liberia would prove to be a dependable source

of sugar for our domestic consumption. Of course, this cannot be done in 1 short year.

Reciprocal trade: Liberia has a population of approximately 1½ million people. Eighty percent of the population is engaged in farming. Liberia declared its independence in 1847, and is the oldest continuous republic government in sub-Sahara Africa. The record of friendship and cooperation between Liberia and the United States is probably without parallel as compared with any other country in Africa, or elsewhere. In World War II, Liberia provided sites for the development of critical communication bases. Liberia imports machinery, transportation equipment, foodstuff and manufactured goods. It exports iron and ore, diamonds, rubber, coffee, cocoa and, of course, other items. Liberia's trading partners are the United States, the Netherlands, the United Kingdom, and West Germany.

Need of the country: Liberia needs to diversify agriculture. A reasonable sugar quota for Liberia would play an important role in the economic growth of the country. Important factors indicate that a quota of 50,000 tons would be a reasonable quota for Liberia. Liberia has no quota in any premium-priced market, nor does the country have assured markets with former colonial rulers and no country to call upon except the United States. The long term prospects of the country are excellent, but Liberia is in desperate need of a quota in the American market.

It is contemplated that the sugar industry will either be privately owned and operated or, perhaps, through cooperatives. Adequate port facilities are available.

I know that all Members of Congress are unusually busy, but I hope that because of the matters involved, you may find time to read and to consider the statements I filed for the record. If there is a little nation in need which has always been friendly, it is Liberia. Liberia's Government is respected throughout the world. The country has cooperated with America, the United Nations, and all international organizations. The petition of the country has the support of our Ambassador and our agricultural attaché in Monrovia, and I am quite certain that it will be supported by our agriculture experts here at home. If you do not have time, and I am certain you may not have, I hope you will have your administrative assistants read and consider the file and advise you.

Now, about Thailand. For more than 100 years, Thailand has maintained the tradition of close and cordial relationship with the United States. Thailand has never expropriated property owned by American citizens and assures all American nationals and companies of fair and honest treatment in the conduct of their businesses. American property receives the most constant protection and security, and no American property shall be taken without due process of law and without the payment of just compensation.

American investors enjoy a wide scope of guarantees accorded by the Thai Government on their investments in Thailand. Thailand now has a fighting force in Vietnam. The Thai soldiers are bleeding and dying alongside American soldiers. Thailand has provided many military privileges to America and continues at all times to be our friend. Thailand is next on the firing line.

When sugar legislation was last considered, Thailand was given a very small quota in our sugar market. Thailand established its worthiness and has made good. Now, comes Thailand requesting an increase in the quota which the country now has. Thailand is now a dependable source of sugar supply. Yet, Thailand has great potential for sugar production. The country now has a burdensome surplus of sugar which cannot be marketed profitably. Sugar has been produced in the country for centuries, but now the country is in desperate need of an increased quota in the American sugar market. The country's soil is fertile in abundant areas, and the climate is also ideal for the production of sugarcane.

Thailand and the United States have had a very long history of trading relationship, which has been founded upon mutual respect and good will. From 1963 to 1969, U.S. exports to Thailand have almost doubled. Thailand's deficit in trade with the United States increased from about \$41 million in 1963 to \$84 million in 1969. This deficit is expected to increase to \$90 million in 1970. This is due to the fact that Thailand is importing both agricultural and industrial goods from the United States—the value of which has been on an increase trend.

While Thailand's exports to the United States consist mainly of primary commodities, the prices of which have been deteriorating in recent years, Thailand imports from the United States consist mainly of milk and dairy products, tobacco, cotton, chemicals, synthetic fiber, paper and paper products, machinery, generators, electrical equipment, automobiles, pharmaceutical supplies, and medical instruments, whereas the U.S. imports from Thailand mainly comprise tin, rubber, tapioca flour, teak, kapok, seedlac, and canned fruits.

Thailand is facing difficulties. Her total imports in 1970 amounted to US\$1,325 million, while the total exports to only US\$735 million, resulting in a trade deficit of about US\$590 million.

Thailand desperately needs to increase the country's quota in the American market. While Thailand is giving the blood of its young manhood in the cause of freedom, how can we deny reasonable consideration to this friendly nation? How can we fail to provide the country with a reasonable sugar quota?

The CHAIRMAN. Just permit me to say, so far as I am concerned, Mr. Cooley, I will certainly give careful study to everything you have in your statement here, and I think it is presented in very good taste and I think it most appropriate that you present it just the way you have. I think you made a very good presentation and I applaud your decision to open the statement by attaching the addendum on the front of it to make clear you are not testifying as a former Congressman. You have registered and are testifying under the law as—

Mr. COOLEY. Thank you.

The CHAIRMAN (continuing). As any former Member of Congress has a right to do.

Mr. COOLEY. Well, I thank you very much, Mr. Chairman. I do want to add one thing. Maybe members of the committee do not realize that Liberia was settled by emancipated slaves from America. The President of the country now descended from slaves from the State of Georgia, and the Vice President from slaves emancipated in the State

of North Carolina. That is how close we are to them. We were there when the nation was born, we were the "midwife" and the "godfather." We were there when it was born, and we were there when it was christened and named and I think we have always been friendly and always will be friendly and I hope we will give them some recognition. Thank you very much.

The CHAIRMAN. Thank you very much.

Mr. COOLEY. Thank you.

(Mr. Cooley's prepared statements on behalf of Liberia and Thailand follow) :

*Political propaganda*

*Information required by sec. 4 of Foreign Agents Registration Act of 1938, as amended, and Rules and Registrations described by the Attorney General.*

*1. Agent; Harold D. Cooley, American Security Bank Building, 2300 Calvert Street, N.W., Washington, D.C. 20008.*

*2. Agent has filed with the Registration Section, Department of Justice, Washington, D.C., a Registration Statement which is available for public inspection.*

*3. Distribution of this material is made on behalf of:*

*A. The Country of Liberia and the Liberian Ambassador.*

*B. The Country of Thailand and the Thailand Ambassador.*

*4. A copy of this material has been filed with the Registration Section and all laws, rules and regulations have been complied with.*

*5. The filing of the Registration Statement with the Registration Section is not to be regarded as an indication that the United States Government has approved the material.*

STATEMENT BY HAROLD D. COOLEY, ATTORNEY AT LAW,  
BEFORE THE COMMITTEE ON FINANCE, UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

After working for days and weeks in preparing my statement -- I am grateful to the Committee for the five minutes which has been allowed to me.

First, I now speak for the one and one-half million citizens of Liberia, those of whom are descendants of emancipated slaves from America, all of whom are Negroes or persons of Negro descent. I am certain that some slaves went from my home state and perhaps others went from states represented by members of this Committee. The President of Liberia descended from slaves from the State of Georgia. The Vice President of Liberia descended from slaves from North Carolina. I am acquainted with many of the officials and representatives in the Parliament of Liberia. English is the official language; the Dollar is the official currency. No one other than a Negro or a person of Negro descent can become a citizen of Liberia, and only citizens can own a part of the good earth of that little country.

The Republic of Liberia had its origin in 1816 when the American Colonization Society was given a charter by the United States Congress to send freed slaves to the West Coast of Africa. The country was settled in 1822. The United States Government, under the Presidency of James Monroe, furnished funds to assist in negotiations with native chiefs for the acquisition of land. In 1839, the settlers united to form the Commonwealth of Liberia under a Governor appointed by the American Colonization Society. In 1847, Liberia became the



first independent Republic in Africa. The Constitution was promulgated on July 26, 1847, and was modeled after the United States Constitution. Thereafter, many nations recognized the sovereign Republic of Liberia. The capital of the Republic was named Monrovia after President Monroe. The Liberian flag is a variation of that of the United States: 11 red and white stripes with a white star on a blue field in the upper left corner. At the time of the flag's adoption, the single star represented the only free Negro state in Africa. The stripes stand for the signers of the country's Declaration of Independence.

Liberia was one of the charter members of the United Nations. Liberia has always been a faithful and loyal friend of the United States. The country is proud of its heritage, and we should be proud of Liberia.

Now, may I speak briefly about the economic problems facing the people of Liberia at this time. Liberia has three natural resources: iron ore, rubber and timber. The development of the first two is well in hand. Now, the country needs to diversify its agriculture. About 80 percent of the population is engaged in farming. There is a need for market outlets for additional production in the agricultural sector. At this time, most African countries assured markets with their former Colonial rulers, thereby enabling them to dispose of all the agricultural products they can produce, including sugar. Liberia has no former Colonial ruler, except for her close ties with the United States, and has not had the advantage of a guaranteed market for her agricultural commodities. This has been a big deterrent to agricultural development. The long-term prospects of the country are excellent, but it must face serious economic difficulties in the next few years. A reasonable sugar quota for Liberia will play an important role in the economic growth of the country. To say that Liberia is not worthy to be granted a quota in our sugar market merely because Liberia does not now have a quota and a surplus of sugar is

utterly ridiculous. I can cite clear, cogent and convincing evidence of the fact that many of the countries now having large quotas in our market had no quotas, had no sugar and processing plants at the time the quotas were granted to such countries. The record clearly establishes the accuracy of this assertion. The "Grand Bahamas" had no quota, had no sugar at the time the quota was granted by the American Congress. Ireland had no quota, no processing plant and imported all of its sugar at the time the quota was granted to Ireland. Hereford, Texas, had no quota nor did the area have a processing plant at the time a quota was granted to Hereford. Mauritius had no quota at the time the first quota was granted to Mauritius. The State of Maine had no quota, and the State of New York had no quota at the time quotas were granted. Panama had no quota at the time a quota was granted. Mexico had no quota at the time a quota was granted. In fact, just about all the countries which now have quotas had no quota when quotas were granted. Country after country and area after area has been granted a quota, but not a pound has been provided for the little country of Liberia.

The House Committee definitely took the position that -- "Quotas could not be granted to any other area or country unless something was taken away from some other area of country." This was a ridiculous position -- was not true then and is not true now. After providing adequately for the domestic Beet producers and Cane producers, the Committee reserved another 100,000 tons for Texas and other areas which might be interested in producing sugar. The fact remains that the so-called Cuban quota of 750,000 tons is still available, and a fair adjustment in the quotas granted would make other allocations possible.

The domestics got all they wanted. Puerto Rico apparently voluntarily surrendered its deficit. Apparently, Hawaii is satisfied, and the Philippines likewise seem to be satisfied. The domestic beet-growing area has no restrictions whatever. I hope that this Committee -- for the first time in history -- will rewrite the Sugar Bill. If you will read it carefully, you will understand that many provisions cannot possibly be justified. I do not want to FIGHT with any other area, but I do hope that the Committee will try to find out just how such unwarranted changes were made. The pending Bill is a gratuitous insult to the Republic of Liberia. This little Republic was not even given a "Token," and no one has ever assigned the reason Why it was Passed. This Committee should demand to know WHY. If President James Monroe, who now sleeps in the solemn silence of his grave in Hollywood Cemetery in the City of Richmond, Virginia, knew about this, he would turn over in his grave.

The United States official policies toward Liberia are based on a desire to maintain and strengthen the close ties already existing, and the United States continues to give assistance and support to the efforts of Liberia to improve the welfare of its people and to strengthen its representative government. Additional support of the Liberian effort has been given by United States business, missionaries, and educational organizations which have continued to be very active in the country.

Liberia has never confiscated nor expropriated any American property, and, indeed, Liberia shall never expropriate American property but shall always remain a faithful friend. As this Committee, charged with the great responsibility, looks around the world for reliable sources of supply for our sugar market, I urge the Committee to give careful consideration to our Petition

and to provide a quota in our sugar market for the Republic which we helped to establish. I have been assured that if a quota is provided that the soil and climate of the country will enable producers to produce abundantly. I have also been assured that processing facilities will be provided, that the wages paid to workers in the sugar industry will be comparable to the wages paid in other industries, and that Liberia will do its very best to fill such quota as may be authorized. Those more familiar with the situation than I am believe that 50,000 tons would be a reasonable quota and that such a quota would strengthen the ties of friendship between our great Nation and the Republic of Liberia.

In 1967, a special mission from the Republic of China made an investigation in Liberia, and the findings support the fact that conditions are favorable for sugar production. Sugar cane has been grown in Liberia for many years. High humidity and warm weather favor the growth of sugar. In almost all parts of Liberia, rainfall is sufficient and the soil is productive.

It should also be pointed out that because of the wide disparity of prices between sugar covered by trade agreements and sugar not so covered (this is because the sugar-producing countries use the free market only for disposal of their residue), it will be impossible for Liberia to develop a sugar industry without a sugar quota from the United States.

Mr. Chairman, I would like to leave an additional statement with the Committee which I hope every Member of the Committee may find time to read and consider. The foregoing statement is a summary of a statement which I would like to leave with the Committee for the record, and I should also like to leave with the Committee -- but not for the record because it is such an elaborate document -- a feasibility report on the development of the sugar industry in

Liberia which was made by a survey mission to Liberia from the Republic of China in 1967.

Mr. Chairman, in preparing to present Liberia's cause to this Committee, I have had the cooperation of His Excellency, the Ambassador from Liberia to Washington, and of the officials of the State Department of Liberia and the cooperation of our Ambassador and our Agricultural Attache in Liberia. Realizing that within the time allotted to me, I will not be able to present my full statement in support of our Petition, I request that I be permitted to file an additional statement, which I herewith submit. I am trying to avoid repetition.

For background information, I think that my additional statement will be helpful.

More Reasons Why Liberia Should Be Given a  
Sugar Quota by the United States Government

STABILITY OF GOVERNMENT

Liberia declared its independence in 1847, and is the oldest continuous Republican Government in sub-Sahara Africa. There has never been an overthrow of any administration by violent coup d'etat or otherwise. Liberia has one of the most stable governments in the world, which is patterned after that of the United States. During the last 20 years, the economy of the country has grown tremendously, with rubber and iron ore production accounting for the bulk of the economic growth. This rapid growth has been the direct outcome, among others, of the "Open Door" and "Unification" policies of the Government

of Liberia. The Open Door policy has provided the opportunity for foreign investors to help to develop the economy by means of concessions. The Unification policy has helped the country to integrate the formerly more isolated areas with the more developed areas in Monrovia and around the coast and remove the barriers between tribal groups. This has been accomplished by a continuous road-building program to open the interior of the country, thereby facilitating human as well as physical communications, and by bringing the provinces up to county status, thereby giving all the people equal representation.

#### RECORD OF COOPERATION WITH THE UNITED STATES

The long record of friendship and cooperation between Liberia and the United States is probably without parallel as compared with any other country in Africa or elsewhere. This was particularly true during World War II when Liberia provided sites for the development of critical communication bases. This need for continued cooperation with Liberia and the strategic location in the interest of the United States continues.

#### SUGAR QUOTA AS AN EFFECTIVE MEANS OF IMPLEMENTING ASSISTANCE POLICY OF THE UNITED STATES

A sugar quota would permit the development of a sugar industry in Liberia and provide for the more efficient use of foreign exchange in a significant portion of the agricultural community. This would accelerate economic development in the country and provide a reliable source of sugar for American consumers. A quota would be one of the most effective measures of implementing the United States policy of assistance to Liberia, especially the Agricultural sector to accelerate economic development and better distribution of income.

The granting of a quota to Liberia would be a tremendous boost to the economy of the country without materially affecting the overall international trade in sugar.

#### ECONOMY

Liberia's gross national product (GNP) in 1968 was estimated at U.S. \$239 million with a per capita income of about \$220. As a base for its economy, Liberia has three natural resources -- iron ore, rubber and timber. The development of the first two is well in hand. The timber resources are excellent but are only beginning to be farmed. Other mineral and plantation resources may be developed as a result of surveys undertaken by the Liberian Government with the help of the U.S. Government and other external donors. The highly modern techniques employed in the extraction of ore and some of the urban aspects of the Monrovia area contrast sharply with the life of the interior tribes.

Notable gains have already been made in the development of Liberia's infrastructure, a major area of U.S. assistance. Projects completed with the help of U.S. grants or loans include the free port of Monrovia, Roberts International Airport, part of the interior road system, Monrovia's new water supply and sewage disposal system (under construction), a hydroelectric dam at Mount Coffee near Monrovia, and elementary and secondary schools. Also in process are further improvements to the Roberts International Airport, the National Medical Center, and a survey of desirable road and port development in the southeastern part of the country.

Development of the skills of the Liberian people has assumed its proper place as the top priority of the Government. The United States is giving full

support to the Government in its attempt to create the education, training and health facilities that are urgently required. The training of sufficient skilled manpower to keep pace with the development of natural resources and infrastructure is a crucial and stubborn problem. Assistance is also provided for improving Liberia's public administration.

The Peace Corps has sent volunteers to teach in Liberia's schools and to assist in public administration and rural development.

Liberia's open-door investment policy has attracted large sums of private investment for development projects, such as the Bomi Hills and Mano River iron ore projects, and additional amounts are expected in the future. In 1963, a Swedish-American group began extracting major iron ore deposits at Nimba Mountain (the LAMCO project). West German investors have developed iron ore resources at the Bong Mountain range. A large private U.S. rubber company has long-standing major holdings in Liberia; several other private U.S. and foreign firms are in the process of developing new rubber plantations. In addition, a few oil companies have expressed interest in conducting offshore explorations.

Several U.N. specialized agencies have extended assistance which should continue in the future. For example, the Food and Agriculture Organization (FAO) has implemented a special-fund project in agricultural education, and the International Bank for Reconstruction and Development (IBRD) has lent funds for the construction of roads.

In 1968, Liberia's imports totaled \$115 million and included machinery, transportation equipment, foodstuffs and manufactured goods. Its exports were iron ore, diamonds, rubber, coffee, and cocoa and amounted to \$150 million.



Liberia's major trading partners are the United States, the Netherlands, the United Kingdom and West Germany.

Liberia encountered rather serious financial difficulties in 1963 as a result of large short-term debt obligations, a drop in world prices of both rubber and iron ore, and a reduction in private and public capital investment. In 1969, the Liberian external debt was rescheduled with the assistance of the International Monetary Fund (IMF). At the same time, an austerity program was adopted. Reduced government spending, however, has slowed the pace of economic growth, while budget deficits have continued. The long-term economic prospects of the country are excellent, but it must face serious economic difficulties during the next few years.

The Petition of Liberia which I have submitted is compatible with all the purposes of the law authorizing the Sugar Program, particularly with the letter and spirit and the purpose of the program to permit friendly foreign governments to participate equitably in supplying the United States sugar market for the dual purpose of encouraging export of United States exports and assuring our Nation of a dependable supply of sugar. Certainly, it is not equitable to deny to Liberia at least a reasonable quota in our sugar market, while at the same time providing enormous quotas to other areas and nations which cannot even fill the quotas which they now have. I do not want to point out all of the inequities in the House Bill, but I feel justified in urging that this great Committee carefully consider all of the inequities in the House Bill. The beet producers of America are not under any restrictions. They can produce all of the sugar beets they need or want. Adequate provisions have been made for all of the cane-producing areas of our country, but why, pray tell me, should 100,000 tons be set aside for NEW continental cane sugar areas beginning in 1973? But for this unwarranted claim, other quotas could very well be granted.

In conclusion, Mr. Chairman, I can only express the hope that this Committee will do and perform its own great duty.

*Harold D. Cooley*  
*Attorney and Counselor at Law*  
 2300 Calvert Street, Suite 240  
 American Security & Trust Building  
 Washington, D. C. 20014

Area Code 202 222 4071

Cable address Harold

January 29, 1971

Mr. James R. Hickman  
 Agricultural Attache  
 U.S. Embassy  
 Monrovia, Liberia

Dear Mr. Hickman:

Recently I had a conference with the Liberian Ambassador to the U.S. concerning the possibility of Liberia obtaining a sugar quota in the American market.

I am certain that you understand the importance of our Sugar Program which has operated so successfully for the past 30 years. It is a very complicated program, but upon its success depends the survival of our domestic producers who cannot possibly compete with other sugar-producing areas. We therefore must obtain a higher price here than exists elsewhere.

I understand from my talks with the Ambassador that Liberia consumes 5,000 tons of sugar annually - all of which is imported, and that neither sugar beets nor cane are grown in the country. He believes, however, that Liberia's soil and climate are suitable for sugar production, and he has emphasized that the country needs to diversify agriculture.

I would like to have the benefit of your opinion concerning Liberia and its potential for sugar production. The Sugar Program will expire at the end of 1971, but I have been assured by Rep. W.R. Poage of Texas (who succeeded me as Chairman of the House Committee on Agriculture) that hearings will start in March and will continue for many weeks thereafter. Even though Liberia does not have a sugar quota, I believe we can obtain one, if not in the current year, then at an early date next year.

After serving for 32 years in Congress, I have resumed the practice of law in my hometown of Nashville, North Carolina and also at the above address in Washington. I have assured the Liberian Ambassador that you will cooperate with him and will be of every appropriate assistance to him and to the officials of his government.

Looking forward to hearing from you at your earliest convenience, I am

Sincerely,

*Harold D. Cooley*

Harold D. Cooley

HDC/cvg

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UNITED STATES DEPARTMENT OF AGRICULTURE  
 FOREIGN AGRICULTURAL SERVICE  
 OFFICE OF AGRICULTURAL ATTACHE

American Embassy  
 P. O. Box 98  
 Monrovia, Liberia

February 23, 1971

Mr. Harold D. Cooley  
 Attorney and Counselor at Law  
 2300 Calvert Street, Suite 200  
 American Security and Trust Building  
 Washington, D. C. 20008

Dear Mr. Cooley:

Please excuse my delay in replying to your letter of January 29, 1971. I have been trying to obtain a copy of a report which contains a great deal of background information which you may find useful in making application for a Liberian Sugar Quota. A photocopy of the report was made for your use as there are only three copies to be found in Monrovia and the owners didn't want to part with them.

This study is most comprehensive and, of course, prepared by a team of experts much more qualified than I to assess Liberian potential for sugar production. I personally feel that Liberia has the potential for producing sugar in excess of the 50,000 metric ton quota for which they have applied. Liberia needs to diversify her commercial agriculture and the production of sugar would help her in this respect. Also the money involved in the annual importation of approximately 5,000 metric tons of sugar could be diverted to more productive uses. For several years the Secretary of Agriculture, Mr. James T. Phillips, Jr., has proposed that Liberia become a sugar producing country. During recent conversations with Secretary Phillips he indicated that with assurances of a sugar quota, a sugar industry could be started at once as foreign capital is available immediately for such a venture. The Secretary is aware of the problems one encounters in obtaining a quota and doesn't intend to start a sugar program until a quota is obtained; however, he is planning to have current cost studies made.

We will be very happy to supply any additional available information you may need.

Sincerely,

*James R. Hickman*

James R. Hickman  
 Agricultural Attache

Enclosure

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T H A I L A N DSTATEMENT BY HAROLD D. COOLEY, ATTORNEY AT LAW,  
BEFORE THE COMMITTEE ON FINANCE, UNITED STATES SENATE

Mr. Chairman and Members of the Committee:

I present a Petition for an increased quota in our sugar market for the country of Thailand. I shall try to comply with the suggestions contained in the Committee's press release of June 10, 1971.

Thailand has always been friendly with the United States; never discriminated against the citizens of our country, and has never expropriated property owned by American citizens. Thailand has made valuable contributions to the allied cause both in the Republic of Korea and in South Vietnam.

Thailand has a total population of 35 million -- 26 million of whom are engaged in agriculture with a national income (1970) of United States \$6.0 billion. The total income from crops in 1970 was United States \$1.3 billion.

Free schools are provided for children; medical care and hospital services are provided at a minimum cost, but the fact remains that the annual per capita income is very small indeed.

The Committee is receiving Petitions from the representatives of many countries of the world. While I would not suggest that we can or should buy friends throughout the world, I do believe that we should deal with our present friends on a friendly basis. As we look across the earth's horizon, we see many terrifying pictures which are calculated to arouse deep sympathies and hideous passions. Unless we are constantly on guard, the belligerent spirit which rides across the earth upon a reckless and a rapacious tide of violence will sweep us into bewilderment and the conflict and carnage which is having its rendezvous with death in other parts of the world.

Thailand presented a Petition to this Committee when sugar legislation was last considered by this Committee and by Congress. The Petition was approved by Congress and Thailand was given a "sugar quota. The country at that time established the fact that it was a worthy friend and the quota provided was filled. Thailand now has a surplus of sugar in inventories and is capable of providing our American market with substantially more sugar.

As we curtail our activities in Vietnam and withdraw our fighting forces Thailand is sustaining very substantial economic losses and, by favorable decision on the part of the Petition I am now submitting, we will enable Thailand to become more self-sufficient and even a stronger friend. The country has no other premium-priced market; its relative dependence on sugar as a source of foreign exchange and such income from sugar is needed for economic development. The country is geographically situated in a strategic area and has provided substantial supplies to the United States necessitated by the war in Vietnam.

For over 100 years, Thailand has maintained the tradition of close and cordial relationship with the United States. The first Treaty of Amity and Commerce between the two countries was signed in 1833, being the first which the United States Government concluded with an Asian nation. Since then there have been other treaties and agreements binding the two countries in a fruitful and mutually beneficial cooperation in various fields of activities. In Thailand, there has never been any governments' policy of discrimination of any kind against the United States' citizens. On the contrary the Treaty of Amity and Economic Relations of 1966, ensures the United States nationals and companies that they will receive fair and honest treatment in the conduct of their businesses, whether commercial, industrial, financial, or others and their property receives the most constant protection and security, and shall not be taken without due regard of law or without payment of just compensation in accordance with the principles of international law. Moreover, under the present

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Agreement concerning the guaranty of private investments of 1965, American investors enjoy a wide scope of guarantees accorded by the Thai Government on their investments in Thailand.

Dependability as a source of sugar supply is reflected by the country's history in supplying the United States' market the maintenance of sugar inventories and its potential for supplying additional sugar upon call during critical periods of short supply.

Thailand is comparatively a newcomer to the United States' sugar market, being granted the statutory yearly quota of 16,859 short tons raw value for the first time in 1966, and has, so far not much of a record to show. In fact, in the third quota year (1968) Thailand REQUESTED FOR A WAIVER of its quota. The main reason for this unfortunate failure was the low sugar production as the result of the exceptionally dry weather during cane-growing period. That prolonged and most unusual drought affected almost the entire country for a period of four (4) months from May to August, 1967 leaving the cane crop extremely dry and causing severe damages in many areas. The rain finally came in September but it was too late to save the crop. The output of cane was therefore, reduced by seventeen (17) percent from the first official estimate. After this regrettable incident the Thai Government laid down various measures to ensure dependable supply, even in exceptional circumstances or force majeure so that Thailand shall fulfill its quota. The following statistics show that apart from the failure of 1968 already referred to, Thailand has satisfactorily fulfilled its obligation:

Export of Thai sugar to United States (STRV)

1966	1967	1968	1969	1970	1971
17, 153	17,466	-	17,686	18,909	17,872(a)

Note: (a) sold but not yet delivered.

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In a later paragraph dealing with the potential of the Thai sugar industry, it will be shown that Thailand has great potential for sugar production. Thus, provided with more adequate quota together with experience gained in the past few years and regulated by Government safeguard measures, Thailand can claim good dependability as a source of sugar supply.

In 1961 by virtue of the Sugar Industry Act, B.E. 2504 (1961), the Office of the Sugar Industry Aid Fund was established. The Office was entrusted with the task of keeping sugar inventories which was satisfactorily executed until its dissolution in 1966 by the Sugar Industry Act, B.E. 2508 (1965). The task has ever since been satisfactorily continued by the Sugar Institute, which was first temporarily set up by the Government and later permanently established by virtue of the Sugar Act, B.E. 2511 (1968).

Sugar has been produced in Thailand for centuries and indeed, by the first half of the 19th Century sugar was her chief export to Europe, reaching an annual figure of over 12,000 metric tons before a decline, which turned her into a sugar-importing country towards the end of the century. The new era of Thailand's sugar industry began in 1938 when the first of modern sugar mills were established, but the industry really developed after the Second World War especially during the last ten (10) years, as may be noted from the comparison of the following data:

	<u>1970-71</u>	<u>1969-70</u>	<u>1966-67</u>	<u>1961-62</u>
	(a)			
Sugar Production (Metric Tons)	580,000	464,437	232,412	151,344
Harvested area (hectares)	138,143	128,223	57,821	70,613 b)
Number of factories	29	29	32	43
Total grinding capacity (metric tons of cane/day)	45,000	41,200	27,000	25,000
Sugar consumption (metric tons)	381,000	360,373	223,152	125,077
Per Capita consumption (kg.)	10.4	10.4	6.8	4.4

NOTE: a) estimate

b) the reduction of the number of factories from 1961-1970 is due to the merging of SMALL INEFFICIENTLY operated factories.

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Thailand has very fertile soil in abundant areas for cane growing, as well as ideal climatic conditions. The climate data of Thailand clearly shows that the country has hardly experienced any typhoons or hurricanes. On the contrary, she is endowed with a long and warm summer growing season with adequate rainfall, together with a cool, dry and sunny ripening and harvesting season. There is without a shadow of a doubt, evidence that Thailand possesses natural conditions for the expansion of the sugar industry for a very long time to come.

The Government by virtue of the Sugar Institute Act of 1968, established in 1968 under the Ministry of Industry, the Sugar Institute whose main function is to give technical and financial assistance to cane growers and sugar millers. A budget of 4.8 million dollars has been allocated to the Ministry for buying sugar at guaranteed prices, thus helping to ensure an adequate stock of sugar for export. By virtue of the same Sugar Act, the Sugar Advisory Board was also established whose main function is to stabilize the production and price of cane and sugar in the country. In other words, the Board will ensure that the growth of the industry will be in harmony with the demands in the domestic and overseas markets.

Reciprocal trade is reflected by purchase of United States products and services as contrasted with sales to the United States, and also by Government treatment of imports from the United States.

Thailand and the United States have had a very long history of trade relationship which has been founded on mutual respect and goodwill.

If one examines the statistics of the export and import trade between Thailand and the United States in recent years, for example: from 1963 to 1969, one may readily note that United States exports to Thailand have almost doubled; that is, from a total value of about U.S. \$115 Million in 1963, to a

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total value of about U. S. \$188 Million in 1969, whereas exports from Thailand to the United States increased from a total value of about U.S. \$34 Million in 1963 to a total value in 1969 of about U.S. \$104 Million, out of which U.S. \$2.3 Million came from sugar. Hence, the trade deficit which Thailand incurred from its trade with the United States increased from about \$41 Million in 1963 to about \$84 Million in 1969. This trade deficit is expected to increase to \$90 Million in 1970. This is due to the fact that Thailand is importing both agricultural and industrial goods from the United States the value of which has been on an increasing trend, while Thailand's exports to the United States consist mainly of primary commodities whose prices have been deteriorating in recent years.

With regard to the composition of trade between the two countries, it may be noted that Thailand's imports from the United States consist mainly of milk and dairy products, TOBACCO, COTTON, CHEMICALS, SYNTHETIC FIBRE, PAPER AND PAPER PRODUCTS, MACHINERY, GENERATORS, ELECTRICAL EQUIPMENT, AUTOMOBILES, PHARMACEUTICAL SUPPLIES, and MEDICAL INSTRUMENTS; whereas the United States imports from Thailand mainly comprise of TIN, RUBBER, TAPICOA FLOUR, TEAK, KAPOK, SEEDLAC, and CANNED FRUITS. It may also be noted that Thailand's imports from the United States in 1969 of \$188 Million consisted mainly of tobacco (\$19.1 million), cotton (\$5.1 million), food (\$7.2 million), chemicals (\$16.6 million), machinery and equipment, agricultural machinery, motor vehicles, etc.(\$60.2 million), whereas Thailand's exports to the United States in the same year of \$104 Million consisted mainly of tin (\$51.5 million), rubber (\$15.3 million), tapicoca, cassava (\$5.1 million), and sugar (\$2.3 million).

With the exception of the statutory quota of about 18,000 S.T.R.V. granted by the United States Government, Thailand has shared NO OTHER PREMIUM-PRICED MARKET IN THE WORLD.

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Thailand cannot claim that she is heavily dependent on sugar as a source of foreign exchange, the export earning of sugar being less than one (1) per cent of the total export earnings, but she can claim that her economy is becoming INCREASINGLY DEPENDENT ON SUGAR.

Rice is Thailand's CHIEF EXPORT. It is facing serious competition FROM THE UNITED STATES P.L. 480 PROGRAM. Thailand's rice export has in recent years fallen steadily and rapidly. For example: from 1.9 million metric tons in 1964 to ONE MILLION METRIC TONS in 1969, or in value from United States \$219 Million to United States \$147 Million in the same period.

Thailand has anticipated this for sometime and has tried to diversify her exports, but the alternative crops such as kenaf and cotton are also facing difficulties. For example, kenaf faces stiffer competition from synthetic fibres, her cotton crops although not enough to satisfy her own need, face many setbacks because of pests, diseases and unfavorable weather conditions. As sugar cane can grow well with comparatively few pests and diseases, and can stand both wet and dry conditions fairly well, more farmers are CHANGING FROM OTHER CROPS TO SUGAR CANE. Moreover, production capacity already exists for up to 600,000 METRIC TONS OF SUGAR A YEAR, as can be seen from the production statistics already given.

Thailand is facing economic difficulties. Her total imports in 1970 amounted to U.S. \$1,325 Million while the total exports to only U.S. \$735 Million, resulting in a TRADE DEFICIT OF ABOUT U.S. \$590 Million.

Thailand is thus forced to look desperately for alternatives to her traditional exports. Sugar is a natural and promising alternative if Thailand is allowed to develop it.

A yearly surplus of 200,000 metric tons of sugar for export is easily attainable. But, Thailand export outlet of sugar is strictly limited to a basic yearly quota of 36,000 metric tons for the world market under the ISO and about 16,000 metric tons for the United States market.

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There is thus a great need for substantial increase in export possibilities for Thailand sugar. Thailand has tried her utmost to obtain assistance from the ISO who, appreciating her problems, has already allocated 10,000 metric tons as a hardship relief and 35,000 metric tons as a temporary relief for 1971. These are only temporary measures. She needs an increase in her basic quota. However, this is difficult, if not impossible, to obtain during the duration of the present International Sugar Agreement, which lasts until the END OF 1973. Thus, she is in great need of a substantial increase of United States statutory quota

If the target to export 200,000 METRIC TONS of sugar yearly can be reached, it will bring in about \$25 Million a year which will contribute greatly to the rectification of the balance of trade problems that she is facing now and, also to her economic development efforts.

During the past decade the gross domestic product of Thailand at an average annual rate of about 8.2 percent in real terms. As population grew at about 3.2 percent per annum during the decade the annual per capita income growth rate was therefore, about 4.9 percent. Per capita gross domestic product was approximately \$170 in 1969.

The major source of economic growth during the past decade were the increase in aggregate demand which had induced the increases in domestic production, together with a simultaneous increase in total foreign exchange earnings. From 1965 to 1968, invisible exports and private investment grew very rapidly. Increase in invisible exports was mainly due to demands generated by United States military expenditures in Thailand, while the growth in private investment was largely due to the rapid growth of the economy.

However, since 1969 the country has faced the problems of decreasing invisible exports owing mainly to reduced military expenditure of the United States Government, as well as the slowing down of agricultural exports due mainly

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to the slackening of demand for rice in the international markets. The sharp reduction of United States military expenditures together with the slowing down of the growth of total merchandise exports have, therefore, brought about a deteriorating balance of payments situation in the last few years.

The structural change needed now is for the reallocation of productive factors to increase the rate of growth of merchandise exports. Diversification adjustments of production in accordance with world market demand are indeed necessary. Thailand can no longer rely solely on invisible exports. The Thai economy can shift into a pattern of long-term stable growth only by the shifting of domestic resources into production of merchandise exports.

It is, therefore, mainly for these reasons that the third Five-Year Economic and Social Development Plan (1970-1976) has placed great emphasis on the diversification of merchandise exports of the country. Sugar being viewed as a promising export item during the 1970's was, therefore, given a prominent place in the country's third Five-Year Plan. The production target was set at 600,000 - 700,000 tons a year for the next five years. To achieve the said production target an annual export outlet of about 200,000 TONS must be sought.

It is at present abundantly clear that without an increase in the United States quota, it is impossible for Thailand to achieve the planned target. The road to shifting domestic resources into production of merchandise exports will be an arduous and long one. But with the help and support of the United States in providing an ASSURED MARKET FOR A QUOTA OF 100,000 TONS OF THAI SUGAR, which IS ONLY A VERY SMALL FRACTION OF THE TOTAL amount of sugar imports of the United States, a great contribution will be made to the economic and social development of Thailand

It is important to know to what extent the benefits of participation in this market are shared by factories and larger land owners with farmers and workers, together with other socio-economic policies in the quota countries.

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It should be emphasized that the cultivation of sugar cane in Thailand has increased very rapidly in recent years and has already provided for the livelihood of about 2 million persons in all.

At present the total harvested area is about 140,000 hectares which yield about 6 MILLION TONS OF SUGAR CANE. The number of people dependent upon the sugar industry may be broken down as follows:

1. Sugar cane planters	1,200,000	persons
2. Farming laborers (daily)	420,000	"
3. Harvesting and loading laborers (daily)	300,000	"
4. Transportation workers	50,000	"
5. Factory workers	<u>30,000</u>	"
TOTAL -	2,000,000	persons

The number of persons DERIVING INCOME FROM THE INDUSTRY TOTAL 2,000,000. Almost all sugar plantations in Thailand are OWNED BY THE PLANTERS THEMSELVES,

The assistance given by the Government to the planters is mainly in the form of technical advices and some financial assistance during the growing season.

It is, therefore, quite clear that if the small individual planters are not helped so that they may continue receiving their already meagre income from cane growing serious social unrest might result. On the other hand, a greater access to the United States market will enable Thailand to produce more sugar and thus will enable the sugar factory to lower its costs of production. The benefit of lower cost will automatically be transferred in the form of higher sugar cane price to the individual planters whose future depends so much on the prosperity of the sugar industry.

A sugar quota for Thailand will contribute to one of the major provisions of the Sugar Act "to promote the export trade of the United States". Thailand has indicated its willingness to increase volume of trade with the United States

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As a comparison with present sugar quota countries, I would like to point out that Thailand's imports of United States agricultural commodities exceeded those of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Haiti, Ecuador, Paraguay, British Honduras, French East Indies, and the Fiji Islands, more than half of the countries which participated in the statutory quota system over the past three years. Furthermore, all of Thailand's imports of agricultural commodities were for cash. Thailand's principal exports include: rice, rubber, tin, maize, teak, and tapioca products. Major imports are petroleum products, iron and steel, motor vehicles, and industrial machinery.

In closing, I want to again urge this Committee to give every appropriate consideration to the Petition I have presented. I thank you for the privilege of testifying and for the consideration you have accorded me.



UNITED STATES DEPARTMENT OF AGRICULTURE  
 FOREIGN AGRICULTURAL SERVICE  
 OFFICE OF AGRICULTURAL ATTACHE  
 American Embassy  
 Bangkok, Thailand  
 April 22, 1971

Mr. Harold D. Cooley  
 Attorney and Counselor at Law  
 2300 Calvert Street, Suite 200  
 American Security & Trust Building  
 Washington, D.C. 20008

Dear Mr. Cooley:

This acknowledges your letter dated April 14, 1971 regarding the Thai sugar quota.

Under the present situation, given world markets for Thai rice as well as other rice exporting countries, Thailand must diversify her agriculture and if possible quickly come up with other exportable crops to replace the lost foreign exchange earnings from reduced rice exports as well as reduced prices. Sugar is one crop where Thailand could increase production and would not give the U.S. competition problems.

As you well know, Thailand has a long, friendly, and close association with the United States. At this particular time in our history, Thailand has stood with the U.S. and without her open arms policy with regard to the utilization of her land and sea areas for U.S. bases. The expense of carrying on our military actions in this part of the world would have probably more than doubled. No other country in this part of the world gave us carte blanche and although the U.S. has probably been more than fair in reimbursements, these reimbursements cannot begin to cover the costs had we (the U.S.) had to resort to bases in the Philippines or other distant areas.

Thailand is one of the big markets for American raw cotton and tobacco. Both tobacco and cotton purchases for use in Thailand are moving up each year. Thailand through the Tobacco Monopoly is at this very moment buying 30 million dollars worth of tobacco. Captain Dhavi Chandanayingyong,

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the deputy managing director, TTM is now in the United States checking on this purchase. You may wish to talk with him. He can be contacted through Dr. Hugh Kiger's office in the USDA.

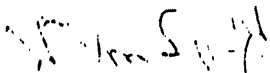
Enclosed is a brief review of the data on sugar production.

Thailand also consumes sugar palm sugar and coconut palm sugar. This accounts for the rather low figure for domestic consumption of cane sugar.

One company has been assigned the job of filling the U.S. quota. This company divides the quota among the 28 mills who in turn pass on the increased income to the individual farmers. The increased benefit to Thailand and her farmers is by this means fairly well spread.

I believe that Thailand could meet a 100,000 ton quota. It would take a natural disaster to preclude her meeting it. Thailand is generally free from the Typhoon and Hurricane areas in this part of the world.

Sincerely yours,



Wm. von Seggern, Jr.  
Agricultural Attache

Enclosure

Please give my regards to Roger.

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**Thailand's Participation in Korean  
War and Vietnam War**

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In the Korean conflict, Thailand had sent detachments from her army, navy, and air force to serve under the United Nations Unified Command from the beginning to the end of the war. Again in Vietnam, at the request of the United States and South Vietnamese Governments, Thailand also sends detachments from her armed forces to fight against the communists. Besides, Thailand has also allowed the United States to build/air bases <sup>without charges</sup> in her territory from which the United States could support its war efforts in Vietnam. The fact that the United States can operate in the Vietnam war from bases in Thailand has undoubtedly saved not only American lives but also countless millions of dollars for the American Treasury.

The Thai armed forces now in Vietnam consist of the following:-

- (1) Army - 1 brigade (12,000 men)
- (2) Navy - One motor gun boat (PGM) and one landing ship tank (LST)
- (3) Air force - 1 air Transport unit (3 planes)

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The CHAIRMAN. We will now call a witness who was not here previously, Mr. Lawrence Sherman. Is he here?

**STATEMENT OF LAWRENCE SHERMAN, EXECUTIVE DIRECTOR, MIGRANT LEGAL ACTION PROGRAM, INC.; ON BEHALF OF UNITED MIGRANTS FOR OPPORTUNITY AND ADVOCATES FOR BASIC LEGAL EQUITY, INC.**

Mr. SHERMAN. Mr. Chairman and members of the committee, my name is Lawrence Sherman and I am the executive director of the Migrant Legal Action program in Washington, D.C. This is an OEO organization.

The CHAIRMAN. I don't know whether you have been in the room today. We are proceeding under a 5-minute rule so we will have to ask you to confine yourself to 5 minutes in your statement in chief.

Mr. SHERMAN. Yes. We are an OEO-funded organization providing legal assistance to migrants in the field; I am here representing two such programs. One is United Migrants for Opportunity, a Michigan-based corporation, and the other is a neighboring Ohio organization, Advocates for Basic Legal Equality.

What I am here today to propose to the committee is a modification of the Sugar Act so that it carries out the original intentions of Congress in 1937 and thereafter, that is to say that the sugar workers get a fair share of the benefits of this regulated industry. I suggest very few changes in the present bill to accomplish this result. What I am suggesting basically is a bill to help the working poor by conditioning the paying to a producer of subsidies on the payment by that producer of fair wages, provision of decent housing and certain other basic labor protections that other farm workers get as do other industrial labor performing the same kind of work. What I have suggested in the record copy, which I will submit after my testimony, is a bill which highly resembles the Matsunaga bill introduced before the House agricultural committee except that it does not adopt the fixed wage scale that was specified in that bill or a wage formula. Rather, it sets specific criteria for the Secretary of Agriculture in making his annual hearings but does not reverse any of the other criteria he has formerly used. We have tried to offer some realistic considerations that bear upon farm worker wages to be added by statute into the criteria that the Secretary of Agriculture now uses.

The other thing that we seek to do by this bill, which should not come as a tremendous surprise to this committee, is to guarantee that these members of the working poor receive an annualized income of at least the poverty level. The wage rates now set by the Secretary of Agriculture are far below what would yield poverty level income if the sugar worker worked in sugar all the time. Needless to say he doesn't. Even if the Sugar Act provided wages along the lines I specified, which I would estimate to be around \$2.25 per hour right now, the sugar worker only works if he does beets maybe 8 to 10 weeks so that an annualized income of say \$100 a week year round for hours of 10, 12, 14 hours a day—which is the normal workweek—would not give him the minimum poverty level income, in reality, but it would go a long way. It would at least assure when he is working in one principal crop where hand harvest labor is used that he would receive a decent

wage. This is what the thrust of our proposed bill would accomplish. It would not raise the rates paid by the producer significantly. It would spread these costs around to all industry members. As we have shown in our testimony many, many producers and processors do pay a fair paying wage. Many don't. Many get away with violating the present law and therefore get an unfair competitive advantage over those who do obey the law. We seek by the proposal we have offered to avoid that kind of an anomalous situation.

We have also specified relevant procedures and also certain factors, as I mentioned before, that the Secretary of Agriculture should use in future wage proceedings.

One other provision or one other series of provisions bears mention. We have provided specific provision for decent housing. Housing, but not a decent house, is always provided as a fringe benefit for the migratory sugar worker, and we propose that, like in other Federal regulation, there must be minimum acceptable sanitary housing; that protections against illegal aliens should be built into the bill; that excessive deductions should be prohibited; and finally that workers who complain to the ASCS or to anyone else about being denied statutory benefits should be protected against reprisals. All of these things are in any other provision that applies to workers, like the Fair Labor Standards Act or the Wagner-Peyser Act. They are not now in the Sugar Act. It is our contention that the Secretary of Agriculture today could enact regulations to provide all of these protections. He has been reluctant to do so in the past. Our testimony goes into great detail concerning his unresponsiveness to worker pleas and to testimony in the past by organized labor indicating everything that I have said here today. What I am suggesting to this committee is to do the following. Through some simple changes in language, make binding standards for the Secretary to insure that the workers get a fair share of this subsidization that benefits all other parts of the domestic industry.

I would summarize the purpose of the proposed bill to first of all expand the definition of wages in accordance with customary understanding of real wages in the industry. That is, it includes fringe benefits such as housing, and that wages are directly affected by competition from illegal aliens or excessive deductions made from the workers' wages, et cetera. This is a commonsense definition that I am proposing to this committee.

Secondly, that the bill be as much self-enforcing as possible and that it ought so to equalize labor costs throughout the industry. Again there is a fair measure.

Finally, the most important thing is that it actually works to insure the farmworkers, the sugar workers here that they receive a fair share of the industry protections being given under the present act. Now the fair share is mentioned right in the present bill and the bill passed by the House but the way the bill is written and the way the Secretary of Agriculture has construed his powers has in reality operated so that the sugar worker does not get the same fair treatment that other people in industry now get. We are asking this Congress to reverse that by writing clear standards into the statute.

Now, I don't know that it would really profit—benefit.

Senator BENNETT. Mr. Chairman, he has had 7 minutes.

Mr. SHERMAN. OK, fine. Are there any questions?

Senator BENNETT. I would be happy to have you summarize, if there is still something you have left out of your summary.

Mr. SHERMAN. No; but what I was just going to get to was the fact that I thought it would be belaboring the committee to go into the specific horrors that I recounted in my testimony or to review the legislative history. It is all there. I am not really accusing anyone of bad faith. I am saying that the Secretary of Agriculture and——

Senator BENNETT. Now, you are repetitive again, I think you have had your time.

Senator ANDERSON. This is the first time in a long time that I have seen my name in these presentations. At the top of page 3, would you tell us some more about that.

Mr. SHERMAN. Well, I just read the Record, and there was a letter from you which indicated that you had met with certain people in the industry and that you had therefore proposed a bill. That is what was in the Congressional Record and what I said there I was unable from the reading of the legislative history to determine whether you instituted the proposed bill that I criticized or that you were responding to the various groups that you met. What I did make clear was that neither organized labor, nor farm worker interests conferred with the Secretary prior to introduction of the bill and that after labor pointed out that this bill was not as good as the present provisions, the Secretary of Agriculture, which I presume was you, Mr. Anderson, did not himself or the Department propose the original bill. That rather it was done on the House floor by other House members. I was attempting to make an argument here that the Secretary of Agriculture, even then, in 1947, was not a vigorous advocate of farm worker interests. I am not accusing you of bad faith then or the Secretary now. I am saying that the primary constituency of the Department of Agriculture is the grower, the producer, and the processor, and I am saying that Congress now should say it is also the worker.

Senator ANDERSON. You say "Secretary Clinton C. Anderson not surprisingly proposed to abolish the fair wage and price provisions and limit his powers over contracts between producers and laborers."

Mr. SHERMAN. That is true, that is what the bill did. When you were asked about it you said that you had conferred with all appropriate representatives and this is what the industry wanted. There was a lot of debate about that and it was clarified and later on you or one of the people in the Department of Agriculture said, "We didn't intentionally do this. We attempted to respond to those people who asked us to make modifications and we have nothing against the present bill."

Senator ANDERSON. Did you ever hear of Ambassador Bunker?

Mr. SHERMAN. Excuse me.

Senator ANDERSON. He was head of the sugar group at one time. He gave us a report called the Bunker report which is a sort of bible on sugar legislation. He has done a very fine job. Bob Shields was there as lawyer. The beet sugar group picked him up to be their chief counsel. I just don't see what you mean here; you are saying things I don't think are true at all about me. I would hope you would check them yourself but I do know the workers in the beet area were happy to have a decent wage scale, and so it was expressed round after round. I know the members of the committee thought it was a good bill. I am sure every person in Senator Bennett's area said it was

a good bill and proper. I think you will find the interior States all through were satisfied by it. We didn't deal with any cane sugar prices. It was pretty impossible for us to do it. But I am sure all the workers were very carefully checked to see what their reaction was.

Mr. SHERMAN. Well, it did at that time freeze out the beet workers and it was later—

Senator ANDERSON. Beet workers, no.

Mr. SHERMAN. The beet workers were not covered by the bill proposed.

Senator ANDERSON. It didn't freeze them out.

Mr. SHERMAN. It deleted it.

Senator ANDERSON. I have not heard of it since at all. Aren't these workers satisfied throughout the area?

Mr. SHERMAN. Were they then or are they now?

Senator ANDERSON. Are they now.

Mr. SHERMAN. They are not, definitely not. The bill as it now operates guarantees under the Secretary of Agriculture recent wage determinations \$1.85 an hour which is in farm work decent wages. It is better than the average minimum wage of \$1.30 an hour, but it is not a living wage. Since the industry is being subsidized, I am suggesting to the Congress that it provide a decent living wage when it is conferring benefits. It will not cost the consumer any more, it will not cost the producer significantly any more.

Senator ANDERSON. Mr. Chairman, I don't want to take up your time. I will say when this legislation was made it might just as well have been checked with the person who made the original decision. I went over the bill as carefully and as hard as I could. It was well established as being a very good bill for a long time and we had very, very fine reports all the way through. I am sure the Senator from the State in his area of Utah would say it was a fair bill all the way through. I just hope you might have tried to find out if it was a fair bill.

The CHAIRMAN. Further questions?

Senator MILLER. On page 6 of your statement you point out certain actions by the Secretary of Labor as actions which I would guess that you favored but then in the next paragraph you say:

In the light of these two precedents and the Secretary's insensitivity to farm-worker interests . . .

Are you talking about the Secretary of Labor?

Mr. SHERMAN. No; I was not. It was an editorial error, that was referring back to the Secretary of Agriculture.

Senator MILLER. I see.

Mr. SHERMAN. I would not right here assert that the Secretary of Labor in other respects has done as well as he could by farm laborers but that is not the point in this testimony.

Senator MILLER. Well, the insensitivity comment is not directed at the Secretary of Labor.

Mr. SHERMAN. That is correct.

Senator MILLER. It is directed at the Secretary of Agriculture.

Mr. SHERMAN. That is right.

Senator MILLER. But then you go on to recommend that certain provisions of the Sugar Act be amended to provide certain matters and

were it done that way then the Secretary of Agriculture would certainly have jurisdiction, would he not?

Mr. SHERMAN. That is correct.

Senator MILLER. Well then really, aren't you suggesting that the failure of Congress to give the Secretary of Agriculture such jurisdiction is where the insensitivity occurs rather than in the hands of the Secretary who does not have the powers which you propose he be given?

Mr. SHERMAN. Well, I suggest in the testimony the Secretary right now has the powers if he would construe the words "wages" broadly. Congress can show him more clearly through new legislation that that is what they intended. Reading the legislative history will not give an answer one way or the other. Congress never addressed itself to housing, illegal aliens, unfair deductions or reprisals against workers, so the legislative history is equivocal. I am suggesting that Congress now clears up these ambiguities by writing a bill that would give the Secretary of Agriculture these powers.

Senator MILLER. I think that is a fair request but I suggest to you that you may be assuming something when you refer to the Secretary's insensitivity because I found the Secretary to be rather sensitive; a rather sensitive man, and after all, he is not a lawyer, he is going to depend for his legal guidance on the General Counsel of the Department of Agriculture, very likely in collaboration with the Labor Department, and if they have arrived at a conclusion that he has not arrived at that authority I don't think he should be called insensitive.

Mr. SHERMAN. Well, Senator, may I respond?

Senator MILLER. Why, certainly.

Mr. SHERMAN. First of all, the citations as to insensitivity were in the pesticide area where the Secretary did not extend his authority to deal with farmworkers, the Circuit Court for the District of Columbia twice reversed the Secretary in that regard. That was the support for this assertion.

Secondly, in the appendix I have attached recent testimony by my organization in exhibit B to the Secretary of Agriculture pointing out everything I said in my testimony. The Secretary of Agriculture rejected each and every proposal I made there by pleading lack of authority. We have taken him to court, along with Colorado Rural, to determine legally whether the statute contemplates authority, that is not the bill now pending but the former statute which of course is identical. The courts will ultimately determine whether the Secretary has the authority as I maintain he does. I am suggesting to this Congress that if it wants to do justice to the farmworker, it should pass a bill now to write in these protections and, therefore, we don't have to go to the courts.

Senator MILLER. As I say, I think that is a legitimate question, Mr. Sherman. You are a lawyer, are you?

Mr. SHERMAN. Yes, sir.

Senator MILLER. Then you know that there can be great differences of opinion over legal points, and because you have one position and I have a different position and we go to court on it, I don't think is any basis for you to call me insensitive nor I to call you insensitive. This is a legal matter and I don't think we ought to call each other insensitive. It is a legal question. That is all.

Senator FANNIN. I just wonder what you intend, Mr. Sherman, through the Sugar Act to have annualized income for farm labor; in other words, you have a statement this is going to encompass, they work a few weeks in sugar activities but you are going to cover the full spectrum, is that what you intend?

Mr. SHERMAN. No, I misstated myself.

Senator FANNIN. You said annualized income.

Mr. SHERMAN. What I tried to convey was the impression if the hourly rate set by the Secretary of Agriculture were extrapolated out on an 8-hour, 52-week basis that that wage rate would be in excess of the poverty level. That wouldn't assure—

Senator FANNIN. That isn't what you said.

Mr. SHERMAN. If I said something different, I misspoke.

Senator FANNIN. You know, you said something different because you said annualized income and you set the annualized income.

Mr. SHERMAN. Just as a basis for settling the wage rate. That would not guarantee them the income because they would have to work to earn it.

Senator FANNIN. But you said an annualized income and you were not saying what they had to do, you just said through this process you were going to set their annualized income.

Mr. SHERMAN. For purposes of a wage determination.

Senator FANNIN. I know, but that is going a long way beyond realities. I just don't understand how you could come up with some recommendation like that. These people, you realize as you have stated, work just a very few weeks in this industry, but my experience, in my State of Arizona is that these people are needed for those short periods, they usually receive better pay than the average farmworker. In other words they receive a premium because it is of necessity that they be there for short periods of time, isn't that the experience pretty well throughout the country?

Mr. SHERMAN. To the extent that this statute requires it they get more. The Secretary of Agriculture says that they must be paid \$1.85 an hour this year, and the minimum wage generally is \$1.30 an hour so they certainly receive more money and it is because this Congress requires it in an act.

Senator FANNIN. That is right, but I don't understand now you are asking for something to be added upon that stipulation too. In other words additional stipulations that from the standpoint of time they are in the sugar harvesting.

Mr. SHERMAN. What I am trying to suggest is that by taking the same thing, you just specified other factors be included in the wage computation which would of necessity drive up the wage rates to around \$2.50 this year.

Senator FANNIN. Yes, but you are practically trying to rewrite the complete Labor Act in this regard, through the Sugar Act, and I can't follow you at all.

Mr. SHERMAN. Well, the short answer to it is that there are already standards that the Secretary uses. There is reference in the act right now to those standards formerly employed under the Agricultural Adjustment Act, and all I am suggesting to this committee is that those standards really don't deal with the needs of the sugar worker, and the standards I set out in our proposed legislation would more fairly re-

flect his plight. So there would be additional standards added into the ones the Secretary now uses.

Senator FANNIN. I, of course, haven't had an opportunity to study your full statement but from what you have said, it seems to me that you are trying to control through this legislation the wages of farm laborers. In other words their total wages throughout the year, in other words you are trying to set some standards that must be acceded to not only during the time that they are working in this industry but throughout the year.

Mr. SHERMAN. I hope when you are able to review the whole statement that it will be perfectly clear this applies only to sugar workers and that—

Senator FANNIN. But sugar workers are generally farm workers that are in other industries most of the year.

Mr. SHERMAN. Right, and this bill would not cover them when they work for another industry.

Senator FANNIN. Other than some of the stipulations you put on. I will study it but certainly it is misleading from what you have said and the part you have covered.

Mr. SHERMAN. Well, the point of writing it into 301 is that it makes the payment of the subsidy to the producer conditional upon him paying a wage rate and all I have done is specify standards for the Secretary which will in effect raise the wage rate.

Senator FANNIN. You are stating it again. You are trying to control through section 301 what would be involved for the farm laborer whether he happens to stay in that industry or, if it is part time in that industry, and then is in other endeavor throughout the year, other farmwork throughout the year. That is my interpretation of it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

(Mr. Sherman's prepared statement follows:)



TESTIMONY OF THE MIGRANT LEGAL ACTION PROGRAM, INC.  
 REPRESENTING  
 UNITED MIGRANTS FOR OPPORTUNITY AND ADVOCATES FOR BASIC LEGAL EQUITY, INC.  
 BEFORE THE SENATE FINANCE COMMITTEE  
 WITH RESPECT TO RENEWAL OF THE SUGAR ACT  
 21 June 1971

Mr. Chairman and Members of the Committee, my name is Lawrence Sherman. I am Executive Director of the Migrant Legal Action Program, Inc., an OEO-funded corporation, located in Washington, D.C. We are acting as counsel for the United Migrants for Opportunity, Inc. (UMOI), a non-profit, Michigan-based corporation dedicated to providing social services and technical assistance to migrant populations temporarily residing in Michigan. We also represent Advocates for Basic Legal Equality, a neighboring Ohio program serving migrants and other minority poor.

I. Sugar Workers in the Michigan-Ohio Area Receive None of the Act's Protections.

Sugar beets are an important crop in the Michigan-Ohio area. However, sugar workers and their representatives have been ignored at annual wage hearings and by the local U.S. Department of Agriculture's Agricultural Stabilization and Conservation Services. (See Exhibits A & B).

Child labor is rampant and piece rates, rather than hourly wages, are used to pay the workers. Generally, the wages paid are deplorably low--less than the Fair Labor Standards Act minimum of \$1.30 an hour and considerably less than last year's sugar rate of \$1.75 an hour. In addition to low wages, the workers usually have to live in totally inadequate housing. Should they complain about the miserably overcrowded houses, they lose not only what little shelter they have but their jobs as well. Fear of reprisals is overwhelming and the workers often return to their home states as poor as when they left them. (See Exhibits A, C, D).

Work is often unavailable when workers arrive because they are deliberately recruited only to insure the producers extra labor should they need it. The worker and his family are then forced into debt--or further into debt--to the producer or forced to ask help from the state or UMOI. When work finally becomes available, heavy and illegal deductions are immediately taken from their first pay checks. (Ibid.)

## II. Congressional Paralysis Characterizes the Legislative History of the Sugar Act.

Congress intended that farmworkers employed in the production of sugar receive special treatment. The Sugar Act is the only piece of farm legislation that makes grower support payments conditional upon his paying his employees what the Secretary of Agriculture considers a "fair and reasonable wage."

The 1937 version of the Act sets forth all basic protections that now exist under the Act. Its preamble states the purpose of the Act is, in part, "to protect the welfare of consumers of sugar and those engaged in the domestic sugar producing industry." President Roosevelt made it clear in his message to Congress requesting the enactment of this bill that this proposal should have specific protections assuring that "prevention of child labor, and the payment of wages not less than minimum standards, be included among the conditions for receiving a federal payment."<sup>1</sup> A sympathetic Congress responded. It adopted a conditional payments section<sup>2</sup> presently incorporated into the Act; broad rule making powers for the Secretary;<sup>3</sup> and gave the Secretary power to investigate all aspects of the contractual relationship between laborers and producers and processors of sugar beets and canes.<sup>4</sup> Congress imposed a continuing duty on the producer to treat his sugar workers fairly when it stated: "that if the domestic sugar industry is to obtain the advantage of a quota system it ought to be a good employer and to carry this out, legislation should prevent child labor and assure reasonable wages."<sup>5</sup>

Since that time, despite the increasingly desperate lives of farmworkers in general and sugar workers in particular, nothing has been done by this Congress or the Secretary, in his exercise of his very broad powers, to improve their lives.

<sup>1/</sup> Compare HR 5326, HR 7067 and Report 1179, 75th Congress, First Session, 1932.

<sup>2/</sup> Section 301.

<sup>3/</sup> Section 503.

<sup>4/</sup> Sections 511 and 512.

<sup>5/</sup> HR Report No. 1179 (July 2, 1937) p. 2.

The Congress has repeatedly renewed the Sugar Act to confer significant financial and other benefits on all other segments of the sugar industry while accepting the Department of Agriculture's increasingly strained justifications for ignoring the workers' interests.

By 1947, the more politically significant voices of the domestic producers and processors and foreign sugar interests had the ear of the Department and the House Agriculture Committee and the Department of Agriculture abandoned all vestiges of its former concern for sugar workers. Secretary Clinton C. Anderson not surprisingly proposed to abolish the fair wage and price provisions and limit his powers over contracts between producers and laborers.<sup>6</sup> Whether the Secretary initiated these changes or acquiesced to industry and Congressional pressure to support them is not clear. It is clear that the Department tried to give up as much responsibility as it could for insuring that "good employers" carried out their duties to the workers.<sup>7</sup>

Witnesses on behalf of labor pointed out the undue political influence of the industry; the importance of the provisions to the migratory beet workers and small farmers; the labor surpluses in beet areas; and the denial of all other statutory protections.<sup>8</sup> The House Agriculture Committee was not moved.

The Senate refused to follow the House and kept the labor protections of the 1937 Act.<sup>9</sup> When the Congressmen on the House floor strongly opposed thereafter the Department-Committee Bill, Chairman Hope offered to modify the bill.<sup>10</sup>

<sup>6</sup>/ Hearing before the House Agriculture Committee, 80th Congress, 1st Session, pp. 19, 1-10, HR 4075 and Report to 80th Congress, 1st Session.

<sup>7</sup>/ Compare Ibid. pp. 89-92, Cong. Rec. pp. 8810-8811, 8890 (Flanagan) Cong. Rec. pp. 8726-8727, 8825, 8890, 8893, (Marcantonio); pp. 8825-8826, 8890 (Glazier) Cong. Rec. 8726 (Hope), 8824 (Domengeaux).

<sup>8</sup>/ Ibid. pp. 89-99 (Glazier, Lamb, Sasuly).

<sup>9</sup>/ S. 1548, 80th Cong. 1st Session.

<sup>10</sup>/ See Cong. Rec. pp. 8726-8730.

The modification proposed by Chairman Hope, however, excluded all beet as opposed to cane workers from the 1937 protections because the beet interests did not demand these protections for their workers.<sup>11</sup>

The Hope amendment was roundly criticized as pro-industry and shortsighted because the 1937 legislation sought to protect small growers and laborers against future bad times rather than reflect the economic conditions of a particular period.<sup>12</sup> One Congressman introduced an amendment restoring the 1937 labor protective provisions. It was actively supported by many Congressmen and it later passed the House.<sup>13</sup>

In further House debate, it was agreed that the Secretary needed the strong enforcing and investigating powers of Sections 406, 409 and 410 to enforce effectively any version of Section 301, and an amendment to strike Section 406 were soundly defeated.<sup>14</sup>

The Senate consideration focused on the version of the bill passed by the House. Senator Millikin who endorsed the bill stated that: "Included in the features of the existing control system are these...Benefits payments are provided our producers. These are contingent on not employing child labor, paying labor bills and on observing requirements as to the amount of sugar produced."

Since 1947 the Department has become more allied with the industry although it is more circumspect in its public posture.

Provisions have been in the Act since the 1930's to ensure equitable treatment for all segments of the sugar industry. The same rationale that was behind the conditional payment provision in the 1930's applies today--prevasive

<sup>11/</sup> Ibid. pp. 8822-8823.

<sup>12/</sup> Ibid. pp. 8824-8826 (Congressmen Connolly, Gregan, Marcantonio, Sabath).

<sup>13/</sup> Cong. Rec. pp. 888908892, 8893 (Cong. McCormack, Marcantioni, Crawford, Murray, Flannagen, Fernandez favoring 1939 protections with Cong. Hope and Hill defending the Agricultural Committee's amendments.)

<sup>14/</sup> Ibid. p. 8898.

<sup>15/</sup> Cong. Rec. p. 10411.

federal control of all aspects of the sugar industry to avoid chaos that would otherwise ensue.

The problem, gentlemen, is that opportunity to improve the lives of sugar workers is being missed by the Department of Agriculture despite provisions at its disposal. On the contrary, the Secretary has rejected every conceivable offer proposed by responsible farmworker representatives including protections against illegal aliens and unsanitary housing; illegal wage deductions; and pay-<sup>16</sup>ment through crew leaders.<sup>17</sup> Only as the result of judicial intervention has the Secretary ever changed his position to enact regulations that would protect farmworker interests. He still refuses to recognize that housing, which is an essential condition of the labor contract, or protections against loss of jobs and illegal aliens are necessary to guaranteeing that sugar beet workers receive a "fair and reasonable wage." This Congress cannot continue to permit the Secretary to act in this manner. It must set standards for his performance just as it does in the other provisions of the Act.

<sup>16/</sup> See generally records of 1969 and 1970 wage hearings and particularly, instances of bias cited in Appendix; 1971 Report of the Migrant Research Project showing both the Department's conscious and unconscious bias against farmworkers. See also Anderson's letter of July 17, 1947, when he articulated the Department's policy of holding sugar wage hearings prior to when labor is needed (Cong. Rec. Senate 10419) and labor is thus denied a voice in such hearings.

<sup>17/</sup> (Salazar v. Hardin, 314 F. Supp. 1257 (S.C. Colo. 1970) and Rodriguez v. Hardin, 317 F. Supp. 921 (D.C. Colo. 1970).

III. The Statute Must Require Decent Housing and Payment of a Real Living Wage.

Because employment and housing problems are so great in Michigan and Ohio, we intend to demonstrate the need for legislation to change the Department's attitude toward its unmistakable duties in these areas.

We have ample authority for our contention that housing is an integral part of farmworkers' wages. The Secretary of Labor, in enforcing similar legislation, has specified worker housing standards for growers who obtain free benefits of the United States Training and Employment Service (USTES). He has gone even further. He has demanded those growers to obey every provision of the law. In addition, the Fair Labor Standards Act, in Section 3 (m) recognizes that lodging, board and other expenses are sufficiently related to wages and must be regulated under it. This Act permits only reasonable deductions to be made from wages and the Secretary of Labor has issued regulations to enforce this provision. He has even brought litigation to protect farmworkers from unreasonable deductions for housing furnished so as to insure that farmworkers' real wages are those required by statute.

In light of these two precedents and the Secretary's insensitivity to farmworker interests, there can be no question that the Department is largely responsible for the miserable status of sugar workers. It is therefore critical that the protective provisions of the Sugar Act go at least as far as the Fair Labor Standards and the Wagner-Peyser Acts, particularly since the

18/ See Appendix C for proposed legislation.

19/ See 29 USC 49, et seq.

20/ 29 CFR Part 531, et seq.

21/ Wirtz v. Flowers 2 CCH W&H. Roth. para 30, 814 (E.D. Miss. 1969).

22/ See Welford v. Hardin and Welford v. Ruckelhaus (No. 24, 434)

\_\_\_ F2d, \_\_\_ F2d, final decision, June 7, 1971.

sugar worker is exempted from the Fair Labor Standards Act and is only covered by the Wagner-Peyser Act when he is recruited by USTES through interstate channels. It is not the good producers who will suffer under these provisions since they obey the law and treat their workers fairly. It is the less ethical processors and producers who seek to continue the present Act. It is they who must pay more for their labor and afford them fundamental dignity. <sup>23</sup>

The conclusion is obvious. The Sugar Act must be amended so that Section 301 expressly states that payments to producers are conditioned upon the producers' providing adequate housing and wages. While housing protections come within the spirit of the present provisions it has been the Secretary of Agriculture's considered judgment that he lacks the authority to issue regulations. Although the courts have disagreed with his interpretation of his authority in the past, we should not have to wait for the courts again. We ask that this Congress use its power to enact new legislation that leaves no room for misinterpretation of the Secretary's powers. (See Exhibit E).

We also urge you to amend Section 301 to direct the Secretary of Agriculture to set wages at a rate guaranteed to yield an income above the poverty level. The wages of farmworkers are a national disgrace. Admittedly, wages for sugar workers are slightly better but they are still outrageous considering the nature of the sugar industry. The Congress should not by intention or inaction dispense its largesse in a manner that keeps some people in poverty.

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<sup>23/</sup> See Gomez v. Florida State Employment Service, 417 Fed. 569 (5th Cir. 1969).

Sugar workers are essential to producing a regulated and subsidized product and their low wages should not be a source of indirect subsidy to the consumer and a real source of subsidy to the well provided for grower.

Because the production of sugar is a totally regulated industry, and because basic human needs are the same whether you are a black or brown farmworker or a white Congressman, and because the work is back-breakingly difficult, the Congress cannot; in good conscious, assure the processor and grower a fair return yet allow farmworker wages to fall below the poverty level.

Section 301 should also be amended to make payments conditional upon a showing that no illegal alien labor was used and that payment to workers was both full and prompt. The Secretary should also be directed by statute to hold wage rate hearings at times and locations convenient to farmworkers.

Mr. Chairman and Members of the Committee, if you adopt the foregoing recommendations without also amending the enforcement provisions your efforts would be useless. Witnesses before the House Agricultural Committee have made it clear that there is no enforcement of the Act in Michigan or elsewhere by the Secretary of Agriculture or by the Agricultural Stabilization and Conservation Service Committees. The Act should specify an impartial tribunal and once this is established, it can hear all claims, hopefully keeping most of them out of court. It would also determine whether the housing provided for workers is fit for human habitation and whether a fair and reasonable wage was paid to all workers.



#### IV. Conclusion.

The Act must in plain language make it clear that it is the hourly wage or the piece rate, whichever is higher, that constitutes the fair and reasonable wage. Moreover, the Secretary must be required to revise his standards so that the special occupational characteristics of the sugar worker are examined, as well as comparable wage rate be relevant to industrial or agricultural wage rates which exceed the accepted definition of poverty; and that factors bearing adversely on real wages--e.g., job losses due to competition from illegal aliens and receipt of unsanitary substandard housing in lieu of higher wages -- be proscribed. With these protections added to the criteria now permitted by statute, along with consideration of cost of living and farm productivity, the Secretary will be in a better position to specify a minimum wage well in excess of the present highly unsatisfactory rate of \$1.85 per hour. It should be emphasized that these proposed protections do not change the basic thrust of the Sugar Act. They only seek to insure that the producers and processors act as "good employers" by requiring them as a condition for receipt of his support payments to afford the sugar worker decent wages, fringe benefits, and protections that other similarly situated farmworkers and industrial workers customarily receive. By expressly writing these considerations into the conditional payment section there will exist some guarantee that the Congressional mandate is not frustrated by the Secretary of Agriculture or by irresponsible producers or processors.

There is a dramatic need to reorient the Sugar Act toward one of its original prime beneficiaries--namely, the sugar workers. In order for the farmworker to share equitably in the benefits of the legislation; or, stated another way, to benefit to the same extent as the other interests also protected in the Act's preamble, the legislation should make perfectly clear the importance of farmworkers receiving decent real wages and housing and to be treated at all times by the Secretary as one of the intended beneficiaries of the Act.

## EXHIBIT A

STATEMENT OF ELISEO de la CRUZ

UNITED MIGRANTS FOR OPPORTUNITY, INC.

ADRIAN, MICHIGAN 49221

My home area, Lenawee and Monroe Counties, called Area 3-B by our Central office, is a large user of migrant laborers. The major uses of migrant labor are for sugar beets and tomatoes. Migrants, who work these crops, are recruited by many means: as free wheelers with "Crew Leaders", by contract with a processor, as the result of a previous understanding with a grower the migrant had worked for in previous years, through the services of the Michigan Employment Security System, or just finding the job by themselves.

The grower rarely knows for sure just when his migrant families will arrive, nor does he know how many children there will be. If he tries to send word to the family at their home that he wants a given number of workers for the coming season, he may get a letter back telling him that this number will come, but probably he will get no answer at all.

The growers in the area classify children 14 years and over as "workers". The grower may have provisions for this many "workers," but not for the many younger children that come along. Yet, once these children get to Michigan, they are here for good--unwanted, uncounted, but sharing with their families the need of food, shelter, and associations.

The families may come in the late part of April to help the farmer put out crops or to work in the beets. They might come two or three weeks early to make sure they get a job, but then they have to wait until something comes along. They might stay and work around here until July, and then most will go North to pick cherries or work other crops.

The work in the North should last about four to six weeks. Then the workers may return to our area for the tomatoe picking season, if work isn't

delayed by weather and price wars. They will probably stay on through August and September depending upon the occurrence of a good frost. Some will stay through October to pick Apples or hull Beets.

There are between 5,000 and 6,000 migrants in our area during the season, and about 80% of them work in sugar beets. Most of the migrants in this are Spanish-speaking, but there is a small percentage of Negro migrants. The Negro crews are more likely to travel "stag" than to bring along their families, whereas the opposite is true of the Spanish-speaking workers. They usually travel in groups--some in station wagons, cars, covered pick-ups and even in covered stake-trucks. Stag laborers will usually arrive in an old school bus, with their crew leader.

It is possible that if all goes well, the worker and his family will earn enough during their brief season to justify their leaving their home. It is just as possible, however, that they will go back home with no more money, and maybe even less, than what they departed with. Some families receive traveling money, as an advance from the processors or the growers. However, this advance is immediately deducted from their earnings, usually from the first paycheck. This practice causes the workers and their families, who have no other income when they come to Michigan, great suffering for no good reason.

The bonus system, where some cents are deducted from the pickers' pay for each hamper to be paid on their completion of a grower's field, is still used with tomatoes. The same system is used with sugar beets, only it works a little differently. The beet season lasts about seven weeks and the grower will keep track of the workers' pay according to the number of acres he works, but he won't pay them for the full amount of work. For example, he will pay a family of nine \$45 a week, and the rest will be paid to them at the end of the seven

weeks. By using the bonus system (not really a bonus, but a holdback) the growers keep the workers around for their convenience--that is, when the weather's bad or the fields are thin, etc., the workers have no real choice but to stay. They need the money they earned.

Earnings in beets are no better than tomatoes or other crops in the area. Sometimes, even when the whole family is working in sugar beets, the family will qualify for food stamps or emergency food money from U.M.O.I. or other local sources. Our office records show:

Assistance to Migrants in Lenawee & Monroe Counties for 1970

Services provided by U.M.O.I. in this area this season.

<u>Families</u>	<u>Individuals</u>
602	3,866

Total purchase of Food Stamps by migrants in Lenawee County.

<u>Purchase Price</u>	<u>Food Value</u>
\$833.22	\$14,671.00

Monroe County

<u>Purchase Price</u>	<u>Food Value</u>
\$4,268.80	\$26,640.00

All of these persons badly needed the help we gave them.

Growers provide the migrant workers and their families with their housing. The workers don't make enough to have a choice. Most of this housing--whether for those who work beets or other crops--violates the state health code. This housing is in bad condition, and of course it is inadequate for the number of persons forced to live inside.

These pictures show just how bad the housing really is, and even pictures can't reveal the impact of this housing on the families we deal with. One of the worst cases last year involved housing provided by a sugar beet grower. When he was forced to close a very bad camp, he put 47 people in one old house. The Health Department's closing the camp did not help the workers, nor did the grower.

The workers also have terrible communications difficulties--they can't express their problems to outsiders, and all are ignorant of their rights under the law. My friends here tell me that the law says that sugar beet workers are special--that they have special rights under the Sugar Act. I have worked with the migrant sugar beet workers in Lenawee County for five years, and I have never heard of a wage dispute going before the ASCS Committee for solution. In fact, I have never even heard of this committee.

What I am trying to say is that there is no difference between the wages or housing of workers who work in the sugar beet fields and those of tomatoe workers. They live in the same housing, work for the same growers, and many times are the exact same workers. All suffer from the same miserable conditions.

If it is true that the workers in sugar beets are special, I ask this Committee and the Congress to really help them. You must require payment of decent wages that allow the workers to earn above the poverty line, insure that grower-provided housing is fit to live in, and above all that there is effective enforcement of this law or it will be meaningless for the workers in Michigan. To do all this only helps the workers when they are in Michigan, working sugar beets. It does not find them work or housing, if jobs aren't available in Michigan. It doesn't help them back in Texas, their home. But it helps to relieve some of their suffering. This much you can do, can't you?

COMMON HOUSING FOR SUGAR BEET WORKERS IN  
ADRIAN, MICHIGAN AREA

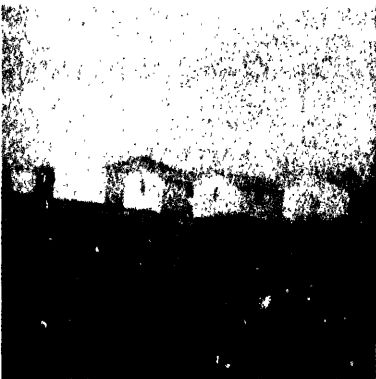
1970 Season



Jacques Camp -- An oven too low to stand in.



Schwyn Camp -- Out houses or homes?  
Homes.



Dekeyser Camp -- It looks good, but...  
are these fields sprayed?



DeMille House -- Unlicensed. Lived in  
by 47 workers simultaneously.

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EXHIBIT B

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (SUGAR)

UNITED STATES DEPARTMENT OF AGRICULTURE

Hearings on Sugar Beet Wages and Prices

Comments by:

Colorado Migrant Council  
665 Grant  
Denver, Colorado 80206

and

United Migrants for Opportunity, Inc.  
111 South Lansing Street  
Mt. Pleasant, Michigan 48858

January 22, 1971

These comments are submitted at the end of the hearings on a fair and reasonable wage for sugar beet workers for 1971 to provide an overview of the proceedings and to clearly demarcate the Department of Agriculture's mandatory and permissive duties under the wage provisions of the Sugar Act of 1948. The comments seek to emphasize the Department's special duty to articulate wage and related regulations that assure workers receipt of an equitable share of the benefits of the government-supported industry. The duty to articulate such regulations is created by the statute authorizing conditional payments. A commensurate duty to take affirmative action to ascertain the needs of the sugar beet workers and to adopt regulations with respect thereto follows. We seek the institution, by regulation, of a model program for the benefit of farmworkers, not merely expedient wage regulations permitting maximum returns to the industry.

There can be no doubt that an essential element of the Sugar Act of 1948 is the Congressional mandate to the United States Department of Agriculture to protect the interests of labor in an industry that reaps considerable benefits from the United States Government. The Preamble of the Act states that the purpose of the Act is, in part, "To protect the welfare of consumers of sugar and those engaged in the domestic sugar producing industry." In his message to Congress on March 31, 1937, requesting the enactment of the original Sugar Act, President Franklin D. Roosevelt said: "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." Section 301 of the Act, Conditions of Payment, is the embodiment of the President's recommendation.

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The discretion of the Secretary of Agriculture to make regulations under the Sugar Act must fall within the guidelines of the Congressional mandate. In fact, the Secretary has the positive obligation to make regulations designed to ensure that the statutory benefits reach all intended beneficiaries. The federal court decisions in Environmental Defense Fund, Inc. v. Hardin, (D.C. Cir. #23,81 F.2d (70) Jay v. U.S., 308 F. Supp. 100 (D.C. Tex. 1969); and Peoples v. Alabama, \_\_\_ F. 2d. \_\_\_ (1969), make clear the affirmative duties of the Secretary under this type of legislation.

In promulgating and enforcing previous wage regulations, the Secretary has failed to meet his obligations under the Sugar Act. In at least two cases, Salazar v. Hardin, \_\_\_ F. Supp. \_\_\_ (D.C. Colo. No. C-1616), 39 L.W. 2302 (1970), and Rodriguez v. Hardin, \_\_\_ F. Supp. \_\_\_ (D.C. Colo. 1970) industry practices accepted, if not sanctioned, by the Department of Agriculture have been ruled invalid by a federal court. It is time for the Secretary to acknowledge his responsibilities to farmworkers under the Sugar Act and exercise his discretion in the form of rule-making in such a way as to fulfill those responsibilities. (See Gomez v. Florida State Employment Service, 417 F 2d. 569 (5th Cir. 1969) Wellford v. Ruckelshaus, (D.C. Cir. No. 24,434, January 7, 1971) and Shannon v. HUD, \_\_\_ F. 2d. \_\_\_ (3rd Cir. 1970) 39 L.W. 2373.

With reference to wage rates applicable in 1971 we recommend a guaranteed hourly minimum not below \$2.25 per hour. The USDA has consistently based its wage determinations for sugar beet workers on inappropriate analogies. In relying upon the prevailing wage scales of farmworkers employed in the harvest of other crops and on the general labor market, it has adopted criteria not contemplated by the statutory language of the Sugar Act. Neither bears a significant relation to a "fair and reasonable wage" in a thoroughly regulated industry. Even a comparison to previous wage rates of sugar beet field workers

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is in no way justified under the terms of the Act. For the Department to imply that the ten-year increase in wage rates for sugar beet field workers is dramatic is misleading in the extreme. Until the termination of the Bracero program, a significant portion of the workers were aliens who were paid wages that defy comparison to conditions, cost of living and standards of living relevant to domestic workers. Any properly arrived at wage determination must, under a reasonable reading of the Sugar Act, be premised upon a realistic survey of living conditions of a representative sampling of the sugar beet workers and a recognition of the present and projected effects of such factors and work opportunities (e.g., effects of mechanization and pesticides), inflation, layovers due to weather, travel costs and excessive deductions from wages and other expenses.

Wage hearings conducted under the Sugar Act reveal an assumption on the part of the Department and producers that the wages should be, and are, based on the producers' ability to pay wages. Yet, the hearings reveal no realistic effort to determine the producers' ability to pay. Analysis of financial statements of producers is never made public, if in fact it is ever considered. More important, the Department has refused to consider the crucial question of the processors' ability to pay higher prices to producers. Consider the experience of the most recent hearings held in San Francisco:

Kenneth Blum (to Malcolm Young, California Beet Growers' Association):  
Do you think that the processors would be willing to pay more to the growers?

Malcolm Young: That is a proper question for the fair price hearing and not for this one.

Blum: But on the other hand you are determining your wage basis on the ability of the growers to pay, is that correct?

Young: I don't think that question is pertinent to this.

Presiding Officer Denny: What was the question again?

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Blum: Mr. Young says he determines the growers' ability to pay on the basis of their income and on the ability of the processors to pay. In the questions you directed to me you asked specifically about the processors and the conglomerates and their ability to pay.

Presiding Officer Denny: The reason I did is because you brought it up and I just wanted to clarify some of the things that you mentioned. I don't know that Mr. Young has testified to that point. We have another section to this hearing which has to do with fair prices for sugar beets. You might ask that in the next...

Blum (interrupting): [changes direction of questioning to another area.]  
(At p. 63)

\* \* \* \*

Presiding Officer Denny: Do we have any witnesses who wish to testify on fair and reasonable prices?

Young: Mr. Denny, may we go off the record for a moment?

Presiding Officer Denny: Yes. This is off the record. (Discussion off the record.)

Presiding Officer Denny: On the record. Evidently there is no testimony concerning fair and reasonable prices as the 1971 sugar beet contracts have already been negotiated and it is past history, so we will close that portion of the hearing. (At p. 67)

It is interesting to note that in hearings held at other locations for the 1971 crop the issue of fair prices was not deemed open to discussion either because the contracts between processor and producer were not yet in negotiation or were in the process of negotiation. Will Mr. Blum, or any other farmworker representative be allowed to ask this crucial question? Will the Department of Agriculture ever on its own obtain the information that would constitute an appropriate answer? Thus, even if the Department's own criteria to determine wage rates is accepted, how can a decision be made without this information and without an opportunity to explore its implications in a public hearing?

Statistics in Sugar Reports assert that the real wages for sugar beet workers are above the \$1.75 per hour minimum hourly wage for 1970. Yet these

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statistics fail to provide any indication as to how this figure is computed. There has never been an indication from the Department that in depth field surveys of workers have been conducted, the only reliable method of arriving at the real wage figure. The hearings are inadequate to supply the data necessary to compute such a real wage figure. To the contrary, the only farmworker, Marcelino Alva of Crystal City, Texas, to present reliable testimony at the hearing in San Antonio, Texas, on December 14, 1970, as to current wages revealed that an apparently conscientious worker with at least 26 years experience in sugar beet work earned the minimum piece-work rate. No concrete testimony as to his hourly wage was elicited as testimony, and the relationship of the minimum piece-work rate to a real hourly rate was never established.

It is clear from a reading of the transcripts of sugar beet wage hearings that USDA has failed to conduct a worthwhile investigation at the hearing or on its own gathered statistics to determine the current actual wages of sugar beet farm workers. At the six hearings held at the end of 1970, farmworker testimony was received at only three--San Antonio, Denver and Detroit. At the San Antonio hearing, presumably held at that location to facilitate farmworker testimony, only two farmworkers testified at the hearing that lasted only one hour. At the Denver hearing, an opportunity to receive more farmworker testimony was unfortunately lost when the business of the afternoon session was concluded in fifteen minutes and before the farmworkers returned from the luncheon recess. <sup>1/</sup> This lack of farmworker participation not only violates the mandate of the Sugar Act, but renders any decision respecting wages by the Department suspect to say the least.

<sup>1/</sup> The record also shows that no farmworkers from Michigan testified at the Detroit hearings. In fact, based on information and belief, it is UMOI's understanding that no farmworkers from Lenawee or Monroe Counties were asked to testify, nor was the Adrian office of UMOI ever contacted with respect to offering testimony on behalf of farmworkers.

This lack of notice and opportunity to be heard is particularly

(cont'd)

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As to regulations related to the determination of a minimum hourly rate the following is recommended:

1) Regulation requiring payment of farmworkers by check should be promulgated. Testimony at the 1970 hearings reveals that it is regulation desired by farmworkers (see testimony of Jonathon Chase at the Denver hearing) and that it is a regulation unopposed by producers (see testimony of Everett Taylor at Richland, Washington hearing). Payment by check is a practice presently used by a substantial number of producers and should be regularized throughout the industry.

2) A uniform regulation regarding the blocking and thinning operation at the California rate should be promulgated. The record of the 1970 hearing in Denver reveals uncontroverted testimony that the "obsolete" blocking and thinning operation is indeed performed in sugar beet fields in other states, Colorado specifically. A uniform regulation would allow the adaptation of grower-worker wage arrangements to local operations if blocking and thinning were necessary or performed.

3) Regulation adding the qualifying words "effectively" to "machine-thinned" and "effective" to "chemical herbicides" in 7 CFR Sec. 862.10(c) should be promulgated. The question of the effectiveness of mechanical and electronic thinners and chemical herbicides was a recurring one at the hearings held in December 1970. Every grower questioned remarked that chemical herbicides are erratic in weed control. One producer stated that chemical herbicides have

1/ cont'd. significant since UMOI was and is prepared to testify that sugar beets are the second largest crop in the area (next to tomatoes); that the office received numerous complaints relating to the failure of ASCS to enforce the proper piece rates on an acre basis; that none of the workers in the area received the hourly minimum wage despite numerous requests for same; and that UMOI possesses documentation of the poor wage rates paid in the area and emergency steps taken to assist migrants, who were forced to leave the area with less money than they came with.

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ranged in effectiveness from no control of weeds to 100% "control" of every living plant in the field including sugar beets. Clearly, no uniform rate can be established merely on the basis of whether a herbicide has been applied to the field. Similarly, testimony of the unreliability of machine thinners indicates that the qualifying word "effectively" is a requirement for establishing a "fair" wage.

In light of recent court decisions, (see Wellford v. Ruckelshaus, supra), the Department should seize upon this opportunity to regulate the use of herbicides in the interests of farmworker health and safety. The farmworker's concern for an "effective" qualifier on the present first weeding regulation goes directly to the issue of his wages. But the possible health hazard caused by prolonged proximity to these dangerous chemicals in cause of enough concern to justify Departmental regulation under a broad definition of "wages" under Sec. 301. Under no circumstances should the Department encourage the use of possibly hazardous economic poisons.

4) Bearing direct relation to No. 3 above and other herein suggested regulations is a need for the promulgation of a regulation instituting an impartial arbitration apparatus to handle factual disputes between producers and farmworkers. Present regulations require disputes be heard by local Agricultural Stabilization and Conservation Committees which by regulation are composed exclusively of farmers. Therefore, if a farmworker and a grower have a dispute over wages, that dispute is heard by the committee (of growers) who then render a decision. On its face, that process has the appearance of unfairness, perhaps unconstitutional unfairness. The need for a new, impartial apparatus that has the authority to arbitrate disputes between growers and farmworkers is obvious. Reference to "and other agencies" in Sec. 205 should be

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construed to mean impartial arbitration. The suggestion submitted by Jonathon Chase at the Denver hearing--that local bar associations be utilized as arbitrators--has the merit of a reasonable means of implementing this necessary apparatus.

5) Producer-provided housing is a proper subject of wage regulation under Sec. 301 of the Act, for both producers and farmworkers consider producer-provided housing as part of a laborer's wages. Questions directed at both growers and farmworkers by the presiding officers at the December 1970 hearings reveal an interest in the subject of adequate housing by the Department, but the questions also demonstrate a lack of desire or ability to get reliable data on the housing provided by producers receiving Sugar Act payments. With no testimony to the contrary, it can be assumed that housing provided by sugar beet producers is no better than housing provided for farmworkers by growers generally. Under the mandate of the Sugar Act USDA has the affirmative obligation to ensure that fringe benefits include decent housing for sugar beet workers. It is no answer to say that it is a proper subject for local health officials when it has been shown time and time again that local enforcement is faulty. 2/ The affirmative duty to ensure to sugar beet workers a "fair and reasonable wage" in its broadest meaning lies with the Secretary of Agriculture as it does with the Secretary of Labor under 20 CFR Sec. 602.9 et. seq. See also Gomez, supra.

6) Regulation requiring written contracts for all sugar beet farmworkers should be promulgated. To take one example of the utility, if not the absolute necessity, for this regulation, consider the problems that constantly arise from maintaining the same crew to do the second weeding. Farmworkers claim in uncontroverted testimony that they are promised two weedings of a given field

2/ See Reno, Leo P., Pieces and Scraps: Farm Labor Housing in the United States, Rural Housing Alliance, 1970, lodged as Exhibit I.

at specified rates. With the belief that a second weeding is guaranteed, they work beyond normal diligence in the first weeding only to discover that the grower has decided against a second weeding or that a new crew, hungry for any work they can get, has been engaged at a lower rate to do the second weeding. <sup>3/</sup> Credence is given to this charge by testimony revealing a surplus of labor in the Midwest. (See particularly testimony of growers at the Detroit hearing on December 7, 1970). Inferences can logically be drawn from the testimony of Robert Rimelspach at the Detroit hearing:

Presiding Officer Stansberry: Now you say you paid your workers by the hour on the second weeding. Why did you switch over from piece work rates to the hourly rates on that second weeding?

Mr. Rimelspach: Well, we had some labor change at the time, they weren't the same people and they wanted to work by the hour.

Presiding Officer Stansberry: In other words, usually the hoe-trimming and the weeding is tied together in a single piece rate?

Mr. Rimelspach: Yes.

Presiding Officer Stansberry: Did you attempt to negotiate or offer them [second crew] a piece-work rate for that second weeding?

Mr. Rimelspach: No, we did not. (At p. 17).

Whether the first crew had been offered the second weeding before they began the first weeding is open to question. The issue would not have arisen if there had been a written contract in Spanish as well as English, something which is clearly within the Secretary's power to prescribe.

7) Regulations prohibiting the illegal garnishment of a worker's wage payment for a debt owed a third party should be promulgated. The practice of deducting advances to workers from processors has been found by a federal court to be illegal in Colorado. It is recognized as a wide-spread practice and

<sup>3/</sup> See: Diary of a Sugarbeet Worker, Migrant Research Project, 1969 Annual Report, p. 37, lodged as Exhibit II.

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uniform regulation by the USDA prohibiting the practice is urgently needed.

All of the above suggested regulations are imperative; they are all within the scope of the Secretary of Agriculture's power; and they are mandated by the clear language of the Sugar Act of 1948 and its legislative history.

At the hearing in Denver on December 16, 1970, there occurred a rather heated discussion of whether the regulations suggested by Mr. Chase would be productive or counterproductive. In answer to a question from the audience, Presiding Officer Stansberry defined his notion of counterproductive as:

Any regulation which would cost farmworkers wages if it was implemented throughout the country. Now, the regulation that he [Mr. Chase] attacked in court and won is going to cost several thousand Colorado farmworkers jobs, and more than that across the country, in our opinion. (At p. 24.)

Earlier, in Detroit, on December 7, 1970, Presiding Officer Agnew said to Mr. Carl Yackle, President of Sebawaing Beet Growers Association, "It's good to hear that the growers in your area are able to grow most of their beets without the need for labor. Space planting must work pretty well." (At p. 23.)

During the same hearing in Detroit, Presiding Officer Stansberry said, "Now do you feel that you're practically at that point now [of using no hand labor],,, Mr. Yackle replied, "Yes," and Mr. Stansberry rejoined, "Well, that's encouraging." (At p. 27.)

The foregoing is included here not to embarrass any individual of the Department of Agriculture. The crucial consideration is that individual and Departmental notions of "productive" and "counterproductive" regulations are immaterial when the subject is the determination of a "fair and reasonable wage" under the Sugar Act of 1948.

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Colorado Migrant Council and UMOI offer the foregoing analysis, comments and suggested areas of regulation. The aforementioned parties stand ready through their undersigned Washington, D.C. counsel and representatives to draft regulations pursuant to the above comments or to supply the Department with any other information or data in its files.

Respectfully submitted by:

*Lawrence J. Sherman*  
Lawrence J. Sherman, Esq.

and

*Edward P. Clair*  
Edward P. Clair

Migrant Legal Action Program, Inc.  
1820 Mass. Ave., N.W.  
Washington, D.C. 20036

Attorney and Representative for:

Colorado Migrant Council  
and United Migrants for Opportunity, Inc.

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## EXHIBIT C

REPORT OF DAVID GARUNKLE, A LAW STUDENT ASSIGNED TO THE UMOI ADRIAN  
OFFICE FOR THE PAST TWO SUMMERSSUMMER 1970

There was an incident at Goetz Camp, Mason & Silverhorn Roads, Blissfield, Michigan where workers promised \$1.40/hr. but received only \$1.30/hr. The crew leader was skimming off 10¢ per hour, because payments were made through him. The housing was almost universally substandard whether people were working sugarbeets or other crops. There were many complaints about payments being held back until the entire job had been completed because many times this device left the migrants without any income for a good part of the summer, creating problems for them with overdue bills and taxes. It also made it difficult for them to purchase food or food stamps.

There was also an incident involving Victor Morin in Monroe County. There, reports were received that workers who were paid by the acre, were receiving the equivalent of 47¢/hr. An investigation of these complaints was impeded because of the large number of wetbacks in the camp reportedly brought into the United States illegally by the crew leader there named Cardenas. Garfunkle was unable to substantiate payment scheme or exact number of illegal workers because the workers were afraid of retaliation by the farmer. ASCS failed to pick up these violations, however, no direct report was made to them by us because workers were afraid.

Summer 1971

Housing still substandard at the Jacobs Camp on Mason Road in Riga township, many workers complaining that payment is withheld until the end of the job, again creating problems with bills and food. When

the fields are not weedy, the workers are able to make \$1.90 to \$5.00/hr. being paid by the acre, but if the fields are weeded only once later in the summer, the rate falls well below the hourly rate set by regulation. There is no evidence this summer, as of yet, that the wages are below the minimum wage, but it has been reported that some farmers will not pay by the acre, thereby creating a problem with paying an hourly equivalent of \$1.85. When the are this weedy the piece rate will usually fall down to much less than \$1.85. Contacts with ASCS (Mr. Weems in the Monroe County office and Mr. Greszewski in the State Office in Lansing) have indicated that people who complain will not be allowed to do so in confidence or be protected against reprisals. Again, UMOI is faced with problems of workers fearing retaliation by farmers.

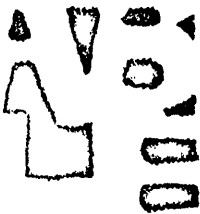
Since the complaints at the county level are heard by a Board elected by the farmers in that county, there is no doubt as to their prejudices. Furthermore, the State Appeal Board is a politically appointed body.

SUMMARY  
SPECIFIC PROBLEMS

1. Housing is always a problem for the sugar beet workers. It is part of their real wages, but it is scarce and shoddy.
2. Workers have been and are afraid to report violations because they fear retaliation.
3. The prejudicial composition with County ASCS Board limits the the effectiveness of statutory redress.
4. Crew leaders who skim money off the top and they do not protect the workers interests.

## EXHIBIT D

advocates  
for basic  
legal equality



*Those who make peaceful revolution  
impossible make violent revolution inevitable.*

*John F. Kennedy*

**740 spitzer bldg toledo ohio 43604**

June 15, 1971

JUN 17 1971

Mr. Larry Sherman, Director  
Migrant Legal Action Program  
1820 Massachusetts Avenue, N.W.  
Washington, D. C.

Dear Larry:

I understand that you are prepared to testify before Congress on proposed amendments to the Sugar Act on behalf of United Migrants for Opportunity. This letter is to indicate problems that we have witnessed on behalf of migrant farm workers in Ohio.

As Director of a legal services program, I have dealt with problems of migrant farm workers. Among the crops harvested in Northwest Ohio are sugar beets. I can say without much hesitation that there is little, if any, difference in conditions (i.e., wages and working conditions) between the plight of other migrants and that of the sugar beet worker.

Laws, to be effective, must be enforced and enforcement must be with an equal eye and an equal hand. Housing conditions for migrant farm workers in Ohio are generally poor. Through the withholding of bonuses or additional charges against the migrant for housing, transportation, etc., sugar beet farmers are always able to create the illusion for compliance of Federal statutes while in reality carrying on business as usual. In brief, conditions in Ohio under the Sugar Act are no better than conditions for migrants in general, because there are inadequate controls to insure compliance. Where compliance is sought, the attitude of the government bureaucracy is not always receptive. Migrants have little power--selective enforcement is the result.

The situation will only change when the government recognizes an affirmative obligation to insure compliance with its laws and regulations and where sympathy for the problems of growers is equaled by true concern for the plight of migrant workers.

Sincerely yours,



R. Michael Frank  
Director

RMF/br

## EXHIBIT E

Section 301 Conditions of Production (7 U.S.C. Sec. 1131)<sup>1</sup>

The Secretary is authorized to make payments on the following conditions with respect to sugar or liquid sugar commercially recoverable from the sugar beets or sugarcane grown on a farm for the extraction of sugar or liquid sugar:

- (a) Child labor (no change).
- (b) Proportionate share production (no change).
- (c) Wage Standards: Payment

(i) that all persons employed on the farm in the production, cultivation or harvesting of sugar beets or sugarcane with respect to which an application for payment is made shall have been paid wages therefore at rates not less than those that may be determined by the Secretary to be fair and reasonable after investigation and due notice to producers and other industry representatives and farm workers and their bona fide representatives and opportunity for public hearing to be held such places and at such times as to afford maximum participation by all interested persons. In making such determinations, the Secretary shall consider the sporadic and seasonal nature of the work; the extra expenses occasioned by travel and living away from home; wage rates paid for comparable manufacturing and agricultural activities, provided that the per annum rates so established are not less than definition of poverty; and a cost of living and productivity factor annually determined by:

(1) calculating the sum of the percentage increase in the cost

1/ New language added is underscored.

during the immediately preceding year and the percentage increase in the average annual output per manhour during the most recent five years, as reported in the Economic Report of the President, and (2) applying that total percentage increase to the minimum wage of the immediately preceding year, The Secretary shall increase his determination of the allowable piece-rate compensation by regulation insure that the hourly rate or the piece-rate, whichever is higher, shall be paid. The Secretary may also take into consideration the standards therefore formerly established by him under the Agricultural Adjustment Act, as amended, and the differences in conditions among various producing areas. Provided, however, that Any payment which would be payable except for the foregoing provisions of this subparagraph may be made, as the Secretary may determine, in such manner that the laborer will receive an amount, insofar as such payment will suffice, equal to triple the amount of the accrued unpaid wages for such work, and that the producer will receive the remainder, if any, of such payment.

(ii) that the producer, or any other person or entity employing labor for or in conjunction with the producer, shall have complied with the regulations as presently written or as later amended under the Wagner-Peyser Act, 29 U.S.C. 49 (1964) pertaining to adequate housing facilities and water and sanitary facilities in the fields or with state farm labor housing codes, whichever is more comprehensive.

(iii) that the producer shall have determined to the best of his own knowledge his employees engaged in the production of sugar are citizens of the United States or aliens legally employed within the United States.

(iv) that the producer shall not have caused or permitted to be made deductions in excess of the reasonable cost, as may be determined in a wage dispute proceeding, under Section 305 of this Act, for the furnishing to any employee board, lodging or other facilities or services customarily furnished by such producer or producers in the area or by a crew leader or labor contractor under the said producers control.

(v) that the producer shall not have discharged or in any other manner discriminate against any employee because such employee has filed any complaint or instituted or caused to be instituted any proceeding under or related to this chapter, or has testified or is about to testify in any such proceeding, or has served or is about to serve on an industry committee or panel under Section 305 of this Act.

(vi) (Previously Section 301 (c) (ii) no change.)

Amendments replace old wage determination mechanisms and by dropping language in Section 301 (c) (i) beginning "provided" makes forfeiture of entire payment the penalty for violating conditions of Section 301 (c) I



Section 305 of Local Committees and Other Agencies (7 U.S.C. Sec. 1135)

In carrying out the provisions of Titles II and III of this Act, the Secretary is authorized to utilize local committees of sugar beet or sugarcane producers, farmworker organizations and representative groups, state and county agricultural conservation committees, [or] the Agricultural Extension Service and other agencies including such professional associations as may be interested, and the Secretary may prescribe that all or a part of the expenses of such committees, agencies, associations or other groups may be deducted from the payments herein authorized. Whenever wage disputes between workers and employers occur, the Secretary may establish and utilize in each locality a permanent tri-partite panel of representatives of producers, workers, and the general public to resolve the dispute in an impartial manner. Decisions of said panel are reviewable by the Secretary or his designate, provided that a final determination is reached within 20 days. The existence of a local wage dispute panel shall in no way constitute a bar to the aggrieved worker's statutory or common law rights of redress unless he elects to utilize this grievance procedure.

Statement of Purpose

The legislative amendments herein proposed contemplate an expansion of the definition of farmworker wages to conform to an understanding of the term commonly held by producers and agricultural workers and to provide enforcement and dispute settlement mechanisms that assure farmworkers due process of law. By specifying simple enforcement procedures, culminating when necessary in a fair hearing, the legislation seeks to equalize labor costs throughout the industry. The amendments do not significantly alter our previous conception of the Secretary's powers. Rather, they seek to reaffirm Congress' original intention to insure that the sugar workers, by statute and regulations promulgated thereunder, share fully in the benefits conferred by the Act.

The CHAIRMAN. On tomorrow's list of witnesses we will be hearing from Senator Adlai Stevenson. He is going to testify to the same points Mr. Sherman was testifying on today.

I would like to insert in the record at this point a letter from the Speaker of the House transmitting a communication he received from the President of the Philippines.

(The letter referred to follows:)

THE SPEAKER'S ROOMS,  
U.S. HOUSE OF REPRESENTATIVES,  
Washington, D.C., June 18, 1971.

Hon. RUSSELL B. LONG,  
U.S. Senate, Washington, D.C.

DEAR RUSSELL: I have just today received the enclosed letter dated February 25 from the President of the Philippines. I am sorry I was unable to get to the House Committee on Agriculture prior to the Committee's action on the sugar bill.

Having served in the Philippines during World War II, I have a personal interest in this country. Of course, they were a part of the United States for many years and since that time have been our loyal allies. Your consideration of President Marcos' letter will be appreciated.

Sincerely,

CARL,  
(The Speaker)

Enclosure.

MALACAÑAN PALACE,  
Manila, February 25, 1971.

Speaker CARL ALBERT,  
House of Representatives,  
Washington, D.C.

DEAR MR. SPEAKER ALBERT: The United States Sugar Act is expiring this year and the Republic of the Philippines, one of your country's traditional suppliers of sugar, is concerned about the legislation that will replace it.

The sugar industry is vital to the economy of the Philippines. It accounts for a major part of our foreign exchange earnings. Three million people depend on it for their livelihood. It generates considerable tax revenues. Without a healthy sugar industry, the Philippine economy would be in distress.

The present basic Philippine quota in the United States sugar market is 1,126,000 tons, plus 47.22% of certain deficits of other suppliers. Huge investments in sugar mills since 1960 and improved production methods have resulted in greater production and predictable reserves, so much so that we can now assure an overfulfillment of the 1,500,000 maximum potential Philippine quota in the United States market.

I am sure you realize the urgency of new legislation that would protect this vital Philippine industry. Any reduction in our quota in the United States market would imperil the entire Philippine economy. As the United States Congress proceeds to consider new sugar legislation, may I therefore ask your assistance so that the Philippine quota in the United States shall be maintained at present levels or even increased in view of increased production?

The Republic of the Philippines believes that it is entitled, as a long-time friend and ally of the United States, to supply sugar requirements of the U.S. market. May we call your attention to the fact that the 1937 Sugar Act gave the Philippines a quota equal to 34.7 percent of the total U.S. import requirement or 15.41 percent of the total United States consumption requirements. That percentage would give us a current quota of 1,680,000 tons. We are however seeking a fixed quota of only 1,500,000 tons.

It is my great hope that you will see your way to lending us your support and sympathy. Please accept my gratitude and warmest regards.

Sincerely yours,

F. E. MARCOS.

The CHAIRMAN. That will conclude this morning's hearing and we will meet at 10 o'clock tomorrow morning.

(Whereupon, at 12:35 p.m., the committee was adjourned until Tuesday, June 22, 1971, at 10 a.m.)