INTERNATIONAL SUGAR STABILIZATION ACT OF 1979

HEARING

BEFORE THE

SUBCOMMITTEE ON TOURISM AND SUGAR

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 463

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

MARCH 21, 1979

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

44-979 O WASHINGTON : 1979 HG 96-6

S361-34

COMMITTEE ON FINANCE

RUSSELL B. LONG, Louisiana, *Chairman*

HERMAN E. TALMADGE, Georgia
ABRAHAM RIBICOFF, Connecticut
HARRY F. BYRD, Jr., Virginia
GAYLORD NELSON, Wisconsin
MIKE GRAVEL, Alaska
LLOYD BENTSEN, Texas
SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey

ROBERT DOLE, Kansas
BOB PACKWOOD, Oregon
WILLIAM V. ROTH, Jr., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
MALCOLM WALLOP, Wyoming
DAVID DURENBERGER, Minnesota

MICHAEL STERN, *Staff Director*
ROBERT E. LIGHTHIZER, *Chief Minority Counsel*

SUBCOMMITTEE ON TOURISM AND SUGAR

SPARK M. MATSUNAGA, Hawaii, *Chairman*

RUSSELL B. LONG, Louisiana
MALCOLM WALLOP, Wyoming

CONTENTS

ADMINISTRATION WITNESS

	Page
Hjort, Howard, Director of Economics, Policy Analysis and Budget, Department of Agriculture	39

PUBLIC WITNESSES

American Farm Bureau Association, Vernie R. Glasson, assistant director of national affairs	104
American Sugarbeet Growers Association, William A. Davis, president	84
American Sugar Cane League, P. J. deGravelles, Jr., president	50
California Sugar Beet Growers Association, Ltd., Malcolm Young, executive manager	82
Carter, David C., president, U.S. Beet Sugar Association	81
Church, Hon. Frank, a U.S. Senator from the State of Idaho	30
Colo-Kan Sugar Cooperative, William M. Turrentine, beetgrower and director	85
Davis, William A., president, American Sugarbeet Growers Association	84
deGravelles, P. J., Jr., president, American Sugar Cane League	50
Florida Sugar Cane League, Dalton Yancey, vice president	52
Glasson, Vernie R., assistant director of national affairs, American Farm Bureau Association	104
Hawaiian Sugar Planters' Association, Robert H. Hughes, director	49
National Farmers Union, Robert J. Mullins, assistant director of legislation	112
Peyser, Hon. Peter A., a Representative in Congress from the State of New York	35
Potvin, Gregg R., president, U.S. Cane Sugar Refiners Association	65
Sugar Users Group, E. Linwood Tipton, vice chairman	106
Turrentine, William M., beetgrower and director, Colo-Kan Sugar Cooperative	85
U.S. Beet Sugar Association, David C. Carter, president	81
U.S. Cane Sugar Refiners Association, Gregg R. Potvin, president	65
Yancey, Dalton, vice president, Florida Sugar Cane League	52
Young, Malcolm, executive manager, California Sugar Beet Growers Association, Ltd	82

COMMUNICATIONS

Bentsen, Hon. Lloyd, a U.S. Senator from the State of Texas	114
Bergland, Bob, Secretary, Department of Agriculture	136
Corn Refiners Association, Inc., Robert C. Liebenow, president	138
Elgin, James H., on behalf of the NYSSA-NAMPA Beet Growers Association	117
Inouye, Hon. Daniel K., a U.S. Senator from the State of Hawaii	115
International Public Affairs, Ltd	140
King, Carl L	122
Liebenow, Robert C., president, Corn Refiners Association, Inc	138
Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture	143
National Association of Farmworkers Organizations	141
National Corn Growers Association, Don Schlitche, assistant executive vice president	129
NYSSA-NAMPA Beet Growers Association, James H. Elgin	117

	Page
Odom, Glenn, chairman, Texas Corn Growers Association	124
Schlitche, Don, assistant executive vice president, the National Corn Growers Association	129
Steinberg, David J., president, U.S. Council for an Open World Economy	133
Texas Corn Growers Association, Glenn Odom, chairman	124
Texas-New Mexico Sugar Beet Growers Association, Inc., presented and filed by Bill J. Cleavinger, president and James W. Witherspoon, executive secretary, of the Texas-New Mexico Sugar Beet Growers Association, Inc	125
U.S. Council for an Open World Economy, David J. Steinberg, president	133
W.I.F.E. Women Involved in Farm Economics	121
Whitney, Scott C., on behalf of the Government of Thailand	134

ADDITIONAL INFORMATION

Committee press release announcing this hearing	1
Text of the bill S. 463	3
Chart: A decade of sugar	65
Cost of production considerations for sugar policy, prepared for U.S. Cane Sugar Refiners' Association	67
Statements:	
Richard W. Blake, executive vice president, American Sugarbeet Growers Association	95
Kish Otsuka, president, American Sugarbeet Growers Association	96

THE INTERNATIONAL SUGAR STABILIZATION ACT OF 1979

WEDNESDAY, MARCH 21, 1979

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

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

Present: Senators Matsunaga, Wallop, and Dole.

[The press release announcing this hearing and the bill S. 463 follow:]

FINANCE SUBCOMMITTEE ON TOURISM AND SUGAR TO HOLD HEARINGS ON THE INTERNATIONAL SUGAR STABILIZATION ACT OF 1979 (S. 463)

The Honorable Spark M. Matsunaga (D., Hawaii), Chairman of the Subcommittee on Tourism and Sugar of the Committee on Finance, today announced the Subcommittee will hold a hearing on the International Sugar Stabilization Act of 1979 (S. 463). The bill is intended to implement the International Sugar Agreement for the United States and to insure stable domestic sugar prices for the benefit of consumers, producers and processors of sugar. The International Sugar Agreement has been referred to the Senate Committee on Foreign Relations.

Senator Matsunaga noted that "unemployment is still a critical issue facing the nation and because the domestic sugar industry is labor intensive, employing directly and indirectly in excess of 100,000 workers, the enactment of a Sugar Act pursuant to the International Sugar Agreement is an urgent and imperative matter." He further pointed out that the sugar provisions of the de la Garza amendment to the Food and Agriculture Act of 1977 (Public Law 95-113) will expire on September 30 of this year and the producers, refiners, industrial users and consumers will be without any guidelines for the future.

"I am hopeful that we will succeed in enacting legislation which will be beneficial to the consumer, to the industry and to labor by providing long needed stability to the industry and reasonableness in the price of sugar. Failure in our effort will spell disaster to many of our states' economies, including that of Hawaii."

The hearing will begin at 10:00 A.M., Wednesday, March 21, and Monday, March 26, 1979, in Room 2221 Dirksen Senate Office Building.

REQUESTS TO TESTIFY

Chairman Matsunaga stated that witnesses desiring to testify during these hearings must make their requests to testify to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510, not later than the close of business on Tuesday, March 13, 1979.

Chairman Matsunaga requested that testimony concentrate on changes in the industry and their effects which have occurred since the Subcommittee's hearings last year, as well as any changes in the position of parties on the issues discussed at the last hearings.

Witnesses will be notified as soon as possible after this date as to when they are scheduled to appear. If for some reason the witness is unable to appear at the

time scheduled, he may file a written statement for the record in lieu of the personal appearance.

CONSOLIDATED TESTIMONY

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

LEGISLATIVE REORGANIZATION ACT

Chairman Matsunaga stated that the Legislative Reorganization Act of 1946 requires all witnesses appearing before the Committees of Congress to "file in advance written statements of their proposed testimony and to limit their oral presentations to brief summaries of their argument." Senator Matsunaga stated that, in light of this statute, the number of witnesses who desire to appear before the Subcommittee, and the limited time available for the hearings, all witnesses who are scheduled to testify must comply with the following rules:

1. All witnesses must include with their written statements a summary of the principal points included in the statement.
2. The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be delivered to Room 2227 Dirksen Senate Office Building not later than 5:00 P.M. on the day before the witness is scheduled to appear.
3. Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.
4. No more than 10 minutes will be allowed for any oral summary.

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

WRITTEN STATEMENTS

Persons not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be submitted to Michael Stern, Staff Director, Senate Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510, not later than Monday, April 9, 1979.

96TH CONGRESS
1ST SESSION

S. 463

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

IN THE SENATE OF THE UNITED STATES

FEBRUARY 22, 1979

Mr. CHURCH (for himself, Mr. LONG, Mr. BENTSEN, Mr. WALLOP, Mr. YOUNG, Mr. JOHNSTON, Mr. STONE, Mr. MATSUNAGA, Mr. INOUYE, Mr. MCGOVERN, Mr. EXON, Mr. BAUCUS, Mr. BURDICK, Mr. MELCHER, and Mr. BOSCHWITZ) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "International Sugar Sta-
4 bilization Act of 1979".

1 SEC. 2. DEFINITIONS.

2 For purposes of this Act—

3 (1) The term "person" has the same meaning as
4 is given to such term in section 1 of title 1 of the
5 United States Code.

6 (2) The term "Secretary" means the Secretary of
7 Agriculture except as otherwise provided herein.

8 (3) The term "TSUS" means the Tariff Schedules
9 of the United States (19 U.S.C. 1202).

10 (4) The term "United States", when used in a ge-
11 ographical context, means the several States, the Dis-
12 trict of Columbia, and the Commonwealth of Puerto
13 Rico.

14 TITLE I—INTERNATIONAL SUGAR AGREEMENT

15 SEC. 101. DEFINITIONS.

16 For purposes of this title—

17 (1) The term "Agreement" means the Interna-
18 tional Sugar Agreement, 1977, signed at New York
19 City on December 9, 1977.

20 (2) The term "entry" means the entry or with-
21 drawal from warehouse, for any purpose, in the cus-
22 toms territory of the United States.

23 (3) The term "sugar" has the same meaning as is
24 given to such term in paragraph (12) of Article 2 of
25 the Agreement.

1 SEC. 102. IMPLEMENTATION OF AGREEMENT.

2 On and after the entering into force of the Agreement
3 with respect to the United States, and for such period before
4 January 1, 1983, as the Agreement remains in force, the
5 President may, in order to carry out and enforce the provi-
6 sions of the Agreement—

7 (1) regulate the entry of sugar by appropriate
8 means, including but not limited to—

9 (A) the imposition of limitations on the entry
10 of sugar which is the product of foreign countries,
11 territories, or areas not members of the Interna-
12 tional Sugar Organization, and

13 (B) the prohibition of the entry of any ship-
14 ment or quantity of sugar not accompanied by a
15 valid certificate of contribution or such other doc-
16 umentation as may be required under the Agree-
17 ment;

18 (2) require of appropriate persons the keeping of
19 such records, statistics, and other information, and the
20 submission of such reports, relating to the entry, distri-
21 bution, prices, and consumption of sugar and alterna-
22 tive sweeteners as he may from time to time prescribe;
23 and

24 (3) take such other action, and issue and enforce
25 such rules or regulations, as he may consider necessary

1 or appropriate in order to implement the rights and ob-
2 ligations of the United States under the Agreement.

3 **SEC. 103. DELEGATION OF POWERS AND DUTIES.**

4 The President may exercise any power or duty con-
5 ferred on him by this title through such agencies or officers of
6 the United States as he shall designate.

7 **SEC. 104. CRIMINAL OFFENSES.**

8 Any person who—
9 (1) fails to keep any records, statistics, or other
10 information, or to submit any report, required under
11 section 102;
12 (2) submits any report under section 102 knowing
13 that the report or any part thereof is false; or
14 (3) knowingly violates any rule or regulation
15 issued to carry out this title;
16 is guilty of an offense and upon conviction thereof is punish-
17 able by a fine of not more than $1,000.

18 **SEC. 105. REPORT TO CONGRESS.**

19 The President shall submit to Congress, on or before
20 April 1 of each year, beginning in 1980, a report on the
21 operation and effect of the Agreement during the immediately
22 preceding year. The report shall contain, but not be limited
23 to—

1 (1) information with respect to world and domestic
2 sugar demand, supplies, and prices during the year
3 concerned;
4 (2) projections with respect to world and domestic
5 sugar demand, supplies, and prices; and
6 (3) a summary of the international and domestic
7 actions taken during the year concerned under the
8 Agreement and under domestic legislation to protect
9 the interests of United States consumers and producers
10 of sugar.

11 TITLE II—DOMESTIC SUGAR PROGRAM
12 PROVISIONS

13 **SEC. 201. DEFINITIONS.**

14 (a) For purposes of this title—
15 (1) The phrase "average daily price for raw sugar
16 imports" means the average for the applicable period
17 of the daily domestic spot quotation or price reported
18 by the New York Coffee and Sugar Exchange, C.I.F.
19 duty paid basis, adjusted to exclude any special import
20 duty imposed under this Act, at a United States port of
21 entry north of Cape Hatteras: *Provided*, That if no
22 such daily domestic spot quotation or price is reported
23 for any market day or days in the applicable period,
24 the Secretary shall determine for each such market day
25 for use in calculating such average a daily market

1 price for raw sugar which shall be the daily price
2 (world) quoted by the International Sugar Organization
3 for such market day (or if no such quotation is issued,
4 an equivalent price determined by the Secretary), in
5 United States cents per pound, free on board and
6 stowed Caribbean basis, in bulk, adjusted to a C.I.F.
7 duty paid basis by adding estimated costs of delivery
8 from Caribbean ports to United States ports north of
9 Cape Hatteras, including freight, insurance, cost of dis-
10 charge, financing, weighing, and sampling and import
11 duties, excluding any special import duty imposed
12 under this Act.
13 (2) The term "entered" means entered, or with-
14 drawn from warehouse, for consumption, or exportation
15 pursuant to section 210 from, the customs territory of
16 the United States; and the term "entry" means the
17 entry, or withdrawal from warehouse, for such con-
18 sumption or exportation.
19 (3) The term "price objective" means the price
20 set forth in or determined pursuant to section 202(a).
21 (4) The term "quantitative restriction" means the
22 total quantity of any sugar or sugar-containing product
23 produced in all foreign countries, territories, or areas
24 that may be entered, without regard to source, in any
25 sugar supply year or semiannual period thereof.

1 (5) The term "raw value" has the same meaning
2 as is given to such term in headnote 1 to subpart A of
3 part 10 of schedule 1 of the TSUS.
4 (6) The term "sugar" means any sugar, sirup,
5 and molasses provided for in items 155.20, and 155.30
6 of the TSUS.
7 (7) The term "raw sugar" means any sugar which
8 is to be further refined or improved in quality.
9 (8) The term "sugar supply year" means the 12-
10 month period beginning on October 1 of each calendar
11 year with each such year being designated by the year
12 in which the beginning date occurs.
13 (9) The term "supply year quarter" means any of
14 the 3-month period beginning on October 1, January
15 1, April 1, or July 1 of any sugar supply year.
16 (b) For purposes of section 207—
17 (1) The term "sugars" means any grade or type
18 of saccharine product derived from an agricultural com-
19 modity, which contains sucrose, dextrose, or levulose.
20 (2) The term "direct-consumption sugar" means
21 any sugars which are not to be further refined or im-
22 proved in quality.
23 (3) The term "to be further refined or improved in
24 quality" means to be subjected substantially to the
25 process of (1) affination or defecation, (2) clarification,

1 and (3) further purification by absorption or crystalliza-
2 tion. The Secretary is authorized to determine whether
3 specific processes to which sugars are subjected are
4 sufficient to meet the requirements of this paragraph
5 and whether sugars of a specific quality are direct-con-
6 sumption sugar within the meaning of paragraph (2) of
7 this subsection.

8 **SEC. 202. PRICE OBJECTIVES AND AVERAGE DAILY PRICES.**

9 (a) PRICE OBJECTIVES.—(1) The price objectives for
10 sugar supply years beginning after September 30, 1978, are
11 as follows:

12 (A) The price objective for the 1978 sugar supply
13 year is 17 cents per pound, raw value.

14 (B) The price objective for the 1979, 1980, and
15 1981 sugar supply years shall be the price objective
16 for the sugar supply year immediately preceding each
17 such year, adjusted by the Secretary to reflect the per-
18 centage change between the average cost of production
19 of sugar from sugar beets and sugarcane for—

20 (i) the two sugar supply years immediately
21 preceding the sugar supply year for which the ad-
22 justment is made, and

23 (ii) the two sugar supply years immediately
24 preceding the sugar supply year which immediate-

1 ly precedes the sugar supply year for which the
2 adjustment is made.
3 (2) For purposes of this subsection, the average cost of
4 production for each sugar supply year shall be determined by
5 the Secretary on the basis of the results of the studies made
6 pursuant to section 305 of this Act.
7 (3) The Secretary shall determine the price objective
8 under this subsection for the 1979 sugar supply year and for
9 each sugar supply year thereafter not later than June 30 of
10 the year in which such sugar supply year begins.
11 (b) DAILY PRICES.—The Secretary shall (i) ascertain or
12 determine for each market day the quotation or price to be
13 used to calculate the average daily price for raw sugar im-
14 ports, (ii) make the adjustments therein required by section
15 201(a)(1), and (iii) publish such quotations or prices, as so
16 adjusted, in the Federal Register on such periodic basis as he
17 deems appropriate.
18 **SEC. 203. SECRETARIAL RECOMMENDATIONS REGARDING**
19 **SPECIAL IMPORT DUTIES.**
20 (a) SPECIAL IMPORT DUTIES.—(1) Not later than 30
21 days before the beginning of each sugar supply year which
22 commences after September 30, 1979, the Secretary shall—
23 (A) on the basis of best available information, esti-
24 mate whether the average daily price for United States

1 raw sugar imports during such sugar supply year will
2 be below the price objective; and
3 (B) If the estimation under subparagraph (A) is in
4 the affirmative, recommend to the President that he
5 impose such special import duties on the entry of such
6 sugar and, if appropriate, such sugar-containing prod-
7 ucts as the Secretary determines to be necessary to
8 assure that the average daily price for United States
9 raw sugar imports will result in the price objective for
10 such sugar supply year being achieved.
11 (2) With respect to the 1978 sugar supply year, the
12 Secretary shall make the estimation described in paragraph
13 (1)(A) and, if applicable, the recommendations described in
14 paragraph (1)(B) not later than 30 days after the date of the
15 enactment of this Act.
16 (b) REVIEW AND ADJUSTMENTS OF DUTIES.—The
17 Secretary shall review, on a supply year quarter basis, the
18 effect of all special import duties imposed as a result of rec-
19 ommendations made by him under subsection (a). On the
20 basis of such review, the Secretary shall determine and rec-
21 ommend the amount by which the special import duty shall
22 be adjusted so that the special import duty shall equal the
23 amount by which the average daily price for raw sugar im-
24 ports for the first 20 consecutive market days preceding the
25 20th day of the month preceding the calendar quarter during

1 which such recommendation shall be applicable is less than
2 the price objective: *Provided,* That whenever the Secretary
3 determines that the average daily price for raw sugar imports
4 for ten consecutive market days within any calendar quarter
5 (1) exceeds the price objective by more than .5 cent, or (2) is
6 less than the price objective by more than .5 cent, the Secre-
7 tary shall recommend to the President that the duty be de-
8 creased or increased, as the case may be, by the amount of
9 such excess or deficit. The Secretary shall promptly certify to
10 the Secretary of the Treasury determinations made under
11 this subsection.

12 **SEC. 204. SECRETARIAL RECOMMENDATIONS REGARDING**
13 **QUANTITATIVE RESTRICTIONS.**

14 (a) QUANTITATIVE RESTRICTIONS.—Whenever the
15 Secretary has reason to believe that the special import duties
16 imposed on the entry of any sugar or sugar-containing prod-
17 uct on the basis of any recommendation made by him under
18 section 203 are not resulting in the price objective for the
19 sugar supply year being achieved, the Secretary shall recom-
20 mend to the President that he impose, in addition to such
21 special import duties, such quantitative restrictions on a
22 semiannual supply year basis, on the articles concerned as
23 the Secretary determines to be necessary to achieve such
24 price objective.

1 (b) REVIEW AND ADJUSTMENTS OF QUANTITATIVE
2 RESTRICTIONS.—The Secretary shall review, on a semian-
3 nual supply year basis, the effect of all quantitative restric-
4 tions imposed as a result of recommendations made by him
5 under subsection (a). On the basis of such review, the Secre-
6 tary shall recommend to the President such adjustments with
7 respect to the amount of any such quantitative restriction, or
8 with respect to sugar or sugar-containing products to which
9 any such quantitative restrictions should be extended or re-
10 moved, as the Secretary determines to be necessary to
11 achieve the price objective for the sugar supply year con-
12 cerned.

13 **SEC. 205. SUBMISSION AND PUBLICATION OF REPORTS AND**
14 **RECOMMENDATIONS TO PRESIDENT.**

15 (a) TIMING OF REPORTS.—The Secretary shall submit
16 a report to the President containing the results of each
17 review conducted under sections 203(b) and 204(b), together
18 with such recommendations the Secretary deems appropriate,
19 not later than the 60th day after the beginning of the supply
20 year quarter or semiannual period for which the review is
21 made.

22 (b) PUBLICATION OF REPORTS AND RECOMMENDA-
23 TIONS.—Each report and recommendation made by the Sec-
24 retary to the President under sections 203 and 204 shall be
25 promptly published by the Secretary in the Federal Register.

1 **SEC. 206. IMPOSITION BY PRESIDENT OF SPECIAL IMPORT**
2 **DUTIES AND QUANTITATIVE RESTRICTIONS.**

3 (a) IN GENERAL.—Upon receiving any recommendation
4 of the Secretary under section 203 or section 204, the Presi-
5 dent shall promptly proclaim, under the authority of the
6 headnotes to subpart A of part 10 of schedule 1 of the TSUS
7 and subject to subsection (b), such special import duties or
8 quantitative restrictions, as the case may be, with respect to
9 such sugar and sugar-containing products as the President
10 deems necessary to achieve the price objective for the sugar
11 supply year concerned.

12 (b) GLOBAL RESTRICTION.—A quantitative restriction
13 imposed under subsection (a) shall be administered as a
14 global quantitative restriction imposed in terms of raw value.

15 (c) SPECIAL PROVISIONS RELATING TO PROCLAMA-
16 TIONS.—(1) Any proclamation issued by the President on the
17 basis of any recommendation made by the Secretary under
18 section 203(a) regarding sugar with respect to the 1978
19 sugar supply year shall apply with respect to articles entered
20 on or after the date of such proclamation.

21 (2)(A) Any special import duty imposed by the President
22 on the basis of any recommendation made by the Secretary
23 under section 203(a) with respect to any sugar supply year
24 after September 30, 1979, shall be proclaimed by the Presi-
25 dent not less than 5 days before the beginning of the sugar
26 supply year in which such special import duties apply;

1 (B) Any quarterly adjustment made by the President to
2 any special import duty on the basis of any determination
3 made by the Secretary under section 203(b) shall be pro-
4 claimed by the President not less than 5 market days before
5 the beginning of the supply year quarter in which such ad-
6 justment first takes effect;
7 (C) Any adjustment made by the President within a
8 supply year quarter to any special import duty on the basis of
9 any determination made by the Secretary under the proviso
10 to section 203(b) shall be proclaimed by the President not
11 later than 3 market days after the recommendation by the
12 Secretary to the President thereunder; and
13 (D) Any quantitative restriction imposed by the Presi-
14 dent on the basis of any recommendation made by the Secre-
15 tary under section 204(a), and any adjustment made by the
16 President to any quantitative restriction on the basis of any
17 recommendation made by the Secretary under section 204(b),
18 shall be proclaimed by the President not less than 30 days
19 before the beginning of the period for which such quantitative
20 restriction or adjustment, as the case may be, first takes
21 effect.
22 SEC. 207. PROHIBITION OF IMPORTATION OF DIRECT-CON-
23 SUMPTION SUGAR.
24 (a) Except as provided in subsection (b), no direct-con-
25 sumption sugar may be entered into the United States.

1 (b) Notwithstanding any other provision of this Act, if
2 the President determines that a lack of refining capacity
3 within the United States has created an imminent shortage of
4 direct-consumption sugar for consumers in the United States,
5 then he may impose a quantitative restriction permitting the
6 entry of such quantity of direct-consumption sugar as is nec-
7 essary to meet such imminent shortage. Determinations
8 made under this section shall be made in accordance with
9 section 553 of title 5, United States Code.

10 (c) The limitation imposed under subsection (a) may not
11 be suspended under section 211 unless the President finds
12 and proclaims that a national economic or other emergency
13 exists with respect to direct-consumption sugar which re-
14 quires such a suspension.

15 **SEC. 208. PROHIBITED ACTS.**

16 (a) CERTAIN IMPORTS AND EXPORTS.—No person
17 may—

18 (1) bring or import into the Virgin Islands in any
19 sugar supply year for consumption in such Islands, any
20 sugar in excess of 100 pounds if such sugar was pro-
21 duced from sugarcane or sugar beets grown outside the
22 United States;

23 (2) bring or import into the United States any
24 direct-consumption sugar except in accordance with
25 section 207; or

1 (3) export to any foreign country any sugar en-
2 tered under any quantitative restriction imposed under
3 section 206.

4 (b) CIVIL PENALTY.—Any person who knowingly vio-
5 lates, knowingly attempts to violate, or knowingly partici-
6 pates or aids in the violation of subsection (a) shall forfeit to
7 the United States the sum equal to three times the market
8 value at the time of the commission of any such act, of that
9 quantity of sugar involved in the violation, which forfeiture
10 shall be recoverable in a civil suit brought in the name of the
11 United States.

12 **SEC. 209. EXEMPT ARTICLES OF SUGAR.**

13 This title does not apply with respect to any sugar or
14 sugar-containing product—

15 (1) of any aggregate value not exceeding $25 in
16 any one shipment, if entered as samples for the taking
17 of orders, for the personal use of the importer, or for
18 research;

19 (2) entered for the production of alcohol, other
20 than any alcohol or resulting byproduct for human food
21 consumption;

22 (3) entered for the production of yeast or citric
23 acid; or

24 (4) any sugar entered for the production of poly-
25 hydric alcohols, except polyhydric alcohols for use as a

1 substitute for sugar as a sweetener in human food con-
2 sumption.

3 **SEC. 210. CERTAIN EXPORTATIONS OF SUGAR.**

4 Sugar entered under a bond, established under rules
5 promulgated by the Secretary of the Treasury, for the pur-
6 pose of subsequently exporting an equivalent quantity of
7 sugar as such, or in manufactured articles, shall not be con-
8 sidered to be sugar entering the United States for purposes of
9 section 206. Sugar exported under the provisions of sections
10 309 and 313 of the Tariff Act of 1930 (19 U.S.C. 1309 and
11 1313) shall be considered to be sugar entered under this sec-
12 tion.

13 **SEC. 211. SUSPENSION OF TITLE.**

14 If the President finds that a national economic or other
15 emergency exists with respect to sugar, the President may by
16 proclamation suspend the operation of this title, and headnote
17 2(b) to subpart A of part 10 of schedule 1 of the TSUS to the
18 extent that it applies with respect to this title, until such time
19 as the President finds and proclaims that such emergency no
20 longer exists. The Secretary shall make such investigations,
21 and prepare such reports, as the President may require for
22 purposes of carrying out this section.

23 **SEC. 212. REGULATIONS.**

24 The Secretary shall issue rules and regulations as he
25 determines to be necessary or appropriate to carry out his

1 functions and duties under this title. Knowing violation of
2 any rule issued by the Secretary under this section is punish-
3 able by a fine of not more than $1,000 for each violation.
4 **SEC. 213. AMENDMENTS TO TSUS.**
5 The headnotes to subpart A of part 10 of schedule 1 of
6 the TSUS are amended—
7 (1) by amending headnote 1 to read as follows:
8 "1. For the purposes of this subpart—
9 "(i) the term 'degree', as used in the 'Rates of
10 duty' columns of this subpart, means sugar degree as
11 determined by polariscopic test;
12 "(ii) the term 'total sugars' means the sum of the
13 sucrose and reducing or invert sugars contained in any
14 grade or type of sugars, sirups, and molasses; and
15 "(iii) the term 'raw value' means the equivalent of
16 such articles in terms of ordinary commercial raw
17 sugar testing 96 degrees by the polariscope as deter-
18 mined in accordance with regulations issued by the
19 Secretary of the Treasury. The principal grades and
20 types of sugar shall be translated into terms of raw
21 value in the following manner:
22 "(A) For sugar described in item 155.20, by
23 multiplying the number of pounds thereof by the
24 greater of 0.93, or 1.08 less 0.0175 for each

1 degree of polarization under 100 degrees (and
2 fractions of a degree in proportion).
3 "(B) For sugar described in item 155.30, by
4 multiplying the number of pounds of the total
5 sugars thereof by 1.08.
6 "(C) The Secretary of the Treasury shall es-
7 tablish methods for translating sugar into terms of
8 raw value for any special grade or type of sugar
9 for which he determines that the raw value
10 cannot be measured adequately under the above
11 provisions.";
12 (2) by amending headnote 2 by inserting "(a)" im-
13 mediately after "2", and by adding at the end thereof
14 the following:
15 "(b) In addition to the authority of the President under
16 section 201 of the Trade Expansion Act of 1962 (19 U.S.C.
17 1821) to proclaim modifications of the rates of duty and
18 quotas on imports of sugars, sirups, and molasses provided
19 for in items 155.20 and 155.30, the President shall, subject
20 to the conditions and requirements of (a)(i) and for purposes
21 of carrying out, and subject to, title II of the International
22 Sugar Stabilization Act of 1979, proclaim special import
23 duties on—
24 "(i) imports of any such sugars, sirups, and molas-
25 ses, and

1 "(ii) the content of any such sugars, sirups, and
2 molasses in imported products containing such sugars,
3 sirups, and molasses. Any special import duty pro-
4 claimed under this subdivision on the entry of any arti-
5 cle shall be in addition to any other duty imposed by
6 law on such entry and may not be made the subject of
7 any preferential concession under any law or interna-
8 tional obligation of the United States."; and
9 (3) by amending headnote 3 by striking out "For
10 purposes of this headnote," and all that follows there-
11 after.

12 TITLE III—MISCELLANEOUS PROVISIONS

13 **SEC. 301. DEFINITION.**

14 As used in this title the term "sugar" has the same
15 meaning as is given to such term in section 201(6).

16 **SEC. 302. JURISDICTION OF COURTS.**

17 The several district courts of the United States are
18 hereby vested with jurisdiction specially to enforce, and to
19 prevent and restrain any person from violating, the provisions
20 of this Act or of any order or regulation made or issued pur-
21 suant thereto. If and when the Attorney General shall so
22 request, it shall be the duty of the several district attorneys
23 of the United States, in their respective districts, to institute
24 proceedings to enforce the remedies and to collect the penal-
25 ties, fees, and forfeitures provided for in this Act. The reme-

1 dies provided for in this Act shall be in addition to, and not
2 exclusive of, any of the remedies or penalties existing at law
3 or in equity.

4 **SEC. 303. FURNISHING OF INFORMATION TO SECRETARY.**

5 All persons engaged in the manufacturing, marketing,
6 or transportation or industrial use of sugar and other sweet-
7 eners, including those not derived from sugar beets or sugar-
8 cane, and having information which the Secretary deems nec-
9 essary to enable him to administer the provisions of this Act,
10 shall, upon the request of the Secretary, furnish him with
11 such information. Any person willfully failing or refusing to
12 furnish such information or willfully furnishing any false in-
13 formation shall upon conviction be subject to a penalty of not
14 more than $2,000 for each such violation. The Secretary is
15 empowered to subpena witnesses and the production of such
16 records, books, papers, and documents which he determines
17 necessary for the administration of this Act. All information
18 required to be furnished to the Secretary under this section
19 shall be kept confidential by all officers and employees of the
20 Department of Agriculture.

21 **SEC. 304. INVESTMENTS BY OFFICIALS PROHIBITED.**

22 No person may, while acting in any official capacity in
23 the administration of this title, invest or speculate in sugar,
24 contracts relating thereto, or the stock of membership inter-
25 est of any association or corporation engaged in the produc-

1 tion or manufacturing of sugar or other sweeteners. Any
2 person violating this section shall upon conviction thereof be
3 fined not more than $10,000 or imprisoned not more than
4 two years, or both.

5 SEC. 305. SURVEYS AND INVESTIGATIONS.

6 (a) REQUIRED SURVEYS AND INVESTIGATIONS.—
7 Whenever the Secretary determines such action is necessary
8 to effectuate the purposes of this Act, the Secretary from
9 time to time shall conduct such surveys and investigations as
10 the Secretary deems necessary regarding the manufacturing,
11 marketing, transportation, or industrial use of sugar and
12 other sweeteners. In carrying out the provisions of this sub-
13 section, information shall not be made public with respect to
14 the separate operations of any person or company from
15 whom such information has been derived.

16 (b) OTHER INVESTIGATIONS, SURVEYS, AND RE-
17 SEARCH.—The Secretary may conduct surveys, investiga-
18 tions, and research relating to the conditions and factors af-
19 fecting the methods of accomplishing most effectively the
20 purposes of this Act. Notwithstanding any provision of exist-
21 ing law, the Secretary may make available to the public such
22 information as the Secretary deems necessary to carry out
23 the provisions of this Act.

24 (c) COST OF PRODUCTION STUDIES.—(1) The Secre-
25 tary is directed to conduct studies on the cost of producing

1 sugarcane, sugar beets, raw sugar, refined sugar, corn sweet-
2 eners, and other sweetener products as deemed necessary by
3 the Secretary for the administration of this Act.

4 (2) The Secretary shall determine on a sugar supply
5 year basis the average cost of production of sugarcane, sugar
6 beets, raw sugar, refined sugar, and corn sweeteners.

7 (3) There are hereby authorized to be expended such
8 amounts from the funds of the Commodity Credit Corpora-
9 tion as may be necessary to carry out the authority of this
10 subsection.

11 SEC. 306. LOAN AND PURCHASE PRICE SUPPORT PROGRAMS.

12 (a) EXTENSION OF 1977 AND 1978 PROGRAMS TO
13 1979, 1980, AND 1981 CROPS.—Effective with respect to
14 the 1979, 1980, and 1981 crops of sugar beets and sugar-
15 cane, section 201 of the Agricultural Act of 1949, as amend-
16 ed, is amended by—

17 (1) striking out in the first sentence "honey, and
18 milk" and inserting in lieu thereof the following:
19 "honey, milk, sugar beets, and sugarcane"; and

20 (2) adding at the end thereof a new subsection (g)
21 as follows:

22 "(g) The price of the 1979, 1980, and 1981 crops of
23 sugar beets and sugarcane shall be supported through loans
24 or purchases with respect to the processed products thereof

1 at a level not in excess of 65 per centum nor less than 52.5
2 per centum of the parity price therefor.".
3 (b) WAIVER OF INTEREST ON 1977 AND 1978
4 CROPS.—Notwithstanding any other provision of law, the
5 Secretary may waive a portion of the interest at such times
6 and in such amounts as he determines necessary, in order to
7 encourage the repayment of outstanding loans obtained from
8 the Commodity Credit Corporation with respect to sugar pro-
9 duced from the 1977 and 1978 crops of sugar beets and sug-
10 arcane; except that such waiver authority shall be exercised
11 in such a manner as not to affect unduly the market prices for
12 sugar.
13 **SEC. 307. TERMINATION OF ACT.**
14 Except for title I and section 206(a), this Act shall
15 cease to have force and effect as of the close of September
16 30, 1982.

Senator MATSUNAGA. The subcommittee will come to order.

Good morning and Aloha, as we say in Hawaii. I wish to welcome you to this hearing of the Subcommittee on Tourism and Sugar of the Senate Finance Committee. This subcommittee came into being in the 95th Congress under the very expert midwifemanship of the chairman of the parent, full Committee on Finance who, as you know, is a legend in his own time. I am sorry that he is not here today. Normally, he would be sitting as a member of this subcommittee to my right.

If there is anyone here today who would dare to admit that they do not know Senator Long, let me discretely advise you that he was one of those who led the South to support statehood for Hawaii.

The third member of the subcommittee is Senator Malcolm Wallop, the senior Senator from Wyoming, who is now on his way over. The Chair is not waiting for the reason that we have a lot of ground to cover before 12:30, at which time I must attend a Whip's luncheon.

The subcommittee will receive oral and written testimony on S. 463, the International Sugar Stabilization Act of 1979. Before calling the first witness, however, I would like to make a brief statement.

Sugar is one of the world's most regulated commodities. Almost 85 percent of the total world production of sugar falls under some type of internal or external law or regulation. In the United States, it has been under Government regulation since the American Revolution, when the first tariff was enacted in 1789. For 40 years, beginning with the Jones-Costigan Act of 1934, the domestic sugar industry has been regulated under a detailed and complex legislative program.

The House Agriculture Committee and the Senate Finance Committee have periodically reviewed and extended sugar programs, generally for an additional 2- to 5-year period. To maintain a viable domestic sugar industry, through controlled supplies, the Congress established foreign and domestic quotas.

The supply management system was based on the findings that: one, U.S. producers could not compete with foreign lower cost producers, and would eventually be forced out of business unless protected; two, supplies of sugar to supplement U.S. sugar production would be readily available on the world market; and three, U.S. consumers were willing to pay a slightly higher domestic price for sugar in order to stabilize and to protect the domestic sugar industry as a dependable supply source.

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

During the 40 years of its life, the Sugar Act of 1934 proved to be one of the most successful agricultural programs ever launched. It provided the U.S. market with adequate supplies of reasonably priced sugar and firmly established a viable domestic sugar industry.

The act continued to be renewed and modified to meet the needs of the disparate groups which lent their political support to the program: the growers, refiners, importers, organized labor, and users.

However, beginning in the early 1970's, changing economic conditions split the coalition of interests which had previously supported the Sugar Act's renewal. For 4 or 5 years from 1970 through 1974, world sugar consumption outstripped production. As sugar prices

increased dramatically, the political base, and to a certain extent the effectiveness, of the Sugar Act, deteriorated. Consequently, the Sugar Act was allowed to expire on December 31, 1974.

Following the sugar price boom and the demise of the Sugar Act of 1974, world production increased substantially and prices decreased dramatically, even to levels below the cost of production. The domestic sugar industry was in deep trouble. It pressed for a reinstatement of some form of sugar program, but failed to muster sufficient support in the House last year for a legislative solution.

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

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

The International Sugar Agreement has not yet been ratified by the U.S. Senate, and there is serious concern about how soon its intended stabilizing effects will be realized, in the light of continuing surpluses of world sugar stocks. The 13.5 cents a pound floor provided under existing law will not meet the present domestic cost of productions.

On April 25, 1978, Senator Frank Church of Idaho, with 33 cosponsors, introduced S. 2990, the Sugar Stabilization Act of 1978, and hearings were held by this subcommittee on May 11, 1978. Similar legislation was introduced in the House of Representatives by Congressman de la Garza and after a conference committee meeting of the surviving bill known as H.R. 13750 was lost in the House by a close vote during the waning hours of the 95th Congress.

Senator Church has again come forward with a new bill cosponsored by 16 of his colleagues. This new bill, S. 463, the International Sugar Stabilization Act of 1979, has the same objectives of last year's bill: namely, to provide: one, maintenance of a viable domestic sugar-producing industry capable of continuing to provide a larger part of sugar consumed in the United States; two, the protection of the welfare of consumers and producers in providing such supplies of sugar as will be consumed at fair prices in the United States and in the world market; three, achievement of these price and supply objectives through cooperation with sugar-producing and consuming countries under the export quota system of the International Sugar Agreement and the operation of a complementary import management program for the U.S. market; and four, the promotion of the export trade of the United States with sugar-producing countries of the world.

About the time S. 463 was introduced, President Carter announced his support for a target market price of 15.8 cents per pound of sugar,

raw value, and a half-cent per pound direct Government payment. This total of 16.3 cents per pound is a little short of the 17 cents per pound without payments provided for in S. 463.

This first day of spring is an appropriate time for a new beginning for a solution to an old problem. Many of our witnesses today were here last year at the hearings on May 11. We shall look forward to your testimony in the hope that we can come up with a bill that will find acceptance by all interests, if not total agreement.

Before calling our first witness, I wish to note the presence of a member of this committee, the senior Senator from Wyoming, and ask if he would care to make any opening statement at this time.

Senator WALLOP. I would, Mr. Chairman.

I think your praise of spring is only exceeded by your generosity.

Senator MATSUNAGA. I hope it has helped.

Senator WALLOP. Yes, indeed. I assume some of it came from the Hawaiian sugar industry.

Mr. Chairman, I want to thank you for holding these hearings on the International Sugar Stabilization Act and the problems of the U.S. sugar industry. By holding these hearings, I think we send a signal of commitment, on the part of the Finance Committee, to restore some stability and a climate of confidence within the U.S. sugar industry.

The U.S. sugar industry has been characterized in recent years by uncertainties about the future and whether Congress would adopt programs to enhance its prospects for survival. I add, parenthetically, that it seems that the country should make up its mind whether it is in the Nation's interests to have an adequate and strong sugar industry. If it is not in its interests, we ought to abandon all help of it and not waste any money in the process. If it is in its interest, we should make sure that it will survive. To let the industry die slowly is not in the interests of the producers, the taxpayers, or the consumers of this country.

Last year, the Congress failed to enact sugar legislation, due largely to the fact that the administration tried to impose an unworkable solution during the last hours of legislative session. The program failed in the House because it was based on subsidy payments that neither the sugar growers nor the corn sweetener industry thought desirable.

This year, we have the opportunity to pass sugar legislation that will help the domestic sweetener industry and give the American consumers an assured, stable supply of sugar here at home.

We are agreed, I think, that it would be foolish to rely on the International Sugar Agreement alone to stabilize world sugar prices and guarantee sugar supplies to American consumers. As a nation dependent on sugar imports for half of our consumption, the United States is exposed to radical fluctuations in the price and supply of sugar.

The International Sugar Agreement may be able to temper those price fluctuations, but we need additional guarantees that our own domestic sugar industry will remain viable.

The actions we take in this committee will have a great effect on the ability to survive in the sugar industry in the United States. I hope you will all keep in mind the fact that aggressive sugar legislation will not support growers and processors alone, but it also affects the economies of entire communities in sugar-growing States.

44-979—79——3

This is true of my State of Wyoming more than any other sugar beet growing region in the country. For years, sugar beets have been a most significant crop in Wyoming. A recent GAO report indicates that the value of sugar beets represents less than 3 percent of all crop value in most producing States, but in Wyoming, sugar beets represent 13.7 percent of the total crop value in our State.

In an area where mineral development has always meant boom and bust prosperity, we are thankful that a crop like sugar beets contributes to the economy of Wyoming year after year. There are entire communities in Wyoming whose economies are dependent on sugar and whose future depends on the legislation that comes from this committee.

Wyoming sugar beet growers receive about $40 million from processors for their beets and the processors, in turn, sell about $50 million of their product of refined sugar.

Economists at the university have calculated that the business multiplier effect of sugar production and processor activities of my State represent over $110 million to the economy of Wyoming. This income is important for our State, and absolutely crucial for communities.

Finally, I want to commend Senator Church for introducing S. 463 and developing a means to assist the sugar industry without imposing an additional burden on American taxpayers. I know that the sugar beet growers are committed to the goal of reaching a fair market price for sugar from the marketplace, not from the taxpayer.

By reaching the market price objective through a system of import tariffs and quotas, we can avoid the drain on the Treasury created by direct payment programs. In a year when the Congress is involved in balancing the Federal budget, it is inconceivable that we adopt a payments program that would cost as much as $60 million or $70 million budget dollars when better alternatives exist.

It is encouraging to see that six members of the Finance Committee, including the chairman of this committee and Senator Long, agree with this approach. It gives me confidence that we will be able to pass a sugar bill that protects the industry without creating a needless burden on taxpayers.

Thank you.

Senator MATSUNAGA. Thank you, Senator Wallop.

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

Senator Church, we shall be delighted to hear from you and I am sure, inspired.

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

Senator CHURCH. Senator Matsunaga, Senator Wallop, first of all I want to express my appreciation for your courtesy in extending this opportunity to me to provide the committee with my views on S. 463, the bill under consideration. I appreciate this committee's decision to

hold early hearings on this bill which I introduced February 22, along with 15 of my colleagues.

As this committee knows, the necessity of establishing a stable domestic sugar policy to protect both growers and consumers has eluded resolution for several years. The members of this committee worked hard and diligently last year to report out the Sugar Stabilization Act of 1978 and to obtain full Senate approval. The failure of the House to support a compromise version last fall, in the closing hours of the session, has added urgency to today's deliberations.

Since the close of the 95th Congress, our domestic sweetener industry has continued to atrophy under the onslaught of dumped foreign sugar. At least four more sugar beet processing plants in the Pacific Northwest are scheduled to close their doors within days. While three of these plants have some chance of continuing to provide employment through new ownership, the U. & I. Co. plant near Idaho Falls, Idaho, remains scheduled to close within a month and no prospective purchaser is in sight.

Last month, the Treasury Department announced that it had determined that sugar from France, Belgium, and West Germany was being sold in the United States at prices below its fair value. This finding only repeats similar findings announced in 1978 and 1977.

The existence of the practice of dumping subsidized sugar into the United States by foreign countries has been repeatedly documented. That is my employees at the Idaho Falls plant have been certified to receive Trade Act adjustment assistance.

The approximately 400 employees of this plant would far prefer to keep their jobs. However, our failure to formulate a workable domestic sugar policy means that all our taxpayers will now have to provide assistance payments to these workers. The closure of this plant will also mean that about 20,000 acres of former beet land will have to be converted to potatoes or wheat.

Yet potato production is in surplus and we have had to divert 12 million hundredweight from last year's bumper crop to cattlefield. Similarly, wheat prices are depressed and our policy is to pay growers not to plant wheat on a portion of their acreage. The unavoidable fact is that there are no good alternative crops for these beetgrowers to produce. Jobs will be lost. Taxpayers will be burdened with assistance payments and in supporting alternative crops already in surplus production.

Planting intentions indicate that beet acreages will shrink 11 percent nationwide this year. The continued withering of our domestic industry only increases our dependence on the world sugar market for our supplies. This dependency has reached about one-half of our annual needs and adds over $1 billion to our annual trade deficit. As this reliance on foreign sources of sugar grows, so will our consumers become more vulnerable to sharp fluctuations in both price and supply.

Over three-fourths of the world's sugar is grown under arrangements involving governmental subsidies and market supports. When there is anything left over, it flows into the world sugar market. I checked moments ago to learn today's price, and it is 8.54 cents per pound. I submit, you know, that falls below the cost of production anywhere in the world.

Other countries have special arrangements by which the sugar is produced and purchased at prices that are viable, but we are the country in which all the surplus sugar is dumped, at prices far below the world's own cost of production.

But what happens, Mr. Chairman, when the surplus in the world marketplace becomes a shortage? We have had past experience enough to know that then the price will skyrocket upward from 8.5 cents a pound to as much as 70 cents a pound which was our experience in the past 4 or 5 years. So that it evades me to hear the argument of those who purport to represent the best interests of the consumer to oppose the bill. which would have the tendency of stabilizing the sugar prices in this country, thus protecting the housewife from these sharp and drastic fluctuations in price.

The bill before this committee bears some similarity to the Sugar Stabilization Act of 1978. It does not provide for payments to growers from the U.S. Treasury. The price objective of 17 cents per pound is to be achieved through import fees and, if necessary, quotas on imported sugar. This approach will bring revenue into the Treasury. Adjustments of this target price objective are keyed to cost of production increases actually experienced by the growers.

Mr. Chairman, I have introduced this bill again in this session of the Congress because it represents my own concept of an ideal domestic sugar program. and I join with you and with Senator Wallop in expressing by preference to a fee imposed on foreign sugar as the mechanism for bringing the price to the desired level within this country because I think that the farmers would much prefer not receiving a payment from the Government, and there is no reason why that should be necessary.

Moreover, as I indicated before, this approach would supply the Treasury with very substantial sums of money and thus would be a revenue earner for the Federal Government.

In response to the chaotic conditions existing in the world sugar market, it has been proposed that the Senate ratify the pending International Sugar Agreement which represents an effort to stabilize world market prices by the use of buffer stocks, and bears the signatures of over 70 sugar producing and consuming nations.

Mr. Chairman, I have held up that agreement in the Foreign Relations Committee, not because I think that it is a bad agreement. I would hope that it might prove workable. But we are all aware that the track record for such international commodity agreements is not good, and I think that it would be reckless for us to proceed with the ratification of that agreement without first having enacted an adequate back-up domestic program to insure our own producers that they will receive a fair price for their product.

The bill before this committee would complement the international sugar agreement. It, in no way, conflicts with its purposes or objectives by establishing a domestic price objective of 17 cents per pound, which matches the midpoint of the free-trade range contemplated by the proposed international sugar agreement.

I understand. Mr. Chairman, that the administration will support a program offering a total of 16.3 cents per pound with a half-penny of that being in the form of payments. The administration's acknowl-

edgement of the necessity to maintain a viable domestic industry is welcome. Differences have narrowed, and the opportunity for this committee to fashion an acceptable domestic program appears to be at hand.

With deep respect for your judgment, I strongly commend the principles of the Sugar Stabilization Act of 1979 to the committee. Early and favorable action on this bill will be in the best interests of a struggling sugar industry employing over 100,000 people and will serve to assure the American consumer adequate supplies of sugar at stable prices.

Thank you very much, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Senator Church. I think that you have brought to the attention of this committee something which the general American public ought to know about, and if they do know what you have pointed out this morning to this committee, I am sure that they will all support a sugar program as proposed in your bill.

Senator Wallop, any questions?

Senator WALLOP. Mr. Chairman, I have no questions. I yield to Senator Dole at this time.

Senator DOLE. Do I understand you will oppose direct payments?

Senator CHURCH. This bill does not contain direct payments and I personally do not favor them. By the time that the bill works its way through the legislative process and we come to a conference if it is necessary in order to get a sugar program, to blend this approach with some sort of direct payment, I think that the importance of a sugar industry in this country should outweigh whatever objection I have to the method, because even with a payment, I understand, combined with a tariff fee, there would be a net gain to Treasury.

Senator DOLE. It seems to me that, rather than take money out of the taxpayers to make payments, we ought to be collecting money on imports with the mechanism we have now.

Senator CHURCH. I agree. That would be my preference.

Senator DOLE. That is going to be a matter of some contention, as you probably know. It has been in the past, both on the House and the Senate side.

Thank you.

Senator CHURCH. Thank you, Senator Matsunaga.

Senator MATSUNAGA. Thank you again, Senator Church.

Senator CHURCH. I appreciate very much your courtesy in allowing me to be the first witness this morning, Mr. Chairman.

Senator DOLE. I wonder if, before the next witness, I could read a short statement? I have to go to the floor to participate with Senator Talmadge on the debt ceiling matter and I will not be able to stay.

Senator MATSUNAGA. Certainly. The Senator from Kansas, Senator Dole, is recognized for 2 minutes, or more.

Senator DOLE. First Mr. Chairman, I am pleased that you are having these hearings because I think we must begin to take action as Senator Church has said, and I am certain others will say, to establish an effective sugar program.

Every day, more sugar is going under loan because the executive branch refuses to exercise its authority to adjust import fees and

quotas to bring our domestic market price up to reasonable levels. It is clear that we must create a new program to provide and achieve a fair market price that will keep our producers in business and therefore protect consumers against future shortages. I think we could create such a program.

However, it was disappointing that I, for one, as well as many other Republicans, have not been invited to attend discussions with the administration regarding this very important legislation. This is unfortunate because it results in legislation that does not necessarily take into account the interests of many people involved in our sweetener industry.

The administration's action could also be interpreted as an indication that they really do not care about what the people of Kansas may think. I am pleased to see in the audience that two witnesses who will be testifying later, Bill Turrentine and Bill Davis are from Kansas. However, I take this opportunity to remind the administration that the people of Kansas, as well as many other beet and cane growing States are interested in the sweetener program and must be given the opportunity to participate in the formulation of such a program. I find that there has been very little effort to look for any one view outside of a small group in the Senate in the United States.

There are a number of sugar bills in the Congress at this moment. I think everyone here is familiar with their general provisions, but I would like to specify, what I think are some important points that we all should keep in mind.

Any price objective must be at a level that will cover our producers' cost of production and give them a reasonable profit on which to live. There will be a lot of discussion about what that level should be.

Direct payments are inflationary. They are simply outlays from our Treasury that burden the taxpayer and are unnecessary if we use the market mechanism to reach the price objective.

Forgiving interest payments on outstanding loans, in my view, also makes a mockery of the loan program.

And finally, if the base wage rate is established in sugar legislation it must take into account the principal thrust of the legislation, which is to provide the producers with a reasonable income in which they can remain viable.

I would hope that we will have appropriate responses to some of these issues from the House of Representatives. We are told by GAO that the cost of production is 17.5 cents. Of course, the market price is 14.4 cents. If we go back and look at the calculations made last year by the Department of Agriculture, the GAO estimates are not too dissimilar. In light of these figures I wonder why the administration refuses to apply adequate fees or quotas to raise the market price to at least the cost of production.

That is the concern that I am certain Senator Matsunaga, Senator Wallop, and I, as well as others have. I would hope that we will report a bill that could have strong bipartisan support. So far there has been no bipartisan input. Perhaps it is not too late for bipartisan support.

Senator MATSUNAGA. Thank you very much, Senator Dole.

Our next witness is the Honorable Peter Peyser, U.S. Congressman

from New York. We would be happy to hear from you, a former colleague of mine in the House.

STATEMENT OF HON. PETER A. PEYSER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Representative PEYSER. Mr. Chairman, I thank you and your distinguished colleagues for being here this morning and allowing me the opportunity of speaking before you. As I am sure you recall, Mr. Chairman, when we served on the same committee in the House, that you and I were on different sides of the aisle, and also different sides of the issue of sugar. We are now on the same side of the aisle, but unfortunately we are on opposite sides on the issue of sugar. I think it is very fitting, really, that this hearing is being held in the Senate Finance Committee, because the primary issue in this country today—and I think it is clearly evidenced by not only the public reaction but the reaction in Congress itself—is inflation.

There is absolutely no one that I know of who does not agree that any move such as increasing of target pricing, direct payments, is going to produce inflationary impact in this country.

I have a statement here, I think of great interest, which was made on "Face the Nation" on March 4 by Alfred Kahn. Mr. Kahn is our Nation's chief inflation fighter, and in a question dealing with the sugar bill he says, and I quote:

> I wish that it were possibly politically in this country to have such a powerful anti-inflation constituency or coalition. The raising of the support price of sugar from 15 cents to 15.8 cents would be unthinkable and impossible, and I will do everything I can to work in that direction.

This is the chief inflation fighter in our country.

I also can say that I understand that he has now agreed to testify before the Ways and Means Committee on the sugar bill in early April and I think that testimony is going to be critical. I think that the attitude of the Congress, Mr. Chairman, is very clearly indicated in the recent vote in the House of Representative on the debt ceiling where it was defeated the first time and the second time won by the narrowest of margins. Whether we are talking of Senator Church's program or we are talking about the Foley-Ullman bill in the House or President Carter's program, we are all talking about programs—where the consumer has to pay substantially more money or where more is paid out in tax dollars.

I think they are all the same, because they are all the same people paying it. Consequently, the estimated cost in the House bill runs approximately $300 million in the first year and in the Senate bill, Senator Church's bill will run approximately $400 million or more.

To me, this is inconceivable today that we would be doing this and the thing that I have looked at quite carefully, and I find it very hard to understand, is how—what I have in my hand here is the annual statement in 1979 of Gulf & Western and how Gulf & Western can grow sugar in the United States in Florida—they have 84,000 acres of cane sugar. They are showing one of the biggest profits—as a matter of fact, they have a line up here saying that one of their profits in the sugar field are due to the U.S. price policy. They show a gain of nearly 32 percent in profits under sugar, equally $142 million last year.

I am wondering how corporations of this nature—and there are a number of others, as the chairman knows—can make these kinds of profits out of sugar, and now, if we are going to talk about increasing either target pricing, raising it to 17 cents or paying a half a cent a pound and increasing it to 15.8 cents, that corporate sugar farmers are going to realize windfall profits. I do not think there is any question about that, and every one of these corporate producers of sugar would love either sugar bill to come through because it has got to be a winner for them no matter how it goes, because right now they are making money.

One thing, Mr. Chairman, that you did mention, if I jotted it down correctly, that the sugar bill in 1974 was allowed to expire. Mr. Chairman, you and I remember the major fight that took place in the House. "Allowing it to expire" is not exactly how I would term it.

The Congress finally decided that they had had enough, because the stabilizing effect of that sugar bill which was always the point which was brought out—we will stabilize sugar; we can keep the prices in control. And yet we saw not only the world market zooming, but the day after the world market price would go up, the domestic price would go up until we would reach $1 a pound in the marketplace.

When the bill was killed, within a 2-month period, the sugar prices in this country were down to 32 cents a pound in the marketplace and I think, Mr. Chairman, that we should not be, at this time, considering another sugar program.

I thank you very much for the time that you have given me.

Senator MATSUNAGA. Thank you very much, Congressman Peyser. After your brief respite from Congress, when you chose to run on a Democratic ticket, I thought, at last you had seen the light on sugar too. [Laughter.]

Senator Wallop?

Senator WALLOP. Congressman Peyser, I have no idea what kind of mechanism, bookkeeping mechanism, Gulf & Western may have used to justify their existence in the sugar industry for their stockholders, but I do know personally of what happens to sugar beet growers in my part of the world. You may be familiar with this problem judging from your remarks on television talking with the farmers about the possibility of another farm bill.

We, in this country, have developed a gluttonous abuse of energy by having subsidized energy. We have Government policies which convinced everybody in America, from business on down to the smallest consumer, that there was no end in sight to our energy supply and that by keeping the price low we were providing a service. And now, we have much greater distortions in what overall would have been a more modest adjustment in the economic structure of the country, when we recognize that our energy supplies are limited.

My feeling is that subsidized consumption of anything in the long run creates economic distortions that are much more difficult for consumers, let alone producers, to absorb.

If you want to do something in the interests of consumers, it should be to convince them that fuel comes from the ground, and the food from a farm, not just the grocery store. The real message the consumer should hear is that higher productivity and lower prices come from a great deal of sweat and technological advancement. Even you would

admit that no industry in America has advanced with the rapidity of agriculture. One of the big problems is that agriculture is a victim of its own efficiency. It can produce more than can be consumed in this country and the prices continue to be too low.

My feeling on this may differ from yours. I think it is important to the communities totally dependent on sugar production that we have some stability. In the long run it is crucial to the consumer that there is some producing segment of the industry, that is not a major company like Gulf & Western. Major companies can go in and out of the sugar business at their whim. But a farmer who is totally dependent upon his harvest cannot. The farmer must stay in until the entire industry goes.

There are other effects on consumers inflation the budget that comes from such structural changes in the industry.

Do you have any comment at all?

Representative PEYSER. Senator, I for one, appreciate your comment. I realize exactly what you are saying. In fact, one of the things I would like to see developed is a method to help the overall farm community, particularly in the export area, because I think it is grossly unfair what happens to the wheat farmer, for instance, who is selling wheat in Japan. The minute it comes into the country, $5.50 a bushel goes on to that price, of which he gets nothing.

I would like to see an independent export program in agriculture be worked out.

In dealing with the problem, I sort of come back to a question to you as well, is where we do have a number—not just one or two, but a number of substantial, major corporate producers of sugar—who, incidentally, could go in and out if the market changes. They could decide to write it off, and that would be that. But any sugar bill that we put in today, is it going to substantially increase the earnings of those corporations which, without exception today, seem to be producing sugar at a profit?

I do not know how you differentiate between that smaller farmer who may have 300 acres of sugarland. That is the problem.

Senator WALLOP. Well, suffice it to say, I do not agree that every corporate farmer in the country would suddenly have windfall profits. I do not agree that every corporate farmer is making money in the production of sugar. You cited one. I seriously doubt that you can sustain your argument that every corporation in the country is in the same situation as Gulf & Western.

Representative PEYSER. Because there is many of the smaller groups that are corporate now. I am talking about major corporations. I would be glad to provide lists of major corporations, all of whom are showing profits in sugar, who are bound to realize substantial amounts.

This one corporation alone—not the biggest, at all—has 84,000 acres and there are not many individual sugar farmers who have that kind of acreage.

Senator WALLOP. I suspect that a good deal of their profits may come from the possession of land or sugar imports and not the production of sugar.

Representative PEYSER. I appreciate that. It seems to me also, if I may, Mr. Chairman, today in this country, if I am correct, we nearly produce 70 percent of our sugar. We can be 70 percent self-sufficient

in the sweetener area—in the broadest sense of the area now—a 16-percent increase over the last several years. We are getting much more independent of the so-called foreign sugar than we were before. I would hope it would increase to reach 100 percent.

Senator MATSUNAGA. Thank you very much, Congressman Peyser.

[The prepared statement of Mr. Peyser follows:]

STATEMENT OF THE HONORABLE PETER A. PEYSER

The sugar industry has one of the sweetest government-supported deals going.

At a time when sugar prices are 33-percent higher than they were just two years ago, an artificial price system shelters sugar growers against competition and makes consumers pay the tab.

Sugar is produced on fewer than 1 percent of the nation's 2.7 million farms, and much of that output is accounted for by huge corporations, such as Great Western, Gulf and Western, Alexander and Baldwin, U.S. Sugar Corporation, and Amstar.

Inefficiency is being subsidized at a time when sugar is going begging on the world market and according to the New York Times, government-owned supplies are deteriorating rapidly to the point that syrup is pouring out from under the storehouse door.

It is time to say no to special interests and yes to holding the line on inflation by defeating proposals for still higher sugar prices. Consumers are tired of subsidizing unnecessary price-propping.

At the present time, the Government adds more than 6.1 cents a pound to the price of sugar by imposing an import fee and duty. As a result, it's costing the Nation's consumers more than $1.3 billion a year in higher, government-mandated sugar prices.

The Sugar Amendments to the Food and Agriculture Act of 1977 provide that the 1977 and 1978 crops be supported at from 52.5 to 65 percent parity, but not less than 13.5 cents a pound. The 1977 crop was supported at 13.5 cents a pound. The 1978 crop is being supported at 14.73 cents a pound—a 9.1 percent increase.

The Administration now proposes raising these price supports from the current level of 14.73 to 15.8 cents a pound, with further increases in subsequent years in line with rises in growing costs. It would also add an additional direct subsidy of one-half cent per pound.

Thus, the Administration proposal would raise the nation's sugar bill by $180 million totaling $1.5 billion and cost the U.S. Treasury another $112 million in subsidies.

In the House Representatives Foley and Ullman have introduced a bill, H.R. 2172, which would up the market price support even more from 14.3 cents to 16.1 cents a pound for the 1979 crop—an increase of 9.3 percent. It also provides for the half-cent a pound government payment, bringing the total support to 16.6 cents—an increase of 12.7 percent for the 1978 crop.

The bill according to Alfred Kahn, the President's inflation adviser, would add from $400 to $550 million to the cost of the current program in the first year and more in later years.

Under both proposals, direct payments would windfall large corporations. For instance, U.S. Sugar Corporation would reap an additional $3,180,000 million in the first year of the program. Nearly 2,000,000 additional federal dollars would fall to Gulf and Western. Yet for fiscal 1978, that company reported sharp gains in sales and earnings and in fact closed the year with the highest earnings level in its history. In its annual report, Gulf and Western acknowledged that higher domestic sugar supports contributed greatly to its profits.

Last Congress, the Carter administration made its opposition to a rise in the price of sugar a symbol of its determination to wage war against higher food prices. This year, against the advice of his anti-inflation advisors, the President has agreed to hefty increases in sugar prices.

Twelve days ago Kahn said, "I wish that it were possible politically in this country to have such a powerful anti-inflation constituency or coalition that raising the support price of sugar from 15 cents to 15.8 cents would be unthinkable and impossible. And I'll do everything I can to work in that direction."

Kahn estimates that every one cent difference in the market place of sugar means $250–$300 million out of consumers' pockets directly and approximately

0.03 percent—three hundredths of a point—in the Consumer Price Index as well as $150–$250 million more indirectly.

The simple fact is that if sugar producers succeed in getting higher price supports for their products, millions more will be added to consumer costs and the nation's economy will be further damaged by inflation.

Let's look at the rationale for pushing sugar prices up. Growers say that while some 11 million tons of sugar are consumed in this country each year, only a little more than half is produced domestically. The U.S., they say, must prevent foreign producers from creating a "sugar OPEC" by boosting already generous government price supports higher.

At the present time, domestically produced sweeteners, both sugar and corn account for around 70 percent of the sweeteners distributed in the nation. Imported sugar accounts for the remaining 30 percent.

USDA estimates that imports in 1978 were around 4.6 million tons—nearly the smallest in over a decade. Imports account for a much smaller percent of total sugar distribution than in recent years.

During 1974, sugar prices soared and domestic sugar producers reaped huge windfall profits. After tax profits of the nation's largest sugar producers, the U.S. Sugar Corporation, jumped from an average of $7.2 million a year in the five year period 1968–1972, to $16 million in 1973, $37.8 million in 1974 and $57 million in 1975.

Unwilling to protect the sugar industry when prices were going through the ceiling, Congress—at my urging—killed a proposed extension of the 40 year old Sugar Act in 1974. A year after Congress' action went into effect, the U.S. Sugar Corporation profits fell to $17.7 million, still more than its 1967–1972 average.

The price of sugar in the grocery store also fell dramatically.

Needless to say, the stakes are high. At issue is legislation that will affect the structure of the $11 billion a year sugar industry, the economics of some 30 foreign sugar exporting countries, the jobs of sugar refinery workers and the profits of large companies.

It will also affect the pocketbooks of all Americans. Sugar is a basic ingredient in many processed foods—it is the leading food additive in the United States today. If the price of sugar goes up, the price of sugar containing products also goes up.

The list of food items that contain sugar is pervasive. For instance, Heinz Tomato Ketchup contains 29 percent sugar, ice cream 21 percent, coffeemate 65 percent, a hershey bar 51 percent, Wishbone Russian Dressing 30 percent, Coke 10 percent and Quaker 100 Percent Natural Cereal 24 percent.

All told, each one of us consumes an average of 100 pounds of sugar a year.

The issue of raising sugar price supports is a classic example of special interests pushing for a proposal that will hurt American consumers across the country in order to benefit a few.

If Congress is not able to stand up to this test, then surely efforts to hold the line on other inflationary measures will not hold up down the line either.

The 96th Congress was elected with a clear mandate to hold down inflation and bear down hard on unnecessary government spending. The defeat of the Sugar Bill will give us a real opportunity to prove to our constituents that we heard their message.

I am confident that we will meet that test.

Senator MATSUNAGA. Our next witness is the Director of Economics, Policy Analysis and Budget, Department of Agriculture, Mr. Howard Hjort.

We would be happy to hear from you, Mr. Hjort.

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

Mr. HJORT. Mr. Chairman, I appreciate the opportunity to present the administration's views on S. 463, the International Sugar Stabilization Act of 1979. I have a somewhat more detailed statement that, with your permission, I would like to have inserted in the record, and summarize it for you.

Senator MATSUNAGA. Without objection, it is so ordered.
Mr. HJORT. Thank you.
Before directly going to the bill itself, I would like to note for the record that the administration's position is not only the product of rather intensive discussions within the executive branch, but of intensive discussions, held earlier, with all elements of the sweetener industry in the United States.
The statement that I have prepared for the record contains a review of the current situation. I believe that review amply demonstrates the need for legislative action and the need for action soon.
Coming to the provisions of the bill, title I would authorize U.S. participation in the International Sugar Agreement once that agreement is fully ratified. We fully support that objective and we support the provisions of title I with only minor amendments.
The report to Congress required in section 105 largely duplicates information now reported regularly in the Department's regular reporting process and so we would like to see that section changed to avoid the requirement for duplicative information.
Title II contains a provision authorizing a domestic sugar program. It authorizes a sugar price support program beginning with the 1978 crop. The price objective would be achieved by loans, fees and duties and local quotas.
S. 463 would require a market price objective of 17 cents for 1978 and the market price objective would escalate according to a formula for subsequent years.
The administration will not support provisions that increase the market price objective for 1978 above the current 15 cent level that was agreed upon after the compromise bill failed to pass at the end of the last session.
Further, the administration would not support provisions for 1979 that require a market price objective above 15.8 cents per pound.
If the Congress decides to authorize payments, the administration will accept a payment of up to half a cent per pound for the 1979 year, bringing the total support in that year up to 16.3 cents per pound.
We believe that the formula in S. 463 used for adjusting prices in later years is too rigid. We are concerned about provisions that determine prices entirely through a formula based on cost of production—in this case, one that includes land costs, without any flexibility for the Secretary to adjust prices in the event that sugar policy objectives are not being met.
The sugar policy objectives that the administration supports are first, to assure the economic viability of the domestic sugar industry and, second, to stabilize sugar imports at recent historic levels. It is our objective that the increase in domestic sweetener requirements be met by domestic sources and that we essentially stabilize the flow of imports, be they raw or refined sugar.
We believe, therefore, that the Secretary should have the flexibility needed to accomplish those basic objectives and we are somewhat concerned that a precise formula may not, in fact, enable their realization. Furthermore, S. 463 would have a major inflationary impact compared to the administration's proposal. It is estimated that the cost to consumers would be $570 million more for sweeteners in the

1978 supply year and that the cost in subsequent years would be, on average, about $860 million above the administration's proposals.

Those estimates refer only to the direct cost of sweeteners, the total inflationary impact, very likely, would be in excess of that amount.

I want to make four additional points. This provision, the measure before you, would prohibit the imports of refined sugar except under very special circumstances. The administration prefers to limit imports of refined sugar in the same manner as we limit raw sugar imports.

We agree with the measure before you that the first line of defense should be the use of duties and fees to protect the domestic price objective in the United States, which at the present time is far above the world price.

The administration will support the authorization of quotas as long as they are clearly understood to be on a standby basis and to be used if, and only if, the duty and fee system fails to protect the domestic market price.

We believe that sugar legislation that passes the Congress should include farm labor provisions. The administration believes that the rights and earnings of sugar industry workers should be protected, and we propose that the base wage rate for workers in sugar supply year 1979 at $3.20 an hour if the total support is 15.8 cents, and a proportionately higher wage rate—about $3.30 an hour—if the total support of 16.3 cents, including a half-cent payment, is authorized.

We recommend that the wage provisions be the responsibility of the Secretary of Labor. He has the administrative apparatus and the expertise to supervise such a program, consistent with national labor policy. It would be wasteful duplication for the Department of Agriculture to administer that provision.

S. 463 would mandate a sugar price support loan program for the years 1979 through 1981, between 52.5 percent and 65 percent of parity. The administration will support a provision that authorizes or directs the Secretary to operate a loan program as long as that loan level is not in excess of 89 percent of the market price objective.

The administration will not support a mandatory loan program with loan levels of between 52.5 percent and 65 percent of parity. Also, we recommend that sugar legislation expire at the end of the 1981 sugar supply year, coincidental with the termination of the Food and Agricultural Act of 1977.

Mr. Chairman, I have brought with me today the report that was requested by the committee on S. 463. I would request that it be made a part of the record.

Senator MATSUNAGA. Without objection, so ordered.

Mr. HJORT. And finally, Mr. Chairman, I agree that the failure to agree on the sugar bill last year has had very negative domestic and international impacts. We have all been working hard between then and now to develop a position that all can support, even though that means all must compromise.

We are much closer to agreement now than we were last year, and I take that to be a positive sign.

We agree with your objectives, I believe, and we would like to work with you to develop a bill that can be passed and signed into law early this year.

Thank you.

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

The administration's position is clear. There is one question I have for the record. Is it the position of the administration that it will not, under any circumstances, support a market price in excess of 15.8 cents per pound?

Mr. HJORT. For the 1979 crop-year, yes, sir.

Senator MATSUNAGA. What about subsequent crops?

Mr. HJORT. What we would prefer is to have an annual determination of the market price objective for subsequent years, with that annual determination based very heavily upon cost of production, which, by the way, is the only factor that is in the bill before you.

But we would also prefer to have some degree of flexibility on the part of the Secretary to adjust the level indicated by changes in the cost of production in case we are not accomplishing the basic purposes of the act.

By that, I mean, if we were to find ourselves with imports rising and domestic sugar production declining under the provisions of this formula, we believe the Secretary should have the authority to increase that total support level, and thereby encourage domestic production and capturing the growth in the domestic sweetener market.

Alternatively, if we find ourselves in a situation where imports were persistently declining, we would support some flexibility to reduce the formula price objective to again accomplish the basic purposes of the act. We would maintain the same posture with respect to the direct payment. We will accept a direct payment of up to a half-a-cent.

Senator MATSUNAGA. With the half-a-cent direct payment plus the 15.8 cents market price, the return to the grower, of course, would be 16.3 cents. That is what those who represent the growers are most concerned about.

They would, however, prefer that the total return of 16.3 cents come out of the marketplace rather than out of the taxpayer. Inasmuch as the consumer would also be paying the half-a-cent under the administration's proposal, in effect the consumer, as a taxpayer, would be paying 16.3 cents a pound.

Now, then, why does the administration object to taking the full 16.3 cents, as proposed, out of the marketplace?

Mr. HJORT. Mr. Chairman, it is, in fact, more inflationary to get the 16.3 cents out of the market. It does not really make much difference on the sugar account alone if producers obtain part of it in a payment from the taxpayer or if they obtain it from the market. But if you have the higher market price, it will influence the price of all sweeteners—not only sugar—and so therefore, the cost to the consumer is less on the total account under a payments program than obtaining the same return to the producer through the market price.

Senator MATSUNAGA. Of course, reasonable men will differ with you.

Senator Wallop?

Senator WALLOP. Mr. Hjort, talking about the inflationary effect, has the administration calculated what the influence would be on the Cost-of-Living Index from quota fees versus direct payments?

Mr. HJORT. Yes, we have, and I believe that there is an estimate in the report which we have brought to the committee today. I do not have a copy of it in front of me at the present time, but I believe a payment of a half-a-cent per pound would be on the order of $60 million or so and if one applied a half-a-cent payment to all sweetener consumption in the United States, then it would be more on the order of $150 million in increased costs to sugar users.

Senator WALLOP. The reason I asked, one can fling around the figures on inflation and terrify consumers. The plain statistical fact is that the average per capita consumption in the United States is about 100 pounds, and that would mean $1 cost per consumer in America.

When you take a look at how much an automobile goes up or a pair of socks goes up in that same period of time, I question if these figures are not a little unfair in terms of terrifying people away from the policy.

Mr. HJORT. I do not know of any inflationary increase that one cannot translate into a relatively few cents.

Senator WALLOP. One can, but the administration's direct payments policy will add to the deficit when you could be subtracting from the deficit. One may be able to balance those two things at the same time and come out with figures that were at least as substantial.

What do you reckon the cost of sugar production to be now?

Mr. HJORT. We do not have good information on costs.

Senator WALLOP. You are the Department of Agriculture. GAO has a figure that indicates a 17.5 cents cost of production. Is the GAO now in the business of figuring out the cost of production of sugar and the Department of Agriculture not?

Mr. HJORT. The GAO requested to provide a report to the Congress by the Congress. That organization exists for that purpose. But to do so, they used the information that was available to the Department of Agriculture.

What part of the country was there particular reference to?

Senator WALLOP. The GAO report was nationwide, a general average on beet production.

Mr. HJORT. That is not my understanding.

Senator WALLOP. The other interesting part of this problem is that you do not have figures on the cost of production in the Department of Agriculture, yet you are testifying that the Department will be guided by the cost of production in determining the market price in future years. When will the USDA get into the business of determining the cost of production?

Mr. HJORT. We do have the most comprehensive data on cost. They are by no means adequate and we have requested in the administration's bill that we be directed to conduct a more comprehensive cost survey.

Senator WALLOP. Do you have to be directed to inquire? What is the mission of the Department of Agriculture?

Mr. HJORT. The missions of the Department range from resources to rural development to consumer food programs to international food assistance programs to farm programs.

Senator WALLOP. Do you have to be directed to do all of those things individually?

Mr. HJORT. The only things that we do are those that we have been directed to do and for which funds are provided by the laws of the land.

Senator WALLOP. And the general health of any segment of agriculture and the cost of production is not part of your directive?

Mr. HJORT. As I say, we have been conducting cost of production studies. We believe that they are deficient. We believe that we need additional information, particularly on the cost of processing beets into sugar, on the cost of milling cane into raw sugar, on the cost of refining raw sugar and turning it into a refined product, and on determining costs of producing fructose.

Senator WALLOP. Why should the taxpayers' money in a payment program be used rather than collecting money from subsidized imports? Would it not be logical to have consumers pay the cost of the program. If Americans are of the type that do not consume sugar, why should they be asked to pay for sugar supports?

Mr. HJORT. You are asking why should we have a price as high as we have?

Senator WALLOP. I am asking why should the taxpayers' money be used in supporting the sugar industry causing them to subsidize consumers in addition to farmers? Why should it just not be an arrangement between those who consume sugar and those who produce it? Why should everybody else be dragged in to support the industry?

Mr. HJORT. I think that would be fine. I think our situation is, though, that the world price, as Senator Church noted, is 8.5 cents and we are trying to protect a domestic market price of 15 cents a pound which is sharply above the world.

The only way we know of doing that is to have a system of duties and fees that bridges that gap and keeps our domestic price sharply above the world price.

Senator WALLOP. That is not the only way of doing so. It is the way you have chosen, but it is not the only way. The bill introduced by Senator Church suggests another way. Is that not correct?

Mr. HJORT. No. I believe the bill would authorize basically the use of duties and fees.

Senator WALLOP. There are two ways.

Mr. HJORT. That is what we are using.

Senator WALLOP. You are suggesting that there be a payment to sustain the producers as well?

Mr. HJORT. No. I think you should review the administration's position very clearly there. We are saying that if it is the will of the Congress to authorize payment, the administration will accept a payment of up to a half a cent a pound. If the Congress does not desire to provide that, then we will support a 15.8-cent market price.

Senator WALLOP. Are you using your present authority to assist the industry to the fullest extent?

Mr. HJORT. Pardon?

Senator WALLOP. Is the Government using its present authority to assist the industry to the fullest extent?

Mr. HJORT. We are essentially so, to my knowledge, geared to the 15-cent market price objective. However, if you are asking if we have the fee at the maximum authorized by law, the answer is no. According to the proclamation and its calculations, one need not have the fee at

the maximum at the present time to protect the domestic market price objective of 15 cents.

Senator WALLOP. It is my understanding that this 2.5 million tons of sugar under a loan are already forfeited in the Commodity Credit Corporation. How would the forgiveness of interest help the situation and will not that sugar in stock depress market prices even further?

Mr. HJORT. We have, at the present time, about 180,000 to 190,000 tons of sugar in CCC ownership. That larger figure that you were referring to—while it sounds on the high end of anything I have heard—may include the total amount of loans outstanding on the 1978 crop. Those loans have not matured yet.

If the legislation that we are requesting is passed, we should be able to move the sugar in CCC ownership back into the market and with the requested authority to be able to waive interest, if necessary, we should be able to see to it that those who own that sugar move it into the market on an orderly basis so that we are not in a situation of having imports at an abnormal level while sugar is being moved into Government ownership and then sold which, again, would disrupt patterns of trade.

Senator WALLOP. I believe that is the problem with the whole direction that the administration is taking. How much would it cost the Government, and the taxpayer, to hold these stocks?

Mr. HJORT. On the amount of sugar we now have in place?

Senator WALLOP. I think you will agree that the likelihood of redeeming the remaining tonnage of that 2.5-million-ton figure is very small.

Mr. HJORT. Most of that will be redeemed if the Congress provides legislation. If they do not, of course, yes; we will end up with a lot of that sugar. But if the Congress provides legislative authority—and I would hope that they would do so soon—and particularly, if they authorize the waiver of interest, there is no real reason why that sugar need come into Government hands. We do not want it to come into Government hands.

Senator WALLOP. Thank you.

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

Mr. HJORT. Thank you, Mr. Chairman.

[The prepared statement of Mr. Hjort follows:]

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

I appreciate this opportunity to present the Administration's views on S. 463. This bill has two main purposes. Title I would authorize U.S. participation in the International Sugar Agreement and provide the necessary authority for the President to carry out the obligations of that Agreement.

Title II would authorize a domestic sugar price support program at an initial support level of 17 cents per pound, raw value, for 1978. Domestic prices would be achieved and maintained by use of a mandatory price support loan program with loans between 52.5 and 65 percent of parity, and by use of fees and duties and quotas on imported sugar. Duties would be adjusted quarterly and within quarters in order to maintain the domestic market price of sugar at the market price objective. Quotas would be imposed if the Secretary determines that special import duties are not resulting in the price objective for the sugar supply year being achieved.

Title III contains various administrative provisions.

The Administration supports the provisions of Title I, and suggests minor amendment. We would, however, suggest substantial changes in the provisions

in Title II. However, before discussing the sections of your bill, I want to take a few minutes to discuss the current situation we face with regard to sugar.

To be brutally frank, the situation is critical.

World sugar prices are depressed. They remain below production costs for even the most efficient producers. Moreover, world stocks are in record proportion to the annual consumption requirement.

The International Sugar Agreement (ISA), designed to bring much-needed stability to the world sugar market, is still not fully operative. The United States, one of the nations instrumental in formulating this agreement, still has not ratified it. By letting this situation continue, we seriously jeopardize the world sugar market, our relations with the other signatory nations and the survival of the agreement itself.

We participated actively in the negotiation of the ISA. It offers the best hope for moderating the extremes which have characterized the world market.

Our commitment to the ISA represents a policy of approaching world sugar problems together with the other sugar producing countries, rather than shifting the burden to them. Our failure to implement the ISA would strain our relations with the more-than-50 other nations which have already signed. Many of these are developing countries; those which would feel the impact most strongly are Latin American countries.

Failure to ratify would almost certainly result in the agreement coming apart. In the near term, a weakening of the ISA would result in a significant decline in the sorely needed foreign exchange earnings of developing nations.

Moreover, with a sudden release of the already-accumulating ISA stocks, conditions in the world sugar market would further deteriorate. Over the long-term, the price-moderating potential of the ISA would be lost. The world could face the devastating sugar price cycles once again with extremely low prices some years and very high prices in others.

Our domestic sugar program faces serious problems.

While we have had a 15-cent market price objective since January, the world price plus duties, fees and other costs of bringing imported sugar into the U.S. did not reach 15 cents until February 9, as excess supplies limited the ability of current fees and duties to protect the 15-cent price objective. Furthermore, if world prices were to fall much below this winter's levels, we do not have the authority to adjust these fees to the level necessary to achieve that price objective.

Low market prices, the Congressionally-mandated minimum loan level of 14.73 cents for 1978, and the current 7-percent interest charge on these loans, make it more profitable for many processors to forfeit than redeem 1978-crop sugar under loan. The Commodity Credit Corporation (CCC) already owns $51.8 million worth of 1977-crop sugar; that total could exceed about $55 million. We expect nearly $800 million worth of 1978-crop sugar to be put under loan and some of that will also be forfeited unless the market price increases or new legislative authority is obtained.

A result of this situation is that domestic users find it more profitable to use imported sugar while domestic sugar is going into government ownership. When the CCC sugar is subsequently sold, imports will be displaced. In both cases, unnecessary and unwise economic dislocations result.

Some CCC-owned sugar will go out of condition this year and will be sold at a loss. The rest will not be sold until the market price rises above the current market price objective.

While the 1978 loan program supports prices and incomes for sugar producers, it offers minimal wage protection for sugar workers. Only producers who use the loan program are required to pay above minimum wages, and there is inadequate provision for enforcement of even the existing minimum wage standards.

The January planting intentions report indicates sugar beet acreage will be reduced 11 percent in 1979. The Colo-Kan farm coop will close its plant in Colorado. The U&I sugar company has announced its intention to cease operations in four sugar beet plants in Utah, Idaho and Washington. The two in Washington may operate in 1979, and some acres in Idaho will shift from the closed factory to another close by, so the decline in sugar beet acreage is expected to be somewhat less than indicated in January. But it will be down. Several small cane mills have closed in Louisiana, although 1979 sugarcane production is projected to be slightly above last year.

Throughout the last session of Congress and since, we have been earnestly pursuing an agreement among sweetener interests for a legislative proposal to

establish a workable sugar program. The areas of agreement have broadened very significantly. And, while the sugar policy recently announced by the Administration will not please everyone, I believe it has wide acceptance and support. I want to briefly touch on its principal elements.

It is the policy of this Administration to support a viable domestic sugar industry. That means fair support levels for sugar producers. We propose a domestic market price objective for 1979 of 15.8 cents per pound. The Administration will accept a measure that authorizes payments of up to one-half cent a pound. However, we will not accept a domestic market price objective for 1979 in excess of 15.8 cents.

The Administration sugar program is designed to equitably protect the economic interests of all those affected—the sugarcane and sugar beet producers, processors, refiners, users, consumers, and exporting nations—and is consistent with the provisions of the ISA. It is a sweetener policy which is balanced and fair from a national and international perspective.

We believe stabilizing imports at recent historic levels is a straightforward means of undergirding both our domestic and international objectives. This implies sugar imports in the 4.8 to 5.2 million ton range (exclusive of imports from Puerto Rico, which are covered by the U.S. sugar program).

We believe the rights and earnings of sugar industry workers must be protected. Fair wage standards are a long tradition in sugar legislation. These simply ensure that workers will enjoy the same protection of income and comparable increases accruing to growers and others in the industry. We propose a base wage for sugar workers in sugar supply year 1979 of $3.20 if total support is 15.8 cents—and a proportionally higher wage base if total support is increased.

While S. 463 would accomplish many of these objectives, it would use a very different approach than that proposed by the Administration. It would, we believe, have very different results.

For the 1978 sugar supply year a domestic market price of 17 cents is provided. For 1979 and succeeding years, the price objective is increased by an index based on the relationship between two moving averages of the cost of sugar production.

The price objective is to be achieved by a mandatory loan program with levels between 52.5 and 65 percent of parity, and special import duties and by quotas if loans and duties do not effectively maintain the market price at the level of the price objective.

The provisions regarding 1978 pose a particular problem. First, the Administration believes legislation should become effective with the 1979 crop, not 1978.

When no legislative solution could be achieved, the Administration, after consultation with Congressional leaders, moved to establish a market price objective of 15 cents, using existing authorities to protect the price support program. Under these authorities, fees will continue to be adjusted—quarterly and within quarters—to realize the price objective. The Administration will oppose any increase in the 15 cent domestic market price objective for the 1978 crop. Second, because the legislation would be effective 30 days after passage, and because it would require special duties that would lead to a 17 cent average price for the 1978 sugar supply year, a price of as much as 23 cents would be required for the last quarter in order to average 17 cents for the year, assuming the legislation passed by June 1 and went into effect July 1 for the 1978 crop. An increase of that dimension would likely lead to major market disruptions.

Based on current estimates, the provisions of S. 463 would lead to a 1979 market price objective of 18.3 cents and prices in 1980 and 1981 of 19.8 cents and 21.4 cents. The Administration will not support a market price objective for 1979 above 15.8 cents per pound. In addition, the Administration will accept a provision authorizing a small direct payment of up to one-half cent per pound if the Congress authorizes such support.

The Administration will not support provisions that determine prices for 1980 and 1981 by formula based on changes in costs including land costs but without any flexibility for the Secretary to adjust total support levels in the event sugar policy objectives are not being met.

There are three main reasons for this position. The first is that we do not have adequate information now on cost of production, and the Secretary must have flexibility to adjust prices in later years if the 1979 estimates turn out to be too high or too low. Second, both the very high level of the prices in S. 463 and the inclusion of land prices in the basis for later price adjustments make S. 463 an inflationary bill. It would lead to domestic sugar prices that are, on

the national average, well above the national average cost of producing sugar. Third, such high sugar prices would lead to rapid increases in the production of both domestic sugar and high fructose corn sirup and they would lead to rapid increases in land prices and prices of other production inputs. They would lead to rapidly declining imports and serious problems for our sugar trading partners who depend on stable U.S. sugar markets.

S. 463 would have a major inflationary impact. Compared to the Administration proposal, it would cost consumers $570 million more for sweeteners in 1978. In the three years 1978 through 1981, it would cost consumers, on the average, an additional $860 million above the Administration proposal. And, these estimates consider only direct costs of sweeteners. The total inflationary impact would be even greater by the time all appropriate price impacts were accounted for.

The Administration proposal would link total supports to the national average cost of production for sugar. S. 463, on the other hand, would lead to sugar prices well above the national average cost of production, and would result in returns to sugar producers in excess of costs of around $300 million per year, on the average, for the years 1979 through 1981.

The very high domestic sugar prices would result in not only sharp increases in domestic sugar production and domestic production of other caloric sweeteners, but sugar imports would be expected to decline from the historic levels of 4.8 to 5.2 million short tons annually (exclusive of imports from Puerto Rico which are covered by the domestic sugar program) to around 3.5 million short tons by 1981. Our sugar trading partners would certainly regard such a curtailment of imports as a serious matter, and would be expected to pursue appropriate remedies under the ISA. If no relief were forthcoming, the future of the ISA would be expected to be in serious question.

Because the price objectives in S. 463 are determined entirely by formula after 1978, there is no discretion for the Secretary to adjust prices in the event that the objectives of the program are not met.

We recommend a different approach. We propose that the purposes of the program be plainly spelled out. These are first, to assure the economic viability of the domestic sugar industry, and second, to stabilize sugar imports at recent historic levels. The Secretary should be specifically charged with the achievement of these objectives, and given the authority to achieve them.

We would agree to a provision authorizing the Secretary to operate a price support loan program at a level consistent with the market price levels established.

The Administration will not accept a provision mandating a loan program for sugar at 52.5 to 65 percent of parity. We believe the loan program should be based on the market price objective rather than on a parity index. The imposition of fees and duties should be the principle mechanism to support domestic sugar prices rather than reliance on a price support loan program for that purpose. Moreover, a loan program mandated at this level runs a very high risk of accumulating substantial amounts of CCC-owned sugar which the government cannot sell and which would lead to large budget outlays by the government.

It is the position of the Administration that sugar legislation should also contain farm labor provisions to be administered by the Secretary of Labor. We recommend the inclusion of such provisions in S. 463.

Mr. Chairman, we have forwarded a more detailed report on S. 463 as you requested. I request that it be included in the record.

Mr. Chairman, I believe our failure to agree on a sugar bill last year has had very serious negative domestic and international impacts. We have worked very hard to bring together all the interested sweetener industry representatives, together with consumer, labor and other representatives to develop a position all can support, even though that means all must compromise. We are much closer to agreement now than we were last year, and I take that as a hopeful sign. We agree with your objectives, I believe, and we would like to work with you to develop a bill that can be passed and signed into law early this year.

Senator Matsunaga. Next, we have a panel of witnesses consisting of Mr. Dalton Yantze, vice president and general manager, Florida Sugar Cane League; Mr. Robert H. Hughes, director, Hawaiian Sugar Planters Association; Mr. P. J. de Gravelles, Jr., president, American Sugar Cane League.

We would be happy to hear from the panel. I am especially delighted that Mr. Hughes is with us, after having travelled 5,000 miles to be here. You may proceed.

STATEMENT OF ROBERT H. HUGHES, DIRECTOR, HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Mr. HUGHES. Thank you very much, Mr. Chairman and members of the committee. My name is Robert H. Hughes, and I am a director of the Hawaiian Sugar Planters' Association. I appear here today on behalf of that association. I would like to speak first to a few characteristics of the Hawaiian sugar industry and its economic importance to the State of Hawaii. A more detailed treatment is contained in exhibits 1 and 2 attached to the formal statement.

Annual Hawaiian sugar production from a 2-year-old sugarcane crop is approximately 1 million tons, about 10 percent of the U.S. sugar requirements. The industry employs approximately 9,000 year round and another 20,000 jobs are dependent upon the sugar industry, or about 8 percent of the civilian employment in the State of Hawaii.

All Hawaiian sugar must be shipped at least 2,400 miles to the nearest refinery at a heavy cost for transportation. The Hawaii economy is more dependent on its income from sugar than any other State in the Nation. Extensive searches over many years have not been successful in identifying economically viable alternative crops for Hawaii's sugarcane land. The disappearance of the sugar industry in Hawaii would cause the unemployment rate in some of the counties to increase to a range of 35 percent to 56 percent, and the State unemployment rate to increase to about 15 percent.

The sugar industry is presently supplying a significant part of the public electric energy requirement from its biomass energy fuel, which allows major savings in petroleum. The economic jeopardy of the sugar industry in Hawaii was recognized by the International Longshoreman's and Warehouseman's Union in the recently concluded labor agreement. The Hawaiian sugar industry believes it is in the national interest to maintain a viable, domestic sugar industry in this country. The following positions are offered on pending sugar legislation.

First, with respect to the domestic price objective, it is recommended that a target price objective be specified no less than the average cost of production in the United States. The present objective of 15 cents per pound is below the present average cost of production.

We urge that the USDA undertake studies of the cost of production, and that the target price objective be established proportional to the cost of production within a maximum of the guidelines of the anti-inflation program.

Second, with respect to payments to producers, Hawaii strongly advocates achieving a price objective in the marketplace; that is, without Government subsidy payments. Our farming is a capital intensive enterprise. As such, only large, integrated operations offer a reasonable opportunity to be economic.

Small farmers and family farms cannot exist in Hawaii without the presence and the stability of the large producers. Consequently, payments to Hawaiian producers would be large. Payment limitations

would cause an extraordinary inequity and economic discrimination to all sugar producers in the State, both large and small, and that a significant competitive advantage would be provided to other sugar-producing areas. Total revenues would be drastically reduced for small and large producers.

Third, Hawaii urges the use of special import fees as a means of achieving the target price objective, and authority should be provided to limit imports as a backup mechanism for maintaining the price objective. With respect to refined sugar imports, raw sugar prices are directly affected by the importation of refined sugar and Hawaiian industry strongly advocates that authority to limit refined sugar imports be included in the proposed legislation.

Fourth, Hawaii believes that it is appropriate for the sugar legislation to include farm labor provisions and recommends that the specified wage rates bear an appropriate relationship to grower returns.

Thank you very much, Mr. Chairman.

Senator MATSUNAGA. Thank you very much, Mr. Hughes. I certainly appreciate your statement.

Your prepared statement, of course, will be included in the record as though delivered in full.

Mr. HUGHES. Thank you, Mr. Chairman.

Senator MATSUNAGA. I appreciate your keeping within the time limit.

Mr. de Gravelles?

TESTIMONY OF P. J. DE GRAVELLES, JR., PRESIDENT, AMERICAN SUGAR CANE LEAGUE

Mr. DE GRAVELLES. Mr. Chairman, I am P. J. de Gravelles. I am from Louisiana, and we do know Senator Long right well. We are extremely proud of Senator Long, and I think the United States is a much better country because of Senator Long.

Senator MATSUNAGA. You statement will appear in the record.

Mr. DE GRAVELLES. Thank you, sir.

He did express to me his regrets that he would not be able to be here today and ask that I convey that message to the other people who are testifying today. I am proud to sit here with two of my colleagues, one from Florida, one from Hawaii. This indicates that the domestic sugarcane growers and processors and the domestic sugar beet growers and refiners have remained united in our efforts to secure fair and reasonable sugar legislation.

Mr. Chairman, with your permission and in the interests of time, if my entire statement could be submitted for the record, and I would just summarize.

Senator MATSUNAGA. Without objection, it is so ordered.

Mr. DE GRAVELLES. Thank you, sir.

The American Sugar Cane League, of which I serve as president, supports the principles embodied in S. 463 and we congratulate Senator Long, Senator Church, and you, Senator Matsunaga and the other sponsors of the bill for their efforts to write a bill that achieves a reasonable compromise among the various groups interested in sweetner legislation.

The Louisiana sugar industry alone lost five sugar factories and 9 percent of its acreage after the 1977 crop, due to low sugar prices.

Within the last few days, two more Louisiana factories, Valentine and Billeaud, have decided to close. Southdown Sugars has also decided to close Greenwood, its last factory. There have been attempts to form a farm co-op to operate Greenwood, but they have not been successful, as of this time.

We think the U.S. consumers need a viable domestic sugar industry to insure a dependable supply of sugar. The effects of the current prices in Iran and our oil supply and the recent unsuccessful natural gas negotiations with Mexico showed us the dangers of dependence on foreign supplies of foreign commodities.

In my testimony last year, Mr. Chairman, before the House Agriculture Committee, I related how undependable at times foreign supplies of sugar were. We depended upon the Philippines before World War II and during the 5 years 1943–47 we received no sugar from the Philippines.

Brazil became a major supplier of sugar to the United States in the 1960's and by 1974, shipments to us had grown to 783,000 tons. In 1976, we received no sugar from Brazil because of damaged crops and other reasons, so that indicates that foreign sources of sugar are not always dependable.

Free trade, which is a figment of theoretical economists' imagination, does not exist in the real world. What we must start to achieve is fair trade.

Unregulated competition from foreign sugar producers is unfair to U.S. producers, because foreigners do not play by the same rules that we do. We pay wages 10 times as high as those paid by many foreign sugar producers and we spend much money on strict water and air pollution controls, and also we have to comply with Occupational Safety and Health Act regulations. Many foreign governments subsidize and determine the size of their sugar industries without regard to the usual economic factors.

A domestic sugar industry is needed to continue the employment of many thousands who are engaged in the production and processing of sugarcane and sugar beets. We also think that the balance of trade of the United States is worsened by the importation of foreign sugar. In Louisiana and other areas, sugarcane is the best suited for our land. The same thing stated by Senator Church, that condition also exists in Idaho.

S. 463 will use import fees in quantitative restrictions and imported sugar to prevent the dumping of surplus foreign sugar on the U.S. market and it would also implement the International Sugar Agreement.

The bill, as introduced, will increase the current price objective of 15 cents for the 1978 crop to 17 cents for the 1979 crop. This would increase the cost of the consumers' total consumption of sugar less than $2 per year and the proposed program would provide a net gain to the Treasury.

The four important things that are essential in the legislation: one, continuation of a loan program must be mandatory; second, a definite triggering device to mandate adjustments and quantitative restrictions on imported sugar should be included. The legislation should not extend beyond the 1981 crop. The average daily price should represent the actual cost of raw sugar imports to the buyer.

Mr. Chairman, I thank you for allowing me to be here to present this testimony today. We believe now is the time for President Carter and

the members of his administration to follow through on the commitment they repeatedly made to maintain a strong, viable domestic sugar industry.

Thank you, sir.

Senator MATSUNAGA. Thank you very much.

Our next witness is Mr. Dalton Yancey. Mr. Yancey, we would be happy to hear from you.

TESTIMONY OF DALTON YANCEY, VICE PRESIDENT, FLORIDA SUGAR CANE LEAGUE

Mr. YANCEY. Thank you, Mr. Chairman.

I am here today to read a summary of the statement prepared by Mr. Horace D. Godfrey for presentation before your committee and request that it be entered in its entirely in the record.

Senator MATSUNAGA. So ordered.

Mr. YANCEY. Mr. Godfrey was unavoidably detained.

Mr. Chairman, my name is Dalton Yancey, vice president and general manager of the Florida Sugar Cane League, and I present their views along with the views of the producers in Texas this morning.

Domestic sugar producers and first processors are in a critical situation. Legislation is urgently needed now. As you know, Mr. Chairman, the 1979 crop is being harvested in your State. Current sugar laws do not cover your 1979 crop. Furthermore, the promises made by the administration have not materialized.

In October 1978, after failure of sugar legislation to pass Congress, the administration promised to use existing authority to achieve a market price of 15 cents. Witnesses for the administration have testified in the House that market prices have achieved this level. I tell you, Mr. Chairman, there has not been a 15-cent market price for a single day since the promise was made.

Some producers in Florida have been forced to place the sugar under CCC loan and have achieved a net return of 14.98 cents per pound. In order for this sugar to be marketed and not placed under loan, the market price must be in excess of 15.8 cents per pound to net producers the same amount they would receive from the loan. The longer sugar stays under loan, the higher the market price must be, since the money borrowed accumulates interest at the rate of 7 percent and storage costs are incurred. Other producers, who sold their sugar under a longstanding contract and were obligated to deliver at low market prices, have been netting 14.3 cents to 14.4 cents for such sugar. In Texas, where cane sugar occupies a very small percentage of agricultural land, producers were forced to sell sugar at a low market price because they could not afford administration mandated wage rates which would have qualified them for price support loans. Texas growers netted about 13.8 cents per pound.

Much has been said about cost of production. A study made by the University of Florida indicates the cost of production for 1977 crop to be 15.79 cents per pound. Because of partical crop failure caused by a severe freeze in Texas they are producing only 55 percent of their crop. Therefore, cost of production in Texas for 1978–79 sugar is in excess of 27 cents a pound. These figures indicate a price in the neighborhood of 17 cents per pound would be justified.

Other witnesses will use estimates more than 10 years old to convince you and the public that the average cost of production in the United States is 15 cents per pound. We endorse a mandated study on cost of production so that accurate data will be available.

You have been informed and we have been informed that the President will not sign a sugar agreement with a price in excess of 15.8 cents. He has further said he would accept legislation authorizing up to one-half cent per pound payment if passed by Congress. Therefore, we have no alternative but to accept what he will approve.

A price included in legislation like the President and his administration promised is meaningless unless the legislation specifies and mandates how price will be achieved. In late 1977, because of delayed action by the administration on the de la Garza amendment and misjudgment by advance notice of increased fees, foreign producers dumped into the U.S. market, the largest amount of raw sugar ever received during 1 month.

In 1977, we imported 6.4 million tons, about 2.2 million tons more than the International Trade Commission, in two exhaustive studies, said was needed. That excessive dumped sugar has long ago been marketed through normal trade channels. This imported sugar replaced United States produced sugar, for that reason we have more than 2 million tons under loan. This sugar will be owned by the Government unless the market price is increased and limits are set on imports to create a viable market.

We have been told, and we believe it necessary for sugar legislation to include some labor provisions and wage rates in order to be passed by the Congress.

Labor has been meeting with the domestic producers and frankly their demands, if included in legislation, would close a large portion of the sugar industry. We are willing to pay whatever wages we can afford to pay, but with the price that the administration supports, there is a limit to how far we can go and survive.

Mr. Chairman, in closing, much has been said and will be said about legislation being inflationary. The cost to the Treasury for proposed sugar legislation would result in a net gain to the Treasury of approximately $540 million due to fees and tariffs paid on foreign sugar. The cost to consumers should be minimal because any increase in the price of sugar could easily be absorbed by the refiners, retailers, and industrial users.

Senator MATSUNAGA. Thank you very much, Mr. Yancey. As I understand, Mr. Godfrey has had a death in his family, and will you extend my deepest sympathy to him?

Mr. YANCEY. I will be glad to.

Senator MATSUNAGA. Well, I thank you gentlemen for keeping within the time limit and I appreciate your statements. Your lengthier prepared statements will be made a part of the record, and I must commend you all for having made a good case for sugar. Thank you very much.

[The prepared statements of the preceding panel follow:]

STATEMENT OF ROBERT H. HUGHES ON BEHALF OF HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Mr. Chairman and members of the subcommittee, my name is Robert H. Hughes. I am a director of the Hawaiian Sugar Planters' Association. Members

of our Association account for more than 95 percent of all the sugar produced in our State. Exhibit I, attached to this statement, contains a brief description of the Association and the sugar industry in Hawaii.

Prior to the introduction of any legislation at this session of the 96th Congress, we attended a series of meetings on sugar policy conducted by officials of the Department of Agriculture. There was broad participation by interested government departments and agencies as well as various segments of the domestic industry, including consumers and users.

As a result of those meetings we joined with other producers and first processors of sugarcane and sugar beets in submitting to USDA on January 17, 1979, a set of basic recommendations which we could all support as the nucleus of a workable domestic sugar program, to complement the International Sugar Agreement. These recommendations had then and have now the full endorsement of this Association. S. 463 would accomplish many of the objectives we seek.

NATIONAL SUGAR POLICY

For many years it has been United States policy to maintain a domestic sugar industry capable of producing a significant portion of our sugar requirements. Such a policy is in the national interest because it avoids too great a dependence on foreign suppliers. In his statement on May 4, 1977, to the Special Representative for Trade Negotiations, President Carter stated: "I firmly believe that it is important to maintain a viable domestic sugar industry in this country." This commitment is the basic purpose of the legislative proposals being considered by this Committee.

IMPORTANCE OF SUGAR INDUSTRY IN HAWAII

Sugar production is the major agricultural activity in Hawaii and the largest supplier of export income in the private sector of the economy. The dependence on sugar income in the State is greater than that in the sugar-producing states on the mainland.

Sugarcane is grown on about 220,000 acres on four islands, comprising about 75% of the crop acreage of the State. Despite years of effort and millions of dollars in research expenditures by the sugar industry and the State, no reasonable alternative use for this land has been found.

An analysis by Dr. Thomas K. Hitch, Senior Vice President, First Hawaiian Bank, dated June, 1978, estimates that there are approximately 9,000 full time equivalent employees in our Hawaiian sugar industry and over 20,000 non-sugar jobs dependent on it. Thus approximately 30,000 jobs, or 8% of civilian employment, depend on the industry for their existence.

Dr. Hitch estimates that collapse of the sugar industry in Hawaii would result in doubling of the unemployment rate to 15% and a double digit percentage decline in State general fund tax revenues. Some islands would be harder hit than others: on Kauai, where 96% of the crop land is in sugar, the unemployment rate would be 56%; on Hawaii, 35%; on Maui, 36%. The report states: "The conclusion is that the closing of the sugar industry would be devastating to the State's economy and would result in the almost complete collapse of the neighbor island economies." In recent negotiations extending the labor contract for one year, the union recognized the difficult financial plight of the Hawaiian sugar industry. A copy of the Hitch report is attached hereto and marked Exhibit II.

I should like to comment now on some of the important elements we think should be included in new sugar legislation.

DOMESTIC PRICE OBJECTIVE

We favor a price level which will carry out our national sugar policy of maintaining a viable domestic sugar industry in this country. The price objective should be no less than the average cost of producing sugar in this country. The present support of the 15 cents per pound, raw value, is below all responsible cost estimates we have seen, including those made by the USDA. There are in fact no reliable across-the-board cost studies available at present.

S. 463 directs the Secretary of Agriculture to make cost-of-production studies and we strongly endorse that provision of the bill. Since the results of those studies are not likely to be available for at least a year, the price objective for the 1978 and 1979 sugar supply years must necessarily be based upon the best

available cost estimate. Thereafter increases in the price objective should be based on increases in production costs, subject to a maximum increase within the price guidelines established by the President under the anti-inflation program.

PAYMENTS TO PRODUCERS

The Hawaiian industry has consistently advocated achievement of the price objective through market price alone, that is, without government subsidy payments. Our reasons for this position are, we think, valid. The Hawaiian sugar industry consists primarily of fifteen plantations which produce over 95% of the State's sugar. In Hawaii, there is no way to produce sugar economically without utilizing large producing units. The required capital investment in field equipment, in mills, and the cost of ocean transportation to the nearest market preclude the successful operation of the family farm except when the wide range of services offered by the large plantations is available nearby.

It follows that any government payment to producers in Hawaii will involve large amounts. If, for example, a .5 cent per pound payment were made, the statewide entitlement on approximately 1 million tons of annual production would be $10 million. The greatest share of this would go to fifteen plantations. The effect of a payment limitation of $50,000, the level set for most of the other commodities, would be devastating to Hawaiian sugar.

Under a .5 cent per pound program, as mentioned above, the $10 million statewide figure, with the bulk of it going to fifteen plantations, would dwindle to a total of $750,000. This would be an unfair and ineffective program as far as Hawaii is concerned and would jeopardize the jobs of sugar industry workers.

The Hawaiian industry supports the provisions of this bill which would achieve the price objective through market price alone.

SPECIAL IMPORT DUTIES AND QUANTITATIVE RESTRICTIONS

We support the use of special import duties as the primary means of achieving the market price objective. The duty should be equal to the amount by which the average daily price for United States raw sugar imports for a specified marketing period is less than the price objective for the sugar supply quarter involved. Appropriate adjustments should be made on a quarterly basis so as to maintain market prices for sugar at the objective level on an annual average basis.

Quantitative restrictions were effective in maintaining reasonable prices under sugar programs for some forty years and we think they are still the most effective instrument for that purpose. We support the use of quantitative restrictions as a backup mechanism. Such restrictions should be promptly imposed when the Secretary of Agriculture determines that the market price objective for the sugar supply year will not be achieved by the special import duties alone. As in the case of duties, the quantitative restrictions should be reviewed and adjusted from time to time as required to achieve the price objective on an annual average basis.

LIMITATIONS ON REFINED SUGAR

The U.S. refined sugar market is experiencing substantial and persistent disruption as the result of foreign refined sugar being sold here at prices which do not permit U.S. refiners to compete and which have been highly disruptive of our price support program. If a U.S. refiner is to break even he must sell his refined sugar at a price sufficient to cover the cost of raw sugar and the cost of refining and marketing the finished product. Foreign refined sugar has been especially harmful to sellers of cane and beet refined sugar in Chicago and West markets and to eastern refiners supplying sugar to the Northeastern States.

The Treasury Department determined in July, 1978, on the basis of a countervailing duty investigation, that the European Community was subsidizing exports of refined sugar to this country within the meaning of the Countervailing Duty Law. In February of this year the Treasury Department also determined, on the basis of antidumping investigations, that refined sugar from certain members of the European Community is being sold in this market at less than fair value under the Antidumping Act.

The only protection which U.S. refiners now have against these refined sugar imports, other than the regular duty, is a special import fee wheih is only .52 cent per pound above the special fee applicable to raw sugar. This protection is totally inadequate under present circumstances. The low refined prices caused by these foreign imports results in depressed raw sugar prices to the detriment

of the price support program. This situation forces raw sugar sellers to obtain nonrecourse government loans and the sugar involved ultimately winds up in the hands of the government.

A successful domestic sugar program must be structured to protect the price of refined sugar as well as the price of the raw sugar. Sugar programs over the years have been designed to protect producers of the raw product, sugar beets and sugarcane, but that objective has been accomplished only by maintaining a satisfactory price for raw sugar and a proper relationship between the price of raw sugar and the price of thet refined product.

This problem was solved under prior sugar legislation by requiring foreign sugar, with unimportant exceptions, to come to this country in the form of raw sugar. This is the simplest and most satisfactory way to deal with the present problem and we recommend this approach be followed, as provided in S. 463.

WAGE PROVISIONS

We support the inclusion of farm labor provisions in the bill. The wage rates should be spelled out but the figures must bear an appropriate relationship to growers' returns under the program finally approved. We suggest that the rates themselves be determined after the price objective is agreed upon.

TRANSITION PROVISIONS

The bill should provide for an appropriate transition from the present loan and purchase program to the new program. The present program is set up on a crop year basis which differs in the various domestic producing areas. The de la Garza amendment, under which the present program is carried out, is applicable only to the 1977 and 1978 crops. The 1978 crop year for both Hawaii and Puerto Rico was the calendar year 1978. The crop now being harvested in those areas, being the 1979 crop, is not covered by a price support program. The crop years in other areas differ but none will begin harvesting 1979 crop sugar until about July 1. The new program would place every area on a uniform supply year basis, being the 12-month period October 1–September 30 with each such year designated by the year in which the beginning date occurs.

We therefore strongly support the extension of the present program in the manner set out in section 306 of S. 463.

EFFECTIVE DATE

The current price objective of 15 cents per pound of sugar, raw value, is below the average cost of production. It is imperative that the legislation be enacted as soon as possible and that it be made effective immediately upon enactment.

The Hawaiian sugar industry, like many of its mainland counterparts, is in economic trouble. The world continues to produce more sugar than it consumes and one of the favorite dumping grounds for excess world production continues to be the United States. In its reports to the President, the U.S. International Trade Commission has consistently recommended fees and import quotas to control this dumping of sugar.

While administrative attempts are made to help the domestic industry, increases in material and wage costs continue their inexorable rise. In addition, there is no respite from the requirements of the Environmental Protection Agency and other government regulatory bodies which have forced the industry to spend millions of dollars and make heavy capital investment in new and costly equipment which, if anything, reduces productivity. As a result of these conditions, some smaller production units in Hawaii have discontinued operations. Many independent growers have ceased cultivation of sugarcane and others have turned to other means of making a livelihood. Even the larger producers are not out of danger.

The situation is critical and we cannot overemphasize the need for prompt action on a new and improved sugar program. Upon Congressional approval of such a program, Hawaii supports the ratification of the International Sugar Agreement.

EXHIBIT I

HAWAIIAN SUGAR PLANTERS' ASSOCIATION AND THE HAWAIIAN SUGAR INDUSTRY

The Hawaiian Sugar Planters' Association, founded in 1895, is a non-profit agricultural organization of sugar companies and individuals formed to main-

tain, advance, improve and protect the sugar industry in Hawaii and to support a scientific experiment station. This experiment station is one of the finest research institution of its kind in the world. Attached to this exhibit is a list of member companies of HSPA.

Hawaii is a major source of domestic sugar and annually supplies approximately 1,100,000 tons or about 10 percent of the sugar consumed in the United States. Our State is a natural place to grow sugarcane and we do it efficiently. Our production per acre-year is among the highest in the world. Sugar is by far the most important agricultural commodity produced in the Islands and it is one of the largest sources of income, ranking behind only the federal government, tourism and construction.

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

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

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

2. We have found no alternative crop for most of the approximately 220,000 acres planted in sugarcane. Hawaiian producers do not have the luxury of shifting to other, non-sugar crops which many mainland farmers enjoy.

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

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

PLANTATION MEMBERS OF HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Island of Kauai

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

Island of Oahu

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

Island of Maui

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

Island of Hawaii

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

EXHIBIT II

HOW THE COLLAPSE OF THE SUGAR INDUSTRY WOULD IMPACT ON HAWAII'S ECONOMY

I. THE STRATEGIC IMPORTANCE OF SUGAR TO THE HAWAIIAN ECONOMY

Hawaii has a comparatively high standard of living, with per capita personal income in 1976 being $7,080, 11% above the national average of $6,399. For that year, there were only six states out of the other 49 that had a higher per capita personal income than Hawaii.

The primary reason why Hawaii has been able to achieve her high level of living is that she has been able to develop a large number of export activities (some very large, some still small) which bring outside income into the state and enable her residents to purchase in large amounts those necessities and luxuries which constitute our high standard of living. Were we an independent nation we would be known as a wealthy trading nation—like Japan— rather than a poor non-trading nation—like Western Samoa or the Trust Territory of the Pacific.

In the quarter of a century since World War II, our four prime export activities have been the two prime "invisible" exports of sales to the federal government, primarily to the defense agencies, and sales to overseas persons (visitors) who come to Hawaii as tourists; and the two prime "visible" or commodity exports of sugar and pineapple. Last year, we had 3.4 million visitors come to Hawaii. We had 58,500 uniformed military personnel stationed in Hawaii, who in turn had 65,000 civilian dependents living with them here. We produced one million tons of raw sugar, one-fifth of all sugar produced in the United States. And we canned 8.2 million cases of pineapple (plus 5.6 million of pineapple juice)—which represents over 25 percent of all the commercial pineapple produced in the world. In addition to these four pillars of the Hawaiian economy, we have a very large number of small export activities which, in total bring a significant volume of outside income into the state to augment our income from the big four. They include visible exports such as tropical fruits (papaya), tropical nuts (macadamia), flowers and foliage, garments, etc. They also include invisible exports such as sales of 8 million telephone calls from overseas people calling Hawaii, sales of vast amounts of advertising space to overseas firms advertising in Hawaii, the fueling and servicing of vast numbers of airplanes and ships, etc.

It follows that the activities which comprise the export sectors of the economy are of vastly greater strategic importance than the activities that comprise the purely domestic economy—the farmers who grow food for local consumption, the construction workers who build our homes and buildings, the retail merchants who handle the distribution of our goods, the employees in service establishments who attend to our personal needs, etc. Important as these activities are, they are replaceable—if the truck farmer fails, someone will take his place, just as would happen if a retail shop went out of business or a law firm folded. But if the Army closed down Schofield Barracks, or Del Monte abandoned its pineapple operations, or the market for tourists declined to the point that Sheraton closed its hotels, or—to get the point of his paper—if one or more sugar companies closed, that would be a complete loss to the economy that would almost by definition not be replaceable. And the loss would be, as we shall see in detail in the succeeding papers, felt not just in the industry that is hit, but to a greater or lesser extent depending on many circumstances, throughout the entire economy.

1. The employment multiplier in sugar

Conclusion.—Our analysis shows that for every employee working full time in the sugar industry, there are about 2.29 other persons in jobs outside of the sugar industry (but indirectly related to the sugar industry in one way or another) whose jobs would not exist were it not for the sugar industry. In other words, to arrive at a figure for total jobs in Hawaii created by the sugar industry, we take the number of direct employees and increase it by 229 percent. For every sugar job, there are 2.29 nonsugar jobs indirectly created by the sugar industry.

Analysis.—Let us think of three levels of jobs created by the sugar industry in Hawaii. Let us label them (1) direct, (2) first-round indirect, and (3) multiplier indirect.

(1) Direct jobs are the jobs in the sugar industry: people on the payroll of the sugar plantation companies.

(2) First-round indirect. In addition, whenever any of the sugar companies purchase a service (construction, transportation, communications, government, legal, etc.) there are some people in the construction industry, transportation industry, communciations industry, in government, in legal offices, etc., who are, indirectly, working for the sugar company and who thereby owe their jobs to the sugar industry.

(3) Multiplier indirect. When the people in categories 1 and 2 above get their wages and salaries, they buy the goods and services that constitute their standard of living, and the people who supply these goods and services in turn spend their income and create further jobs down the line, etc., etc. There are therefore in this third category large numbers of people who owe a part of their job to the existence

of the sugar industry although their job would have no direct (or even perceivable indirect) relation to a sugar plantation company. Example: When Joe Blow who works for Waialua Sugar Company takes the wife and kids to Sea Life Park and spends $15 on the outing, he is contributing, in a small way, to the support of a part of several jobs at Sea Life Park. Example: When the Sea Life Park employee goes to Foodland to do his marketing, his purchases help create a tiny portion of the jobs at Foodland.

We can, based on the detailed studies of the Research Division of First Hawaiian Bank, quantify these three levels of jobs.

Level 1: Of all the money disbursed by sugar plantation companies, 35 percent goes directly for payrolls and direct creation of jobs.

Level 2: Of the other 65 percent of the money spent by sugar plantation companies on their operations (including dividends, taxes, purchase of goods and services, etc.) about half becomes income to residents of Hawaii, or 32 percent of the total disbursements of the sugar plantation companies, with the remaining 33 percent representing "leakages" out of the state—income to non-Hawaii residents (in the form of federal taxes, goods and services purchased outside the state, dividends and interest paid to non-Hawaii residents, etc.) This means that there are almost as many indirect jobs (91 percent) created by the sugar companies as direct jobs.

Level 3: First Hawaiian Bank studies of the Hawaii regional multiplier show that for every dollar in personal income introduced into the economy, the spending and successive respending of it creates another 72¢ of income. This adds 72/100ths of a job to the economy for every job created directly (through payrolls) or indirectly (in the purchase of goods and services) by the sugar plantation companies.

This means that for every job at level 1, there is 91/100ths of a job created at level 2. For every job created at levels 1 and 2, there is 72/100th of a job created at level 3.

Summary:

Level 1 (direct sugar job)	1.00
Level 2 (indirect sugar job)	0.91
Subtotal	1.91
Level 3 (multiplier effect)	×1.72
Result	3.29

This means that there are 2.29 jobs in Hawaii created indirectly and through the multiplier effect for every job created directly by the sugar industry.

The jobs at what we have called level 2 and level 3 would probably be somewhat less for any one of the Neighbor Islands than they would be for the state as a whole. The reason for this is that Oahu is the geographic location of such a large part of the economic activity of the state that demand originating on, say, Kauai might be fulfilled by jobs on Oahu (e.g., in wholesaling, fertilizer manufacture, etc.)

But since the bulk of the sugar industry is concentrated on the Neighbor Islands (82 percent of sugar jobs are there), the overall multiplier is a fairly accurate representation of the job impact on the Neighbor Islands. Although adjustments in the multiplier might be made for individual islands, we are confident that the 2.29 multiplier for the state as a whole is well within the ball park, and may even be understated.[1]

Results.—There are 8,930 full-time equivalent employees in the sugar industry in Hawaii. With 2.29 non-sugar jobs dependent upon the sugar industry, there are some 29,400 jobs in Hawaii that depend on the sugar industry for their existence.

With total civilian employment of 375,000, the 29,400 jobs in Hawaii created by the sugar industry represent nearly 8% of total civilian employment.

2. The income multiplier in sugar

Detailed studies by First Hawaiian Bank show that for every $1 of income of the sugar industry in Hawaii, 67¢ becomes personal income in the hands

[1] In at least one sense the employment multiplier computed here for the local sugar industry might be considered an understatement. In our calculation of the number of jobs created indirectly (level 2) we assumed that it took the same number of dollars in personal income to create the level 2 job (indirect employment) as it took to create the level 1 job (direct sugar employment). Actually, the average of earnings in 1975 for sugar workers was $12,049 while for the entirety of business in Hawaii, it was $9,704. If adjustment is made for this factor, the total impact of a single direct job in the industry would increase from 3.29 to 3.64.

of residents of Hawaii. With a regional multiplier of 1.72, each new 67¢ added to the income stream of Hawaii from sugar exports generates a total of $1.15. Thus, each dollar of sugar income generates $1.15 of personal income in Hawaii. In a year when sugar income amounts to, for example, $300 million, the personal income in the state that is attributable to the sugar industry amounts to $345 million.

Sugar income has fluctuated wildly in recent years—amounting to $685 million in 1974 and dropping to $284 million last year—and consequently the portion that the sugar industry has contributed to total personal income in the state has varied from year to year. This latter figure (personal income in Hawaii attributable to the sugar industry as a percent of total personal income) was 9.9% in 1960, 10% in 1965, 15.6% in 1974, 3.5% in 1975, and 4.9% last year. In a normal year the sugar industry is responsible for the generation of approximately 8% of the income of Hawaii.

II. IMPACT OF THE DEMISE OF THE SUGAR INDUSTRY ON THE HAWAIIAN ECONOMY

With sugar representing approximately 8 percent of total civilian employment and 8 percent of total personal income in Hawaii, the demise of the industry would wreak havoc on the economy.

Were the Hawaiian sugar industry to collapse and were nothing else to occur to mitigate the damage we could expect the following results:

1. Employment would drop by 8 percent.
2. Unemployment, now at 30,000 (7.5 percent rate) would double to 60,000 (15 percent rate).
3. General fund tax revenues would decline by 10 percent—since for every 1 percent change in personal income there is a 1.25 percent change in general fund tax revenues.

Hawaii would clearly become a disaster area if employment were to drop by 8 percent, unemployment were to double to a rate of 15 percent, and State general fund tax revenues were to suffer a double-digit percentage decline. There would be no way under these circumstances that Hawaii could cope with its welfare load or maintain anything like the essential services required by its citizens.

State welfare costs have risen 91 percent in the last four years, and are running now at $128 million a year. If even half of those supported by the sugar industry were forced to go on welfare, the State's costs would increase at least 50 percent, to nearly $200 million. This would represent almost one-fourth of the total State general fund budget.

It should be added that while a sudden collapse of the sugar industry would be disastrous to the state's economy, it would be even more devastating to several of the islands in the state (counties) in which sugar is the prime economic activity. For example, over 96 percent of Kauai's crop land is in sugar and applying the above analysis to the island and county of Kauai we find that a collapse of the sugar industry would raise unemployment on that island to 56 percent. Similarly, the island and county of Hawaii has over 83 percent of its crop land in sugar, and collapse there would raise unemployment to 35 percent. The situation is not too different on Maui (county) which has over 46,000 acres in sugar. Collapse of the sugar industry there would raise unemployment to 36 percent of the labor force.

The conclusion is that the closing of the sugar industry would be devastating to the State's economy and would result in the almost complete collapse of the neighbor island economies.

While it is possible that some sugar-producing areas in the United States might be able to convert to other agricultural crops, such is demonstrably not the case in Hawaii and hence the loss of income, jobs, and land use would be permanent here. Studies, experiments, and history all combine to indicate that most if not all land now in sugar would not find remunerative agricultural uses if sugar ceased being grown. Ever since 1851 studies have been made and experiments conducted on agricultural alternatives to sugar, but the successes have been small because the problems are enormous. Hawaiian agriculture is hampered by shipping and marketing problems due to our isolated location, natural problems ranging from bugs and birds to winds and heavy rains, and money problems like the cost of importing machinery and fertilizer and the high cost of labor here. Agricultural production for our own needs is limited because Hawaii is a pocket market and local farmers cannot economically compete with large-scale Mainland growers. (Even if we were to achieve agricultural self-sufficiency in

crops—at whatever high cost—it would require less than 3,500 additional acres of land to replace imports with vegetables and fruits that can be grown in Hawaii.[8])

The prospect of 221.6 thousand acres pulled out of sugar cultivation is therefore alarming, from the land use standpoint alone. When single marginal plantations of a few thousand have closed down from time to time in the past, the general result has been land reverting to scrub and the area sunk in poverty. Some examples:

1. Waimanalo Sugar Co. on Oahu ceased operations in 1947, taking about 3,300 acres out of sugar cane. Today, after 30 years, there are some dairy and poultry operations and small truck farms there, but Waimanalo is still a depressed area, with a high incidence of unemployment, welfare cases, and crime.

2. When Kilauea Sugar Co. on Kauai closed in November 1971, its parent company, C. Brewer & Co., faced the problem of what to do with 12,000 acres. Part of it was leased to Metcalf Farms for a feed grain operation, but Metcalf later failed and went into bankruptcy. Brewer planned to sell some of the land in three-acre parcels for "ranchettes," but County officials rejected the plan, insisting that it would result in semi-urbanization on land designated agricultural. The company therefore sold the land in 25 large parcels, which were purchased by Mainland speculators who hoped the zoning would be changed to resort or urban. Both State and County officials have remained firm about keeping the land in agriculture. A few small farmers and one large rancher have been using about a third of the land, on six-month leases from the Mainland owners (leases too short to allow for capital investment or planning) but the remainder has lain idle. Many of the buyers have now defaulted on their mortgages, and Brewer has taken back about 2,000 acres of land, on 600 of which it has started a guava orchard. Perhaps in future decades, with good promotion and marketing, guava might become a major industry for Hawaii—but it will take a long time and an immense amount of capital.

3. Kahuku Plantation Co. on Oahu closed in December 1971, taking about 3,000 acres out of sugar. Some employees have been absorbed by the nearby hotel-resort development which was begun shortly after the plantation closed; a small tourist-oriented shopping center has recently opened in the renovated sugar mill; some small agricultural enterprises in sudax grass, tomatoes, corn, and watermelons have been tried. But the Kahuku community remains poor, and the sugar lands are mostly lying idle.

4. Kohala Sugar Co. on the island of Hawaii announced in 1971 that it would close after the 1973 harvest; the date was postponed and it ceased operations in October 1975, taking 4,295 acres out of sugar. After the original announcement the state of Hawaii organized the Kohala Task Force to find substitute economic activities for the Kohala area, and has poured $6.2 million into funding new enterprises. The largest of these, a feed grain and feedlot operation, has already gone bankrupt. A plastics firm also failed but has now been purchased by a new owner; a hay-growing enterprise is being foreclosed; and two plant nurseries are operating. Little has been achieved in providing employment for the Kohala area.

The dismal record shows that it is very difficult to find a replacement for sugar growing. Cattle ranching, which occupies so many of our total acres, is simply too unprofitable today to expand to sugar land. Pineapple is now just about holding its own, with several plantations closed down and only three companies remaining of the ten that were growing pineapple twenty years ago. Papaya and macadamia acreages can be expected to increase in the years to come, but after decades of great expansion they still occupy only 12 thousnd acres.

STATEMENT OF P. J. DEGRAVELLES, JR., PRESIDENT OF THE AMERICAN SUGAR CANE LEAGUE OF THE U.S.A., INC.

Mr. Chairman and members of the committee, my name is P. J. deGravelles, Jr., President of the American Sugar Cane League of the U.S.A., Inc., whose address is 416 Whitney Building, New Orleans, Louisiana 70130. I reside at Franklin, Louisiana, and am a grower of sugar cane for processing into sugar. The American Sugar Cane League is a non-profit association, organized fifty-

[8] Overall Economic Development Program, Hawaii State Department of Planning and Economic Development, 1976.

seven years ago to protect and preserve the welfare of the Louisiana sugar cane producers and processors of sugar cane into sugar. The organization's membership includes all of the Louisiana sugar cane processors, who in 1978 operated twenty-eight factories, and about 97 percent of the more than four thousand sugar cane growers and landlords.

The American Sugar Cane League supports the principles embodied in S. 463. We congratulate Senator Long, Senator Church and the other sponsors of the bill for their efforts to write a bill which achieves a reasonable compromise among the various groups interested in sweetener legislation.

A representative of our association presented testimony before this committee last year in favor of reasonable sweetener legislation. Our arguments were valid then and remain so today. Those of us who supported sweetener legislation last year remain united in our efforts to pass such legislation this year because enactment of sweetener legislation is essential to maintain a viable domestic sugar industry. The Louisiana sugar industry alone lost five sugar factories and nine percent of its sugar cane acreage after the 1977 crop due to low sugar prices. Within the last few days two more Louisiana factories, Valentine and Billeaud, have decided to close. Southdown Sugars has also decided to close Greenwood, its last factory. There have been attempts to form a farmer cooperative to operate Greenwood, but they have not yet been successful. Sugar cane growers and processors are making their plans now regarding the crops for 1979 and subsequent years. Without early enactment of adequate legislation many more could be forced out of business.

U.S. consumers need a viable domestic sugar industry to insure a dependable supply of sugar. The effects of the current crisis in Iran in our oil supply, and the recent unsuccessful natural gas negotiations with Mexico showed us the dangers of dependence on foreign suppliers for important commodities. The use of oil as a political tool by members of OPEC emphasizes the need for a strong domestic sugar industry to protect us from similar actions by unstable sugar producing nations. U.S. consumers depend on foreigners for about 45% of the sugar we consume. Unless the domestic industry is protected from unfair foreign competition, this heavy dependence on unreliable foreign sources will increase substantially. Our problems in this area are quite similar to those of steel, textiles, and numerous other industries.

"Free trade", which is a figment of theoretical economists' imaginations, does not exist in the real world. What we must strive to achieve is "fair trade". Unregulated competition from foreign sugar producers is unfair to U.S. producers, because foreigners don't "play by the same rules" as we do. We pay wages ten times as high as those paid by many foreign sugar producers. We have to spend much more money meeting the strict water and air pollution criteria of federal and state agencies, and to comply with the Occupational Safety and Health Act. Regardless of any benefit to society, these expenditures produce no monetary return to our industry. Also, many foreign governments subsidize and determine the size of their sugar industries without regard to usual economic factors. U.S. taxpayers even provide aid to our competitors through low-cost loans from the Export-Import Bank of the United States and the World Bank.

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

The U.S. balance-of-payments deficit is worsened by the importation of foreign sugar. Unless our balance-of-payments deficit is corrected, the weakness of the dollar in relation to foreign currencies will continue, and serious economic repercussions are probable.

Another compelling reason for the existence of a viable domestic sugar industry is the fact that sugar-crop production is the best use of the land in many areas.

S. 463 will use import fees and quantitative restrictions on imported sugar to prevent the dumping of surplus foreign sugar on the U.S. market. The bill would also implement the International Sugar Agreement, which seeks to stabilize sugar prices through a system of quotas and reserve stocks. The domestic sugar program provided by the bill would not conflict with the International Sugar Agreement, but would complement and supplement it. Both the international program and the domestic program provided for by this bill would aim to protect consumers by keeping sugar prices from going too high.

The effect of S. 463 on what the consumer pays for sugar would be relatively small. This bill, as introduced, will increase the current price objective of 15.00 cents per pound for the 1978 crop to 17.00 cents per pound for the 1979 crop. This would increase the cost of a consumer's total consumption of sugar less than $2.00 per year.

The proposed program would provide a net gain to the U.S. Treasury. At an assumed world sugar price of 9 cents per pound and a price objective of 17.0 cents per pound, revenue to the U.S. Treasury from import fees would exceed $650 million annually if import levels and domestic sugar production are assumed to be at the same level as for calendar 1978.

Future adjustments in the price objective would be based on the percentage increase in certain designated cost items, as determined by USDA cost studies.

The American Sugar Cane League believes the following items are essential to make the legislation effective:

(1) Continuation of a loan program must be made mandatory.

(2) A definite triggering mechanism to mandate adjustments in quantitative restrictions on imported sugar should be included.

(3) The legislation should not extend beyond the 1981 crop. If inflation continues to run rampant, sugar producers might be locked into a formula for price objective adjustments which would not adequately reflect their cost increases. Therefore, the act should terminate after the 1981 sugar supply year.

(4) The average daily price should represent the actual cost of raw sugar imports to the buyer. The ISA price currently being used in adjusting import fees does not represent a true price for sugar, since sugar is evidently being bought at a discount below the ISA price.

S. 463 will protect domestic sweetener producers from unfair foreign competition. Sugar producers are not asking for protection from other domestic sweetener producers. U.S. high fructose corn sweetener producers have to operate under the same laws and regulations as sugar producers. There is room in the marketplace for both sugar and corn sweeteners. We are willing and able to compete with the other domestic sweetener producers, just as we now compete with other, domestic sugar producers for our share of the market.

There have been numerous efforts to design compromise sweetener legislation acceptable to all interested parties. We wish to thank the Carter Administration for its recent efforts to stimulate a dialogue on such legislation. We believe it is now time for President Carter and members of his Administration to follow through on the commitment they have repeatedly made to "maintain a viable domestic sugar industry." We strongly urge the Administration and the members of this Committee to support reasonable sweetener legislation.

Statement of Horace D. Godfrey

Mr. Chairman and members of the committee, my name is Horace Godfrey and I have a prepared statement which I wish to submit and request that it be included in its entirety in the Record.

I am Vice President of the Florida Sugar Cane League and present their views along with the views of the sugarcane producers and processors in Texas.

For the past four months, representatives of the domestic sugarcane and beet industries consisting of the producers and first processors have been meeting with Administration officials and other segments of the sugar industry including refiners, industrial users, labor representatives, and consumer representatives. The producers and first processors agreed, early in January, on principles to be included in sugar legislation. Most of these principles have been included in S. 463 and H.R. 2172. As H.R. 2172 has progressed in the House Agriculture Committee and in the House Ways and Means Committee's Subcommittee on Trade, amendments have been offered, most of which have been accepted by our group.

The domestic sugar producers and first processors are in a critical situation. Legislation is urgently needed now. As you know, Mr. Chairman, the 1979 crop is being harvested in your state. Current sugar laws do not cover your 1979 crop. Furthermore the promises made by the Administration have not materialized.

In October 1978 after failure of sugar legislation to pass Congress, the Administration promised to use existing authority to achieve a market price of 15 cents. Witnesses for the Administration have testified in the House that market prices

have achieved this level. I tell you Mr. Chairman there has not been a 15 cents market price for a single day since the promise was made.

Some producers in Florida have been forced to place the sugar under loan and have achieved a net return of 14.98 cents per pound. In order for this sugar to be marketed and not placed under loan, the market price must be in excess of 15.8 cents per pound to net producers, the same amount they would receive from the loan. The longer sugar stays under loan, the higher the market price must be, since the money borrowed accumulates interest at the rate of 7 cents and storage costs are incurred. Other producers, who sold their sugar under a long standing contract and were obligated to deliver at low market prices, have been netting 14.3 cents to 14.4 cents for such sugar. In Texas where cane sugar occupies a very small percentage of agricultural land, producers were forced to sell sugar at a low market since they could not afford Administration mandated wage rates which would have qualified them for price support loans. Texas growers netted about 13.8 cents per pound.

Much has been said about cost of production. A study made by the University of Florida indicates the cost of production for 1977 crop to be 15.79 cents per pound. Because of partial crop failure caused by a severe freeze in Texas they are producing only 55 percent of their crop. Therefore cost of production in Texas for 1978–79 sugar is in excess of 27 cents a pound. These figures indicate a price in the neighborhood of 17 cents per pound would be justified. Other witnesses will use estimates more than 10 years old to convince you and the public that the average cost of production in the United States is 15 cents per pound. We endorse a mandated study on cost of production so that accurate data will be available.

You have been informed and we have been informed that the President will not sign a sugar agreement with a price in excess of 15.8 cents. He has further said he would accept legislation authorizing up to one-half cent per pound payment if passed by Congress. Therefore we have no alternative but to accept what he will approve.

A price included in legislation like the President and his Administration promised is meaningless unless the legislation specifies and mandates how price will be achieved. In late 1977 because of delayed action by the Administration on the de la Garza amendment and misjudgment by advance notice of increased fees, foreign producers dumped into the United States market, the largest amount of raw sugar ever received during one month.

In 1977 we imported 6.4 million tons, about 2.2 million more than the International Trade Commission, in two exhaustive studies, said was needed. That excessive "dumped" sugar has long ago been marketed through normal trade channels. This imported sugar replaced United States produced sugar, for that reason we have more than 2 million tons under loan. This sugar will be owned by the government unless the market price is increased and limits are set on imports to create a viable market.

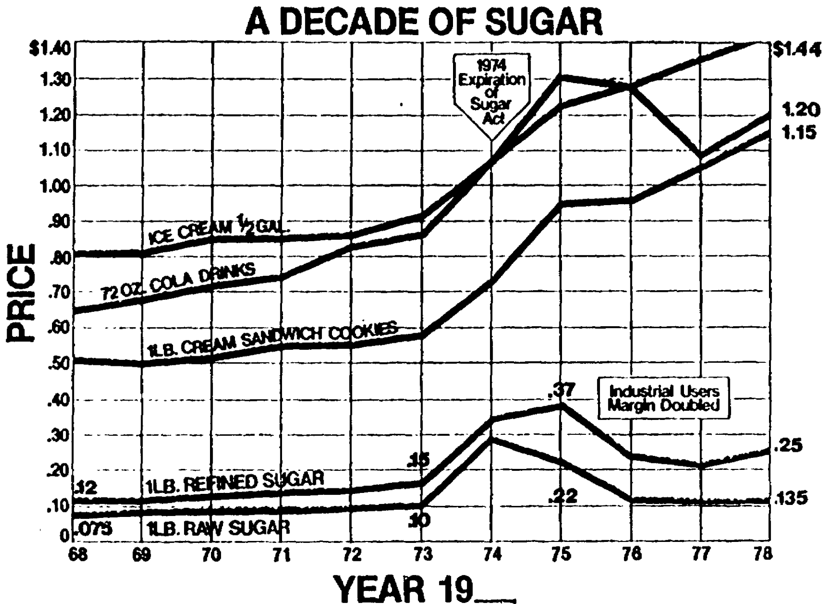
We have been told and believe it necessary for sugar legislation to include some labor provisions and wage rates in order to be passed by the Congress.

Labor has been meeting with the domestic producers and frankly their demands, if included in legislation, would close a large portion of the sugar industry. We are willing to pay whatever wages we can afford to pay, but with the price that the Administration supports there is a limit to how far we can go and survive.

Mr. Chairman, in closing, much has been said and will be said about legislation being inflationary. The cost to the Treasury for proposed sugar legislation would result in a net gain to the Treasury of approximately 540 million dollars due to fees and tariffs paid on foreign sugar. The cost to consumers should be minimal because any increase in the price of sugar could easily be absorbed by the refiners, retailers, and industrial users. In fact, the small raw price increase contained in H.R. 2172 should not result in increased consumer prices at all. Refiner and retail margins are now at the highest levels in history—over 260 percent above the normal levels of the 60's and early 70's. As an example, the recent in-depth study conducted by the U.S. International Trade Commission on sugar showed that for the three year period 1971–73 the combined refiner and retail margin was 3.73 cents per pound or about 40 percent added to the price of a pound of raw sugar at the retail level. However, for the two year period 1976–77, this margin had been increased to 9.82 cents per pound—up 6.1 cents per pound—an add-on of 81 percent to the raw sugar price. To use an often quoted figure by some opposed to sugar legislation, a 1 cent

per pound increase equals $224 million annually to consumers. On that basis consumers have been paying refiners and retailers over $1.3 billion more per year because of their increased margins.

I refer you to the table attached to my statement. If you are looking for those who have caused inflation, I believe you need to look somewhere other than growers and 1st processors.



Senator MATSUNAGA. Our next witness is Mr. Gregg R. Potvin, president, U.S. Cane Sugar Refiners Association. We will be happy to hear from you, Mr. Potvin.

Mr. POTVIN. Thank you, Mr. Chairman.

STATEMENT OF GREGG R. POTVIN, PRESIDENT, U.S. CANE SUGAR REFINERS ASSOCIATION

Mr. POTVIN. Mr. Chairman, I appear here today in opposition to S. 463. I would hope that the entire text of my statement may be made a part of the record.

Senator MATSUNAGA. Without objection, it is so ordered.

Mr. POTVIN. If adopted, Mr. Chairman, this bill will have a disastrous effect on the cane sugar refining industry in supporting industry and labor, truckers, suppliers, dockworkers, employees at refineries. Additionally, it will add between $800 million and $1.1 billion a year to consumer burdens. In addition, the $2.5 billion to $3 billion additional annual consumer cost created by the current program.

The total annual additional cost would approach $4 billion the first year, and correspondingly more the year after. The total life of the bill will be on the order of national debt of a medium-sized nation.

Now, this question of margins. I do not know who this other gentleman was talking about, but it sure ain't us. Coming as you do, sir, from the State of Hawaii, you are somewhat aware of the competi-

tion between beet sugar and cane sugar. I can tell you that there are cane refiners in this country today having to compete with a price of 16.75 cents per pound. Now, through Federal governmental action, we have to pay, as you know, 15 cents a pound for our raw refinery cost, a bare minimum of 4 cents. What can I tell you about margins? There just are not any, as a practical matter.

Now, this thought that there has never been a day when the price was as much as 15 cents, consider the following. Senator Church noted earlier the ISA daily price today is 8.48 cents a pound. OK. What does a pound of imported raw cane sugar cost? You must add 0.9 for freight, stevedoring and so forth; 2.8125 for the headnote tariff and 3.35 cents per pound for the import fee, making 15.54 cents in all.

Incidentally, I would not think that the preceding witness who characterized this as the unregulated inflow of cane sugar is being realistic. Anytime you are putting on almost 6.2 cents per pound, that is scarcely unregulated.

Now, if you will examine the pamphlet distributed by your corresponding House committee, Ways and Means, on last Friday, on page 36 you will find that they have estimated that the cost of production of domestic raw sugar from the 1978 crop was 14.96 cents per pound and there is a footnote they accede to the thought that this also faces the question of molasses credit. Molasses has gone up very dramatically recently. There is at least an additional one-half cent per pound row cane sugar involved, so that 14.96 becomes 14.56. That just happens to be almost a penny a pound under what the cost of imports are today.

Clearly, this is not the problem.

Could I have the charts, please?

Now, if you want to know what the problem is, to my right is a chart, Mr. Chairman, I think it shows what the problem is. As recently as 1969 there was no high fructose corn sirup. By 1970, it had reached the level of 1,200,000 tons per year distribution in this country. This year it is estimated it will be 1,400,000. The numbers on precise amount of capacity are proprietary. Most estimates are around 3 million tons which will clearly be utilized in the near future.

May I have the next chart?

During this decade, you will notice that the use of corn sweeteners has gone up 91 percent. I thought at first it said 910 percent; that did seem excessive.

The distribution of domestic sugar is down not quite 8 percent, 7.9. Imported sugar is down more. I think that is significant, 8.6 percent.

And finally, if you will look at the price in cents per pound, I would note by way of background, at recent hearings before the House Agricultural Committee, the corn industry witnesses testified that their costs were between 13 cents and 14 cents per pound. Other observers estimate lower.

Today, they are selling it at 19.9 cents per pound; liquid sugar with which it competes, is on the market today going from 21.65. That, I think, shows the problem. They are taking over the market. They are doing it with price and new technology.

This question of cost of production, I would like to emphasize that we have been somewhat principled and consistent about this. We said we do not know the number. We hired the best economist we could

find—Don Schnichter—former Under Secretary of Agriculture. He has estimated it is roughly 15 cents per pound for the 1979 crop.

I would like to offer at this time for the record, if I may, the only existing study on cost of production based on USDA numbers, cost of production considerations for sugar policy, as prepared by Schnichter Associates in February of this year.

Senator MATSUNAGA. Without objection, it will be made a part of the record.

[The mateial to be furnished follows:]

COST OF PRODUCTION CONSIDERATIONS FOR SUGAR POLICY PREPARED FOR U.S. CANE SUGAR REFINERS' ASSOCIATION

SUMMARY

This report present background on use of cost of production (COP) as a factor in setting market support or target price levels for sugar, and adjusting support levels from year to year.

1. Methods used in estimating COP for field crops other than sugar were developed by USDA while completing studies mandated by Congress in 1973. USDA reports to Congress on COP show:

(*a*) A great deal of similarity and continuity in the methods used to estimate COP for various crops;

(*b*) A need to account for differences in methods of production and processing among crops, in order to achieve COP estimates that are comparable as between crops, and equitable when used as guides in setting support levels.

2. COP estimates prepared by USDA in recent years for 10 major crops other than sugar include variable, machinery ownership, farm overhead, and management costs estimated under uniform procedures. Land costs have been based on both current value and average acquisition value of farm land, as well as on cash and share rents.

3. The Secretary of Agriculture, in testimony before Congress in 1977, when COP was first being considered as a direct guide to setting support levels, called special attention to:

(*a*) The difficulty of selecting a method of valuing land in COP studies that were to be used in connection with setting price supports. Both the Secretary and USDA experts emphasized the need to use a low return to land, in order to avoid a land price spiral over time.

(*b*) The validity of considering COP in setting target (established) prices, but not in setting market support levels (loan rates).

(*c*) The need to consider competitive prices, adequate supply, and other factors in setting market support (loan) levels.

4. Congress considered COP as a guide in setting 1977 target (or established) prices but specified a level of support that was approximately 91, 93, and 85 percent of initial USDA estimates of COP for corn, wheat, and cotton, respectively. Loan or market support levels were generally lower than target prices.

5. Congress also specified in the Food and Agriculture Act of 1977 what cost increases were to be considered in adjusting target prices from year to year. Land cost increases are not included in the adjustment formula. This avoids the "land price spiral" that would be the result of basing future target prices on rising land prices.

6. USDA COP estimates for sugar are not yet as advanced as for other principal crops, since sugar was not included in the 1973 Congressional mandate. However, available estimates suggest that U.S. average production costs for sugar in 1979–80, adjusted to make them roughly comparable to production costs used in setting target prices for other crops, are about 15.09 cents/pound. (Valuing sugarcane by-products at current levels would reduce this estimate to just under 15 cents/pound.) The average adjusted 1979–80 cost for beet sugar (raw sugar basis) is 14.61, and for raw cane sugar, 15.63 cents/pound.

7. These production cost estimates raise serious question regarding the need to consider a target or established price for 1979–80 crop sugar materially above the market support level of 15 cents/pound for the 1978–79 season. Since the market support level will be slightly lower if the target price (payment) approach is used, there is a clear possibility of guaranteeing farmers average COP, while reducing the market support slightly for 1979–80.

8. A number of technical issues need to be resolved before USDA undertakes another study of the cost of producing sugar. These include estimation of sugar beet processing costs, calculation of land acquisition costs, and giving proper credit for the value of sugarcane by-products such as molasses.

Cost of Production Considerations for Sugar Policy

INTRODUCTION

Production costs have often been used as guides to price support levels for farm products. Parity prices computed for major farm commodities under various formulas used over the years are based roughly on cost of production (COP). As the index of prices paid by farmers (parity index) for production inputs and consumption items increased, parity prices increased.

Under the 1971 Sugar Act, USDA was to operate the sugar program to maintain a price which represented the same ratio between the market price and a simple average of the wholesale price index (1967=100) and the parity index (1967=100), as existed between the price objective and those average indexes during the 1970 crop year. The price objective changed at the same rate as the average of the parity index and the wholesale price index, which changed each month.

The dramatic increase in farm input prices during the early 1970's, triggered by greatly increased prices of petroleum-based products, rekindled interest in COP as a guide to setting agricultural price supports.

As a result, Congress directed USDA in 1973 to study the production costs of milk, feed grains, wheat, and cotton. The Department of Agriculture included the major oilseeds with grains and cotton in the studies done under the 1973 mandate from Congress. Sugar was not included, because the Sugar Act formula was still in effect.

It is apparent from the legislative history of the 1973 provision requiring the COP studies to be done, that Congress anticipated using them as a factor in setting future price supports. Parity prices had not been used as a direct guide to support levels for most farm commodities for many years. Congress paid its respects to parity, but had seldom set price supports at parity levels. For the 1973–74 season, price support levels (loan levels) were 35, 42, and 30 percent of parity for wheat, corn, and cotton, respectively. A new standard was needed for establishing support levels.

COST OF PRODUCTION STUDIES

USDA sent a preliminary report to Congress in January, 1976, on 1974 costs and on methods used in estimating them. One year later, USDA sent Congress a comprehensive report on COP, providing estimates for 1975 and 1976 crops, and projections for 1977 crops. The techniques for estimating production costs were consistent from commodity to commodity and from year to year, recognizing differences in production methods between corn as compared to cotton, for example.

Five principal cost elements were identified: (1) variable costs such as fuel and fertilizer, (2) machinery, (3) farm overhead, (4) management, and (5) land costs.

The first four categories were relatively easy to classify and estimate, according to a USDA report. Land costs, however, were more complex. In the 1976 report, USDA indicated that "six separate methods were used in this study for determining (an allocation to) the land component, and any one of them may be appropriate for answering a given question." Land costs were finally estimated for publication using two methods: "current value," and "average acquisition value" of the land used to produce the crop in question. The COP estimate using the latter is substantially lower.

COST OF PRODUCTION AS A GUIDE TO POLICY

Congressional consideration of the Food and Agricultural Act of 1977 represented the first comprehensive use of direct estimates of COP as a guide or even a determinant of price or income support levels. Current consideration of COP for sugar as a guide to setting price supports is a direct result of the 1973 mandate on studies and the 1977 debate on the farm bill.

Secretary of Agriculture Bergland, in testimony before the Senate Committee on Agriculture and Forestry, March 23, 1977, proposed to apply COP to setting certain support levels. He emphasized, however:

(*a*) That measuring COP is a difficult process at best, and that measuring land costs is an almost impossible problem;

(*b*) That COP, including a nominal return to land, should be used in setting target prices or payment levels, not market support levels, for grains and cotton. Consideration of an escalation formula to set target prices for future years was not a prominent part of these early discussions.

(*c*) That market support levels should be based on criteria other than CP. (The wheat case Secretary Bergland discussed in Senate testimony required consideration of competitive world prices as the principal factor in setting market support or loan levels. Setting price support levels for other commodities may require consideration of other criteria including adequate supplies, returns to farmers, inflation, prices of other products, etc.)

The Senate used estimates of the national average COP directly to determine the target price for 1977 crops. S. 275 (the 1977 farm bill) set the target price for 1977 corn at $2.28, which was the average COP, based on the lower of two land cost estimates (see the tabulation adapted from the Report on S. 275). Loan levels in the 1977 Senate bill were to be set at 85 percent of COP. The Senate bill did not prescribe a formula to adjust COP from year to year.

PRODUCTION COST: CORN, 1977

Cost factors	Cost per acre	Cost per bushel
Variable	$89.25	$1.05
Machinery ownership	25.83	.30
Farm overhead	9.44	.11
Management	12.98	.15
Total of 4 factors	137.50	1.61
Composite acquisition land value	57.74	.67
Total	195.24	2.28

The House of Representatives Committee on Agriculture, in an effort to write a farm bill that could get Administration support and pass the House, set target prices for 1977 and 1978 crops below production costs as published by USDA. The House report specified, however, that in setting target prices for later years (1979–81), "the cost of production used in making adjustments shall be determined by the Secretary based on variable costs, machinery ownership costs, and general farm overhead costs . . ."

No consideration was to be given to increases in land costs in establishing future target price levels.

The 1977 Act as finally adopted followed the House more than the Senate. It set target prices for 1977 crops somewhat below USDA production cost estimates. Loan rates (market support levels) were lower than target prices, except for corn.

1977–78 COSTS AND SUPPORT LEVELS

	1977 COP initial estimate [1]	1977–78 target prices	1977–78 loan rates (market support)
Corn (bushel)	$2.19	$2.00	$2.00
Wheat (bushel)	3.12	2.90	2.25
Cotton (pound)	.54	.478	.449

[1] Base on average acquisition value of land. USDA subsequently made small revisions of these estimates. Congress also used some slightly revised estimates in its reports.

The final formula for adjusting target prices in later years followed the House version cited earlier, and excluded land costs. That remains the law today for grains and cotton.

CRITERIA FOR SETTING MARKET PRICE OBJECTIVES AND TARGET PRICES FOR SUGAR

Market price objectives for sugar should be established with little or no reference to COP estimates:

(*a*) COP is not an appropriate criterion for establishing market price support levels in any case, as demonstrated in 1977 for major field crops. COP is a useful guide to setting "target prices", to be achieved by a combination of market returns and payments.

(*b*) Rigorous estimates are not available, and there is not time to do the needed studies in 1979.

The factors that merit serious consideration in setting a market price objective for 1979–80 crop sugar are inflation, producer incomes, adequate supplies from domestic sources, and relative stability of imports. All these factors are significant, but it would appear that holding the line on domestic inflation is most important. Any increase over the 1978–79 market price objective of 15 cents per pound will increase U.S. food prices in late 1979 and 1980.

Target prices for 1979–80 crop sugar must also be set somewhat arbitrarily, for reasons cited above. Cost of production is directly relevant, however, to target prices, which represent the overall return to cover producer outlays. COP studies done in 1979 can be useful in setting target prices for 1980 crop sugar.

Producer incomes will generally be adequate to bring forth a regular supply of sugar, and to maintain a healthy domestic industry if target price guarantees cover variable, machinery, overhead, and management costs, plus a partial return to cover land costs. Sugar prices are highly variable over the years, and growers anticipate receiving market prices well above support levels periodically.

COST OF PRODUCTION FOR SUGAR: 1979–80

The average cost of production of raw sugar in the U.S. estimated in the same way as for grains and cotton, is about 15.0–15.1 cents per pound for the 1979–80 crop.

This estimate is derived directly from USDA estimates which are being used in connection with policy decisions for 1979–80 sugar, and which are summarized in the accompanying table. It includes variable costs, machinery ownership, farm overhead and management costs, and an allocation for land based on acquisition value instead of current value, as used by USDA.

The 15 cents per pound total production cost estimate is directly analagous to production cost estimates made for grains and cotton, and used in setting target prices for those crops.

These USDA studies are not definitive, as explained earlier in this report. They are, however, the best available, and they are being used in connection with policy decisions for 1979–80. They raise serious questions about the need for 1979–80 target prices for sugar significantly above the 1978–79 market support level of 15 cents per pound. If Congress were to follow the cautious approach applied to grains and cotton in 1977, it would set the 1979 target price slightly below 15 cents per pound, and the market support level as low as 14 cents per pound.

As shown in the tabulation on p. 9, consideration of current land values, at approximately the Federal Land Bank rate of interest, gives an average cost of 16.2 cents per pound for 1979–80. The interest rate used was about 7.7 percent, a figure consistent with earlier cost of production studies of corn, wheat, and cotton. However, examination of current regional interest rates suggests that the Federal Land Bank rate is now somewhat higher.

USDA has properly objected to the use of current land values in connection with using COP as a guide to price support levels for other crops (See Annex for discussion of a "land price spiral", arising from use of current land values in estimating land costs). There are no valid reasons to use current land values for sugar, and not for other crops. Total Cost (1) in the tabulation (p. 9) has no validity as a guide for use in setting sugar target prices for 1979–80 if procedures used for other crops are applied.

Total Cost (2), also from USDA studies, was derived using the same land values as for (1), but a low interest rate.

Total Cost (3) represents an approach to average total cost of production for sugar, comparable to average costs that have been used as a guide in setting target prices for grains and cotton. In published USDA reports setting out detailed COP estimates for 10 major crops in 1976–78 crops, land costs based on average acquisition value have been roughly 60 percent as high as land costs based on current land values. Total Cost (3) was derived from Total Cost (1) by deleting 40 percent of the land costs included in the latter. It is coincidental that (3) and (2) are about equal.

COST OF RAW SUGAR PRODUCTION PROJECTED FOR 1979-80 CROP

[Cents per pound, raw value]

Using current value of land	Other production costs	Land cost current value (7.7 percent interest)	Total cost	Land cost current value (3.7 percent interest)	Total cost
Beet sugar	12.30	3.85	16.15	2.45	14.75
Cane sugar	14.70	1.55	16.25	.74	15.44
U.S. average	13.36	2.83	16.19	1.69	15.05

Using average acquisition value of land	Other production costs	Land cost estimate acquistion value (7.7 percent interest)	Total cost
Beet sugar	12.30	2.31	14.61
Cane sugar	14.70	.93	15.63
U.S. average	13.36	1.70	15.09

SUMMARY OF PREVIOUS COP STUDIES FOR SUGAR

The estimates above for 1979-80 are based on a September 1978 USDA study of cost of production of sugar beets and sugarcane. Data for the study are from a survey of sugar beet producers made in 1976 and studies of major sugarcane areas conducted between 1969 and 1971. In both cases, allowances were made for changes in costs by 1978-79, but not for changes in technology.

For sugar beets, production weighted values were established under various yield conditions for eight producing areas. On a cost per ton basis, total production costs of sugar beets ranged from $28.75 in a region with low yields in 1976 to $24.02 in a region with high yields in 1976. Using a 5-year average yield of 19.68 tons per acre, the 1978-79 cost of producing a ton of sugar beets averaged about $26.00 nationally. The Intermountain region (Idaho and Utah) was the highest cost area, at $31.67 per ton) and the Eastern region (Michigan and Ohio) was the lowest at $22.62 per ton of sugar beets.

Although most of the information contained in the national survey is current enough to use as the basis for a cost of production study some problems do exist. The most important weakness of the sugar beet study arises from the use of current land values in the land cost allocation, rather than average acquisition costs over a 35 year period, as is done in cost of production analyses for other major agricultural commodities. The acquisition value was not available because the survey questionnaire did not ask for that information. Therefore, a current land value was derived from a weighted average of actual share and cash rents and from owned land values as available in other USDA material. (It appears that USDA was able to estimate acquisition values of land for other COP studies from historical data, and may be able to do so for sugar beets also.)

The absence of any information on sugar beet processing costs further complicates analysis of the study. Processing costs are a major factor in determining costs of production of sugar because the processor and producer share in returns from the sale of refined sugar. The per pound cost of sugar production then depends on yield of beets (a factor in the cost of sugar beet production) and yield of sucrose. In the 1978 USDA study, the overall cost of producing beet sugar, including deductions for by-products such as molasses and pulp, was presented without supporting evidence.

The accompanying table from the USDA report shows an average 1978-79 cost of raw sugar production of 14.65 cents per pound, based on 1975-77 costs and yields and current land values. However, holding other factors constant, adjustment of land values to an average acquisition cash basis (as described above) would reduce that figure to about 13.60 cents per pound.

Note in the tabulation the extreme sensitivity of costs to yield assumptions. The 3- and 5-year average yields, giving the "raw sugar price needed to provide a return equal to growers costs of 14.65 and 14.90 cents per pound, respectively, for 1978-79 (with high land costs) would appear to be most valid, in view of rising per acre yields.

TABLE 6.—ESTIMATED IMPACT OF SUGAR BEET YIELDS ON PRODUCTION COSTS AND THE WEIGHTED COST OF PRODUCING SUGAR, 1978/79 U.S. CROP

[Average production costs]

Yield base	Sugar beets: Average yield (tons)	Sugar beets: Cost per ton of sugar beets [1] (dollars)	Sugar beets: Raw sugar price needed to provide a return equal to growers costs [2] dollars/cwt
10-yr average (1968-77)	19.47	$26.28	$15.06
5-yr average (1973-77)	19.68	26.00	14.90
3-yr average (1975-77)	20.00	25.58	14.65
High year level yield (1972)[3]	21.30	24.02	13.75
Low year level yield (1974)[3]	17.80	28.75	16.49
1971-75 average	19.90	25.71	14.73

[1] Costs were computed by dividing the production weighted 1978/79 sugar beet cost estimate ($511.69) and the producer weighted cost estimate ($533.66) by the appropriate yield value.
[2] Cost per cubic ton.
[3] High or low yield during the 1968-77 period.

For sugarcane, the USDA study estimated costs of production in 1978–79 at 9.59–9.80 cents per pound, raw value, depending on national average yields. After addition of processing costs, raw sugar produced from cane was estimated to cost an average of 14.96–15.20 cents per pound. Costs in Louisiana were about 17.50 cents per pound, substantially higher than in other regions. This raised the U.S. average cost materially.

As in the case of sugar beets, there are some methodological problems with the estimates for sugarcane and cane sugar production. Because the information on which the sugarcane estimates are based dates from 1969–71, the values reported are actually "indexed projections based on accounting data," and must be regarded as only crude estimates rather than the definitive cost of production. Since Texas was not producing sugarcane when the last studies of cane production returns were done, sketchy data, obtained from the Rio Grande Valley Sugar Cooperative, served as the basis for cost projections in that region. (See Annex 2 for details).

In addition, the land value bases are not consistent with those used for other commodities. A share rental rate was used for imputing land charges in Louisiana, while the charge for Hawaii, Florida, and Texas was based on cash rental values. Employing this method and using 5-year average yields, USDA arrived at a cost of producing and processing sugar from cane of 15.20 cents per pound, raw value. However, if the same costs were computed using an acquisition value for land equal to about 60 percent of current values (about the same relationship as that in other major crops) the average net production and processing cost would fall to 14.59 cents per pound for 1978 crop cane sugar.

Molasses, the principal by-product of sugarcane milling, is credited to the growers, unlike sugar beet by-products which accrue to the processor and are not part of contractually divisible returns from refined sugar sales. This makes it necessary to deduct a molasses credit from cane sugar costs of production. Since midsummer, molasses prices have risen about 60 percent (basis, New Orleans). The higher returns on molasses sales are not reflected in USDA's estimates of 1978-crop costs of production. Current estimates suggest that the credit should be about 1.15–1.25 cents per pound of raw sugar, instead of the 0.74 cents per pound used by USDA. This adjustment would reduce the COP of cane sugar by up to 0.50 cents per pound under all the cane cost concepts shown (line 2, p. 9).

HOW TO AVOID A "LAND PRICE SPIRAL"

The legislative history of the 1977 farm act was summarized above. The law requires consideration of other cost increases but explicitly prevents consideration of rising land costs as a factor in increasing target prices from year to year, to avoid "the land price spiral."

A "spiral" exists when the target price (or other support level) is set high enough to cause an increase in farmers' expectations of returns. This increases land prices, and therefore the cost of production, when land cost increases are considered. This, in turn, raises the target price for the next year.

Land prices are boosted again by that action, and the process continues, with land prices and target prices escalating each other in an endless annual cycle.

This is illustrated below for corn in a tabulation taken from a USDA publication (Agricultural Food Policy Review, Jan., 1977). Note that when land costs are rising at 10 percent per year, total cost of production rises from $2.50 to $3.15 per bushel in 5 years (Col. 6).

When land costs in the first year only are considered, cost of production rises $2.50 per bushel to $2.69 in 5 years. Congress has prevented this land price spiral from escalating target prices and land values for grains and cotton. There is nothing to indicate that this rule should be amended for sugar.

TABLE 2.—HYPOTHETICAL AVERAGE COST OF PRODUCING CORN IN THE UNITED STATES, 5 CONSECUTIVE YEARS

[In dollars per bushel]

Year	Other production cost/bushel [1]	Land charge [2]	Total cost	Revised land charge [3]	Revised total cost	Other production costs plus $1
1	1.50	1.00	2.50	1.00	2.50	2.50
2	1.54	1.05	2.59	1.10	2.64	2.54
3	1.59	1.10	2.69	1.21	2.80	2.59
4	1.64	1.16	2.80	1.33	2.97	2.64
5	1.69	1.22	2.91	1.46	3.15	2.69

[1] Includes all costs but a land charge; and it is assumed to increase 3 percent per year. Input prices are assumed to increase at a more rapid rate but yield increases reduce the per bushel cost increase to 3 percent.
[2] A 5-percent annual increase assumed.
[3] A 10-percent annual increase assumed.

FURTHER NOTES ON COST OF PRODUCTION

Use of COP as a direct determinant of price support levels (target price or market support) presents an immediate problem of definition: "Which cost of production is to be used?"

Fortunately for the debate over use of COP as a guide to sugar support levels, the question of definition was answered a few years ago, during the Congressional debate on the Food and Agriculture Act of 1977.

Two main questions had to be settled:

(1) Should regional differences be accounted for, or should national averages be used? The answer is that regional differences could not be accounted for, and that production weighted national average COP provided the most valid guide to COP.

(2) What land costs should be allowed? Congress used national average COP, including land costs based on average acquisition value (rather than current value) and current Federal Land Bank interest rates as a guide in setting target price levels. As described in the foregoing report, increases in land costs are not used in adjusting target prices from year to year.

These precedents are directly applicable to the sugar policy debate.

USDA's September 1978 study of cost of production of beets and cane sugar presents several analytical problems which make accurate cost projections extremely difficult. For example, in the sugar beet cost study, the regional differences in estimates of two components of variable costs, "custom operations" and "miscellaneous expenses," are extremely wide.

The high estimates for custom operations in Region 8 (California and Arizona) can be accounted for by large expenditures for equipment rentals at planting and harvest time which are common in that area but less so in other regions.

However, the wide range in miscellaneous expenses ("including crop insurance, rental expenses, and trace elements") between Region 8 and Region 4 (Southern Plains) cannot be so easily explained. A preliminary breakdown of these costs done by USDA for the two areas provides little additional information (note differences in attached USDA table).

[In dollars per acre]

	Region 4	Region 8
Miscellaneous expenses:		
Rental fees (including hired equipment)	0.005	1.34
Other chemicals and crop insurance	.631	12.53
Total	.636	13.87

Such problems could be resolved by reviewing questionnaires used in the 1976 survey for the 1978 study. But more serious difficulties can be corrected only by conducting new surveys. This would be done under the proposed Sweetener Act, and should require use of procedures directly analagous to those being used for grains and cotton.

The failure to ascertain acquisition costs for land is another factor which limits the usefulness of the 1976 survey. It is not clear that USDA established acquisition values by survey for other crops, or by other means. Another more nagging problem stems from estimating 1978–79 and 1979–80 costs by indexing sugarcane producers' costs from a 1969–71 input mix which may be seriously out of date. Changes to lower cost inputs in recent years could not be reflected in the indexes used to update the old survey data. Therefore, 1979–80 production costs may be substantially overstated.

SUGARBEETS: PROJECTED 1978/79 CROP PRODUCTION COSTS PER HARVESTED ACRE AND PER TON, BY COST ITEM, SPECIFIED STUDY AREAS *

Cost item	Regions								
	1	2	3	4	5	6	7	8	All
COST PER ACRE									
Variable	229.05	204.29	301.69	332.22	288.26	337.51	377.30	485.74	318.95
Seed	6.94	14.82	14.47	15.71	13.51	16.73	18.52	9.27	13.32
Fertilizer	68.43	29.43	41.11	38.59	53.80	67.34	83.26	42.57	47.54
Lime	.59	.03	0	0	0	0	.98	2.97	.80
Chemicals,[1]	19.88	21.70	23.98	37.48	22.02	28.19	38.40	39.14	28.37
Custom operations[2]	27.91	7.38	13.50	37.51	5.77	16.58	20.60	126.59	38.92
All labor	69.97	82.91	128.64	129.20	128.62	136.74	146.42	176.47	123.69
Fuel and lubrication	11.85	13.88	38.82	24.03	22.85	34.30	26.01	35.66	25.78
Repairs	12.28	14.99	27.52	35.57	20.13	19.94	21.83	20.05	19.79
Miscellaneous expense[3]	1.86	10.56	1.61	.64	9.88	4.14	5.95	13.87	7.87
Interest	9.34	8.59	12.04	13.49	11.68	13.55	15.33	19.15	12.87
Machinery ownership cost	35.65	43.76	52.58	65.57	52.47	53.67	57.69	27.79	44.29
Replacement	23.18	28.19	34.00	41.20	34.71	34.48	37.28	17.99	28.62
Interest	12.47	15.57	18.58	24.37	17.76	19.19	20.41	9.80	15.67
General farm overhead	8.57	13.65	8.66	8.93	12.67	9.89	13.44	9.38	11.02
Taxes and insurance[4]	12.99	6.70	6.68	5.54	11.20	7.48	10.71	18.59	10.55
Management	30.45	24.75	34.69	34.78	40.95	32.01	38.93	46.81	34.86
Total, excluding land[5]	316.71	293.15	404.30	447.04	405.55	440.56	498.07	588.31	419.67
Land allocation: Current value[6]	88.27	57.65	92.00	76.72	65.83	97.91	127.01	128.52	92.02
Total production costs	404.98	350.80	496.30	523.76	471.38	538.47	625.08	716.83	511.69
COST PER TON									
Variable	12.80	14.19	16.31	18.88	15.17	19.85	15.03	18.54	16.20
Machinery ownership	1.99	3.04	2.84	3.72	2.76	3.16	2.30	1.06	2.25
Farm overhead	.48	.95	.47	.51	.67	.58	.54	.35	.56
Taxes and insurance[4]	.72	.46	.36	.31	.59	.44	.42	.71	.54
Management	1.70	1.72	1.80	1.98	2.16	1.88	1.55	1.79	1.77
Total, excluding land[5]	17.69	20.36	21.86	25.40	21.35	25.91	19.84	22.45	21.32
Land allocation: Current value[6]	4.93	4.00	4.97	4.36	3.46	5.76	5.06	4.91	4.68
Total production costs	22.62	24.36	26.83	29.76	24.81	31.67	24.90	27.36	26.00
Yield per acre (ton)[8]	17.9	14.4	18.5	17.6	19.0	17.0	25.1	26.2	19.68

* Average production costs represent the total cost of producing the entire U.S. or regional sugarbeet crop divided by the total production.

[1] Includes herbicides, insecticides, fungicides, and rodenticide materials not included under costom operations.

[2] Includes custom application of crop chemicals, fertilizer, and lime along with custom planting, cultivating, irrigation, harvesting and hauling.

[3] Includes crop insurance, rental expenses, and trace elements.

[4] Includes real estate and property taxes along with general farm insurance.

[5] Real estate taxes, a land expense, are included above as they could not be separated from property tax.

[6] Based on prevailing tenure arrangements in 1976/77 reflecting actual combination of cash rents, net share rent, and owner and operator land allocations. Cropland values for 1978 are used with owned land.

[7] Costs per ton represent the costs per acre divided by the yield per acre.

[8] Yield per acre is the 5 year average (1973-77) yield for each region.

Mr. POTVIN. Thank you, Mr. Chairman.

I would also like to note that the U.S. Sugar Report for the 3 months ended January 31, 1979 as compared to the same period 1 year ago shows an increase of roughly—well, it jumped from $962,000 to $2,542,000 which does seem significant. That is now in addition to Gulf and Western.

As Mr. Schnichter's report also notes, if you treated other crops the same as the House bill which is cheaper than the Senate bill, if you treated other farmers the same, it would cost an extra $3.6 billion a year in direct costs. That would be subject to the usual multiplier of almost doubling it, of course.

There is no reason to suppose that other farmers are going to stand by and let you give more to a group of 13,000 or 14,000 farmers who are already receiving $1⅓ billion per year.

Despite what a number of witnesses have said, I think that it is quite clear that a mandatory quota is antithetical to, contradictory of, and just usually injurious to the International Sugar Agreement. The Trade Act of 1974 provides trade assistance, as was noted by Senator Church, for those hurt by free trade. We think that in the American tradition of what is sauce for the goose is sauce for the gander, that there should be similar treatment for those hurt by protectionism. There have been a number of firms that have gone out of the sugar refinery business in the recent past. If this sort of legislation is enacted, I think this committee should be squarely put on notice that there will be more. They cannot all survive.

I would hope too, Mr. Chairman, that you would try to get USDA to clean up its act on loans. Setting the Florida loan at 14.98, in conjunction with a price objective of 15 cents, is an act of certifiable insanity, in my opinion. I must say that by the time you get done tabulating the freight, the polarization correction, the south of Hatteras discount and the interest, you would have to come up with an additional $1.17 to get out a loan. $1.17 a hundredweight, of course. If they go on this sort of a loan structure again, there just simply is no hope.

I think, too, that it should be noted that Louisiana and Hawaii, according to the February sugar report, had acreage increases in sugar respectively of 17 percent and 19 percent.

Senator MATSUNAGA. Thank you very much. We certainly appreciate your presentation, although it may be in opposition to the bill.

[The prepared statement of Mr. Potvin follows:]

STATEMENT OF GREGG R. POTVIN ON BEHALF OF THE UNITED STATES CANE SUGAR REFINERS' ASSOCIATION

Mr. Chairman, my name is Gregg R. Potvin. I am president of the United States Cane Sugar Refiners' Association. Our association represents the small, independent cane sugar refiners. The two largest cane sugar refiners, one a cane sugar grower-owned cooperative, the other—a conglomerate engaged in both sugar beet processing and the production of high fructose corn syrup, are not members of our association.

Our members, a list of whom is attached, operate refineries in nine states—Florida, Georgia, Illinois, Louisiana, Massachusetts, Missouri, New York, Pennsylvania, and Texas. They also operate a number of facilities in other states.

They receive, refine, and distribute sugar throughout the year—they are not restricted to any seasonal production patterns. And they buy raw sugar from both domestic and foreign sugar producers.

Mr. Chairman, I appear here today in opposition to S. 463.

If adopted, this bill would have a disastrous impact upon the cane sugar refining industry, and supporting industry and labor, such as truckers, suppliers, dock workers and employees at the refineries. Additionally, it will add between 800 million and $1.1 billion a year to consumer burdens in addition to the $2½-3 billion additional annual consumer cost created by the current sugar program. The total annual additional cost imposed upon consumers will approach $4 billion the first year and correspondingly more thereafter. The total for the life of the bill will be on the order of the national debt of a medium-sized nation.

In the last decade, annual per capita consumption of corn sweetners—corn syrup, dextrose, and high fructose corn syrup—has skyrocketed from 17.7 to 338 pounds—an increase of 16.1 pounds or 91 percent

During the same period, per capita consumption of sugar dropped from 101 to 92.7 pounds, a drop of 8.3 pounds, or 8.2 percent

Mr. Chairman, if adopted, the high rates mandated by S. 463 will greatly accelerate this trend.

Per capita consumption of corn sweetners will continue to climb, and that of sugar will continue to fall.

Corn witnesses testified before the House committee on agriculture that their cost of production is between 13¢ and 14¢ per pound—other estimates are even lower. If high fructose corn syrup is actually being sold today for as little as 11¢ per pound, S. 463 would result in a cost of refined sugar of over 20¢ a pound—how can we survive?

To date, the rate of decline in per capita sugar consumption has been greater for imported sugar than for domestically-produced sugar. As a result, imported sugar accounts for no more than around 30 percent of the nation's sweetner needs. Domestically-produced sweetners, both sugar and corn, account for around 70 percent of our needs. Our sweetner self-sufficiency has increased 16 percent over the last decade.

Given these ratios, and the inevitability of corn sweetner expansion, it is absurd to suggest that this bill is needed to insure that American consumers will not be at the mercy of foreign producers, a la OPEC.

The USDA intentions to plant report indicated that sugar beet acreage would be down 11 percent this year. This overstated the amonut of loss production since in some of the high-yield states, such as California, acreage increased. B. W. Dyer & Company, a highly respected sugar broker, conducted a survey of sugar processors that attributed the decline in acreage to the announced closing of the U & I Sugar Company. Dyer said "The decline in acreage is because of U & I's decision to sell its sugar operations, otherwise acreage would have increased 0.82 percent".

In the last few days the announcement had been made that plants in the state of Washington will not be closed but will be operated by a farm cooperative. More recently Amalgamated Sugar has announced it is negotiating the purchase of these plants from the Grower Cooperative. Truly, a testimonial to their optimistic view of the marketplace. The production from 70 percent of the acreage going through U & I plants was handled by these two Washington state processing plants. The statement has also been made that much of the acreage heretofore processed by U & I in other states will be processed by Amalgamated. Thus, it may well be that beet acreage will hold steady this year. Sugarcane production is expected to "be slightly above last year", according to Howard Hjort, USDA's Director of Economics.

In the recent past, a number of companies have gone out of the cane sugar refining business. Some refiners have closed, others have been reopened on a greatly reduced operating basis. No new refineries have been built. Refiners' profits are grossly inadequate at this time. They desperately need additional income—they simply cannot sustain the additional burden sought by this legislation.

Thousands of jobs have been lost; if S. 463 is enacted many more will disappear.

The problems of the cane sugar refining industry are not attributed to economic reality, but to the inequity of government regulation.

As a result of government impediments, sugar imports today are smaller, both in tonnage and as a percent of the total market, than they have been in recent years. Raw sugar tariffs and import fees have increased 886 percent in a little over two years.

Mr. Chairman, at the present time, there are four cane sugar refiners operating in the northeast. These companies provide virtually all of the sugar consumed

in this 12 state region, which is almost wholly dependent upon imported sugar.

If S. 463 is adopted, there is at least a distinct possibility that several of these companies will go under.

If they do, one company, the largest sugar company in the nation, one that is not only a refiner, but a beet sugar and corn sweetner processor, might well have the market to itself. This would clearly constitute an unacceptable level of concentration.

Thus, one of the net effects of S. 463 will be to lessen competition by government decree.

Our refiners in other regions of the nation will also suffer. Because of the allowance for marketing expenses (as part of the cost of production of sugar beets) to beet processors, we face unfairly subsidized competition.

The committee is, of course, well aware that title II of the Trade Act of 1974 provides "adjustment assistance" for those workers, firms and communities that are impacted by imports. Some domestic sugar industry workers have already received this assistance and all of the others are eligible for it.

We believe that it is necessary to extend "adjustment assistance" to our industry, and perhaps other industries, that are threatened not by imports, but rather by protectionist measures, such as S. 463.

If the committee is going to adopt S. 463, we believe that it is only fair and equitable that it also amend the Trade Act to extend "adjustment assistance" to our firms, to our workers, and to our communities.

Ironically, domestic cane sugar producers depend upon the cane sugar refiners more than foreign producers. Domestic producers need the refiners as an outlet for their sugar.

If domestic producers are to prosper, a viable cane sugar refining industry must be maintained.

There's no logic in setting price supports at so high a level to protect high-cost producers when most producers can prosper at much lower levels.

Whatever short term gains the efficient sugar producers might receive in higher and even windfall profits would soon be lost as the corn sweetener processors gobble up more of the market, and the cane sugar refining industry collapses. Pegging a support price at levels designed for the highest cost producers is a blueprint for disaster.

Whatever differences cane sugar refiners and producers and processors may have from time to time, let's face it—we need one another.

What happens to the domestic producer when the refiner goes under? Where will he sell his sugar? The costs of constructing a cane sugar refinery today are prohibitive. Chances are overwhelming that no new refineries are going to be built.

As this point I shall address some of the specifics of S. 463.

The market price objective for the 1978 crop; namely, 17 cents a pound, is far too high. There is absolutely no economic justification for it.

The support level was 13.5 cents for the 1977 crop and 14.73 cents for the 1978 crop. The 17 cent level would apparently be imposed upon the 1978 crop retroactively. Thus, from one crop year to the next, the support would go from 13.5 to 17 cents—an increase of 3.5 cents a pound or 26 percent. If one computes the increase from just prior to the passage of the De La Garza Amendment in mid-1977, the increase is nearly 70 percent.

To the above must be added the proceeds from by-product income. The support levels provided by S. 463 do not reflect the dramatic increase in the price of molasses. Molasses prices have doubled in the past year, and are expected to go much higher. It has been computed that the range of farmers' increased income from this source is from .75 to 1.50 cents per pound of raw sugar. Thus, with molasses prices going up, S. 463, rather than providing a 17 cent price, in actuality could provide for a much higher price. With the added one-half cent payment, this could constitute a level of at least 17.75 cents per pound.

A mandatory quota is inexcusable. This is simply a method to create an artificial shortage and drive up the price even further. Since the legislation would remove the current 50% ad valorem limitation on import fees, the imposition of a quota would never be needed for purely economic reasons. The use of a quota would be a political, not an economic, judgment. To make its use mandatory would be an utter absurdity.

Further, this sort of quota device is antithetical to, and contradictory of, the goals and objectives of the international sugar agreement which it purports to implement.

It has been advocated that the No. 12 spot price be used to determine the daily price. The recent consent decree providing for the resumption of the issuance of daily No. 11 and No. 12 spot prices by the N.Y. Coffee and Sugar Exchange has not yet become effective. Indeed, it is not clear whether the differences between the Department of Justice and the Commodity Futures Trading Commission have been fully resolved. Nor is it clear that the No. 12 market will be viable in the future.

Both the public and the industry need the sugar exchange. Accordingly, it seems shockingly irresponsible to advocate the use of the No. 12 as the price determinant for the purposes of the domestic sugar program. It is so thin as to almost invite manipulation. See exhibit I for the relative volumes of the No. 12 and No. 11 markets.[1]

Another problem—almost certainly fatal to a viable futures market—is the thinning down of the price corridor to ±½ cent. This is a grossly insufficient range for the workings of a free market. Deprived of the opportunity to hedge—refiners and industrial users of sugar will have no choice but to institute a "self-insurance" program. This will add another increment of cost which must be passed on to consumers.

The cost of production data available is sketchy at best. USDA has arrived at figures by indexing up costs collected a number of years ago.

A study conducted for us by Schnittker Associates, a highly respected agricultural economic consulting firm, indicates that if sugar is handled as the major crops—wheat, feed grains and cotton—a 1979 crop price of about 15 cents a pound would be appropriate. The report states:

"The average cost of production of raw sugar in the U.S. estimated in the same way as for grains and cotton, is about 15.0–15.1 cents per pound for the 1979–80 crop.

"This estimate is derived directly from USDA estimates which are being used in connection with policy decisions for 1978–80 sugar, and which are summarized in the accompanying table. It includes variable costs, machinery ownership, farm overhead and management costs, and an allocation for land based on acquisition value instead of current value, as used by USDA.

"The 15 cents per pound total production cost estimate is directly analogous to production cost estimates made for grains and cotton, and used in setting target prices for those crops.

"These USDA studies are not definitive, as explained earlier in this report. They are, however, the best available, and they are being used in connection with policy decisions for 1979–80. They raise serious questions about the need for 1979–80 target prices for sugar significantly above the 1978–79 market support level of 15 cents per pound. If Congress were to follow the cautious approach applied to grains and cotton in 1977, it would set the 1979 target price slightly below 15 cents per pound, and the market support level as low as 14 cents per pound."

The cost figures in the Schnittker report are reinforced from the farm. In the January, 1979, issue of the "sugar producer", a sugar beet farmer said, "for the Washington beet grower, a price of 15 cents a pound would let established growers make a small profit, but would not encourage any new growers.

"A price of 16 or 17 cents a pound might draw in some new growers", he said, "who would have to pay the high cost of financing and current land values."

Again, 15 cents appears to be appropriate.

In addition, we doubt that the committee would want to give more favorable treatment to the sugar producers than to the producers of other crops. But if it adopts S. 463 it will do exactly that.

The Schnittker report states:

"If target prices and market support levels in other major crops (corn, wheat, rice, cotton and other feed grains) bore a similar relationship to production costs, the added cost to government and consumers would probably exceed $3.6 billion.

"Direct government costs in payments to farmers could total about $1.5 billion.

"Additional costs to government would arise if loan activity increased in response to higher loan rates.

"Higher market prices for these commodities could cost consumers over $2.1 billion."

---

[1] See exhibit II.

ADDITIONAL COSTS ASSOCIATED WITH CHANGES IN TARGET PRICES AND MARKET SUPPORT LEVELS (1979 CROP) CONSISTENT WITH CURRENT PROPOSALS FOR SUGAR

[In millions of dollars]

Crop	Government payments	Farmer receipts attributed to higher market prices [1]
Corn	275	200
Wheat	100	690
Rice	22	60
Cotton	1,000	715
Sorghum	130	340
Barley		115
Total	1,527	2,120

[1] Based on average yields and January planting intentions.

We urge the committee to set the 1979 price at 15 cents a pound.

If after the Department of Agriculture conducts its comprehensive cost of production study, it finds that 15 cents a pound is not adequate, the additional amount can be made up in government payments.

In the following years, the producers will be protected because the cost of production will be included.

Consumers are already paying over $1.3 billion in direct costs (6.125 cents import fee/duty per pound times 11 million tons) a year to support the domestic sugar producers. Alfred Kahn, chairman of the council on wage and price stability has stated that each penny increase in the price of sugar results in consumer costs of $400–$500 million. The direct cost is about $220 million. Thus the $1.3 billion of direct cost resulting from the duty and import fee results in a consumer burden of around double that amount. It's not equitable to burden them and the cane sugar refining industry further if the costs of production do not justify it. If they do, producers will be protected by the government payment.

We respectfully urge the committee not to price sugar out of the sweetener market on the basis of unfounded cost of production estimates.

This is your first chance during this Congress to cope with food inflation. You're already doing more for sugar farmers than any group in agriculture—they have made no showing that their cost of production exceeds present support levels. Indeed, available evidence establishes that the present 15 cent level is equal to the average cost of production.

If you can't hold the line here, where will you hold it? If you give way on this issue—you're going to be overrun by food inflation.

In truth gentlemen—this may well be both your first—and your last—chance!!

The cost of the sugar program is becoming astronomical—what this bill proposes is simply beyond all reason. It would rob consumers—deeply injure and possibly destroy refiners—prevent the ISA from ever functioning—give the sugar market to lower-priced competitive sweeteners—and in the long run eliminate many domestic sugar producers. The bill is an absolute abomination—hideously inflationary and profoundly anticonsumer!

Imperial Sugar Co., Sugar Land, Tex.
The National Sugar Refining Co., 666 Third Avenue, New York, N.Y.
North American Sugar Industries, Inc., P.O. Box 1646 Mobile, Ala.
Refined Syrups & Sugars, Inc., 1 Federal Street, Yonkers, N.Y.
Revere Sugar Corp., 120 Wall Street, New York, N.Y.
Savannah Foods & Industries, Inc., P.O. Box 339, Savannah, Ga.
The South Coast Corp., P.O. Box 8036, Houma, La.
Southdown Sugars, Inc., 1820 Canal La Salle Building, New Orleans, La.

Exhibit I

RELATIVE VOLUME NO. 11 AND NO. 12 SUGAR CONTRACTS

Date	No. 11 March	No. 11 Total	No. 12 March	No. 12 Total
Jan. 2	803	1,584	2	2
Jan. 3	2,767	4,998	25	26
Jan. 4	2,095	2,230	25	25
Jan. 5	1,320	2,202	75	75
Jan. 8	846	1,770	395	510
Jan. 9	3,926	6,116	536	773
Jan. 10	2,093	4,075	17	56
Jan. 11	2,391	4,248	0	0
Jan. 12	1,519	3,007	1	4
Jan. 15	1,898	3,094	5	24
Jan. 16	1,497	2,939	69	71
Jan. 17	1,596	3,072	50	95
Jan. 18	1,610	2,951	0	11
Jan. 19	1,173	2,476	0	0
Jan. 22	1,852	3,381	14	15
Jan. 23	1,313	2,812	75	85
Jan. 24	1,943	4,101	10	32
Jan. 25	1,337	2,865	0	158
Jan. 26	1,138	2,331	5	5
Jan. 29	1,148	2,766	51	97
Jan. 30	1,714	4,107	0	0
Jan. 31	1,888	4,926	86	151
Feb. 1	2,538	5,690	44	99
Feb. 2	1,472	3,944	10	15
Feb. 5	2,241	6,294	4	4
Feb. 6	1,272	3,543	9	109
Feb. 7	1,187	3,590	12	12
Feb. 8	2,625	7,648	[1] 167	167
	May	Total	May	Total
Feb. 9	1,561	6,191	6	9
Feb. 12	1,017	4,679	2	6
Feb. 13	1,151	5,701	1	52
Feb. 14	1,631	5,551	51	83
Feb. 15	2,315	8,043	0	10
Feb. 16	1,287	4,353	0	0
Feb. 20	1,211	5,200	0	0
Feb. 21	1,670	7,252	20	20
Feb. 22	1,102	6,758	24	24
Feb. 23	1,549	5,476	4	4
Feb. 26	1,323	6,268	0	100
Feb. 27	1,111	6,296	9	40
Feb. 28	1,084	5,474	3	6

[1] Last trading day for March No. 12 contract.

Exhibit II

The No. 12 spot is defined as the domestic value for imported raw sugar delivered to the U.S. basis the Port of New York. The value includes the cost of sugar at origin, cost of freight to the U.S., costs of marine insurance, unloading, supervision, miscellaneous, other costs, and import duties and fees. The No. 12 value was adopted by domestic producers, beet and cane, as a mechanism to price their sugars.

The No. 11 spot (world) is defined as the price for sugar placed free of cost to buyer on board and stowed the buyers vessel in a Caribbean Sea Port. All costs to move the sugar from the origin to destination are then the responsibility of the buyer.

During most of the years of the previous Sugar Act the No. 11 (world) market acted independently of the artificial premium market in the U.S. (No. 12). The Sugar Act permitted the Secretary of Agriculture to manipulate import quotas to adjust the supply of sugar to the U.S. Therefore adjusting the domestic price (No. 12) to reflect a so-called parity or target price. Since the world market (No. 11) was in effect a dumping ground for raw sugar not eligible for entry to the U.S., that (the No. 11) market was severely depressed when compared with the domestic price (No. 12). It was, therefore, relatively easy for the Department of Agriculture to maintain a level price in the U.S. Throughout the year in fact rarely changing by more than 3 tenths of one cent per pound per year. Of course, the price in the U.S. was 4 to 6 cents per pound higher than in the world market.

At present the U.S. market is a function of the world market. Price for sugar delivered to the U.S. is now based on the world price plus ocean freight, insurance, unloading, supervision, and exorbitant import duties and fees. We in the U.S. are in the world market. To base a support and fee system on the No. 12 which is lightly traded, and therefore subject to trading excesses despite the actions of regulatory bodies, is to court disaster.

If one of the purposes of legislation is to enable the U.S. to join the world of sugar via the International Sugar Agreement, would it not be better to include the use of the No. 11 spot which is a world price, widely traded, and not subject to manipulation.

Senator MATSUNAGA. Our next witnesses making up a panel are: Mr. David C. Carter, president, U.S. Beet Sugar Association; Mr. Malcolm Young, executive manager, California Beet Growers Association, Ltd.; Mr. Bill Davis, Mountain States Beet Growers Association; Mr. William M. Turrentine, beetgrower and director, Colo-Kan Sugar Cooperative.

Mr. CARTER. Senator Matsunaga, I am Dave Carter. Mr. Davis is appearing here as a substitute for Dick Blake. Mr. Blake is over at the House Ag markup right at the moment. Mr. Davis will fill in very well for him.

Mr. Davis is from Kansas and Senator Dole recognized him immediately.

Shall I start?

Senator MATSUNAGA. Please.

STATEMENT OF DAVID C. CARTER, PRESIDENT, U.S. BEET SUGAR ASSOCIATION

Mr. CARTER. My name is Dave Carter. As President of the U.S. Beet Sugar Association, I represent processors who produce and market 25 percent of all sugar consumed in the country each year. America's sugarcane processors and growers operate as a partnership, joined by a contract which provides for a sharing of the net proceeds derived from marketing the sugar that the farmers grow, and we process. This interdependence goes beyond our contract.

Sugar beets are worthless without nearby processing plants. Similarly, the processing facilities can operate only if there are sugar beets.

In 1970, there were 59 of these sugar processing plants. By January 1, 1979, that number had shrunk to 49, reflecting the financial crunch that has plagued the domestic sugar industry this decade. Five more beet processing plants will be shut down this year and if something is not done, additional plants will close in the near future.

Time does not allow a discussion of every essential aspect of sugar regulation responsive to the needs of the beet sugar processors and growers. I wish to point out, however, and somewhat in opposition to the previous witness, that total reliance on simple import duties and fees on imported sugar is not an effective tool to achieve a price objective. There is compelling evidence to support this view.

After Congress adjourned, sine die, October 15, without passing the sugar legislation, the administration announced within a week that it would utilize special fees to achieve a 15-cent price objective during the first quarter of 1979. Since the New York Coffee and Sugar Exchange has been enjoined from publishing a daily spot price of sugar in this country, world spot price, calculated by the ISO and adjusted

for Caribbean imports plus freight insurance plus related costs was to be used. Subtracting these costs plus the current duty of 2.81 cents and the new fee of 3.5 from 15 cents means that a world price of 7.94 cents is necessary to achieve the U.S. price objective.

The Presidential proclamation provides further that the special fee will be adjusted for the next quarter based on the average of the world prices during the preceding 20 market days. I have attached to my statement a compilation of the applicable world market prices for sugar reported by the International Sugar Organization in London for the trading dates of January 1, 1979.

I would point out to the committee that the price floundered well below the amount that is 7.94, necessary to achieve 15 cents in New York through January up until February 8. The 20 days on which fees for the second calendar quarter will be determined started February 20 and ended just this past Monday, March 19. During that time, the reported world price averaged 0.6 cents above the 7.94.

Unless something is done, the import fee of 3.35 cents will be reduced by 0.60 cents for the quarter starting April 1. While the paper value of the sugar landed in New York may have achieved the 15-cent target price during this brief period, precious little sugar was actually traded at or above that price.

World sugar manipulators have reported relatively small transactions at higher prices in order to artificially drive the price upward. The U.S. import fee will have to be reduced in accordance with the President's proclamation unless something is done.

This chart is substantiated by the Commodity News Service story March 7, that states, and I quote: "Domestic cash market business remains quiet as major refiners are content for an expected sharp reduction in the U.S. import fee come April 1."

In the second paragraph, the CNS reporter reports an unnamed source as saying, "I have no hesitation in telling you that every refiner has a whole bunch of boats just outside the harbor waiting for April 1." That is a direct source.

Other trade sources maintain that substantial amounts of sugar are being imported and placed under bond pending the fee reduction. The value of going through this exercise is clear. A 0.6 cent reduction in the import fee for a 20,000 long ton cargo of raw sugar announced to a savings to the purchaser of $250,000.

We urge the members of this committee to call this travesty to the attention of the President and urge him to amend his proclamation. It is precisely this kind of underhanded skuldugery that makes us dependent on the world sugar market, a dangerous and uncertainty over American consumers.

Mr. Chairman, I ask that my full statement appear in the record and the other points I covered. I believe that is the major point.

Senator MATSUNAGA. Without objection, it is so ordered.

Who will speak next?

STATEMENT OF MALCOLM YOUNG, EXECUTIVE MANAGER, CALIFORNIA SUGAR BEET GROWERS ASSOCIATION, LTD.

Mr. YOUNG. I am Malcolm Young, California Sugar Beet Growers Association. We have submitted our statement for the record; I will excerpt from it as briefly as possible.

Our Association represents some 2,400 sugar beet growers in the State of California. California is in its 110th year of beet sugar production. Our production has ranged from 25 percent to 30 percent of all beet sugar produced in the United States. This represents from 7 to 10 percent of the Nation's sugar consumption.

I might add that, at times, I think we have challenged Hawaii for first place. We were the leading State before you became one, sir.

Beet production has been the cornerstone of many of our farming operations in the State and may be forced out of the business unless your committee approves legislation which will protect us from burdensome world surpluses and unfair foreign competition. Ruinous prices during the past 3 years has resulted in erosion of our sugar beet acreage by some 30.5 percent.

We have studied S. 463 and compliment Senator Church, Senator Long and its cosponsors for a sugar bill that incorporates the essentials necessary to maintain a viable domestic industry and provide stable prices for consumers.

The bill which you have under consideration has our support. Its purposes are twofold. It includes the legislation necessary to implement the International Sugar Agreement and, at the same time, provides for a domestic sugar program for sugar beets and sugarcane.

We urge this committee to round out the provisions of this bill in a manner that will bring it into reasonable conformity with similar legislation being developed in the House and leading to its quick acceptance by the Congress and approval by the President.

Under present conditions, California growers need prices in the range of $28 to $31 per ton for their 1978 and 1979 crop, if our industry is to survive. The bill before this committee can accomplish this, and can also provide price protection for future inflation through its adjustments of the price objective.

I have pointed out some facts in my statement about the impact of a reduction in acreage from the California scene. For one thing, a 30.5 percent reduction in acreage. By that fact alone, reduce the length of factory operations and opportunity for employment in factories by 30.5 percent. This has tremendously affected the small, independent truckers in the State who, in 1976, trucked about 9 million tons of beets; this year, about 5.5 million tons.

The local economy in towns where factories are located have been affected. We have the same land diversion problem into other crops that was mentioned earlier by Senator Church. The land that was in beets has gone to cotton, wheat, corn, feed grains, and beans. None of those crops are particularly attractive. Some of those prices, I think, have been affected by the beet acreage that have gone down. Unless prices are stabilized to give growers and processors a fair return, California will not be able to support its remaining factory capacity, which we estimate to be sugar from 280,000 acres of sugar beets. One factory has already closed. This means more closed factories.

One fact that I think has been overlooked in many of the statements and comments about sugar is the fact that the Western United States and Hawaii, the sugar-producing States, produce tremendously much more sugar than is consumed in those areas. This has resulted in intense competition in the marketplace, and when compared with the prices in the Northeast which are dependent on imported foreign sugar, there is a savings to the consumer of some $2 a hundredweight.

For example, the USDA Sugar Report reports that wholesale refined sugar prices in the Northeast for 1979 were $20.87 per hundredweight; the Chicago, west market, $18.66 per hundredweight and in California, $18.89 per hundredweight. Our exhibit includes the figures back through 1970 and bears out this contention.

A phaseout of the domestic sugar industry would eliminate important competitive factors in the Chicago-Pacific coast, and other markets where beet sugar is sold. Further than that, nearly 100 percent of the sugar sold on the Pacific coast market and in California is California beet sugar and Hawaiian cane sugar. Approximately 60 percent of the sugar sold on the Chicago and West market is beet sugar. There are no conveniently located cane refiners that could supply the over 3.5 million tons normally needed by the fruit industry.

The consumers have paid dearly for imported refined sugar coming from coastal facilities, and shipped inland at high freight costs.

Thank you, sir.

Senator MATSUNAGA. Our next witness is William A. Davis, president, American Sugarbeet Growers Association.

STATEMENT OF WILLIAM A. DAVIS, PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. DAVIS. Mr. Chairman, my name is William A. Davis. With my sons and grandsons, I farm sugar beets on a farm near the Colorado—in fact, both sides of the Colorado-Kansas line. I am also representing the Mountain States Beet Growers Association for which I currently serve as president.

Mr. Blake regrets that he could not be here this morning and, with your permission, I would like to present his statement for the record.

Senator MATSUNAGA. Without objection, Mr. Blake's statement will be included in the record in full and we would appreciate your summarizing.

Mr. DAVIS. Also, I would like to present for the record the statement of Mr. Otsuka which he made before the House Agriculture Committee last week.

Senator MATSUNAGA. Without objection, it will be made a part of the record.

Mr. DAVIS. We sincerely appreciate this committee's prompt action in holding these hearings. As you know, we have been involved in a series of meetings with the administration in trying to develop a consensus. It is quite clear that the administration wants sugar legislation. It is also clear that the domestic sugar industry needs legislation if it is to survive.

Since November 5, five sugar beet processing factories have closed, or have been placed up for sale. The four factories for sale constitute the entire sugar operation of a company that has been a pioneer in the industry. Growers in the State of Washington where two of these factories are located tried desperately to save the industry through a purchase. However, they have failed in their effort, as lending agencies are reluctant to loan the necessary funds, considering the great uncertainty which exists in the industry today, especially whether there will be legislation and if so, what type.

There are some issues on which we would like to comment briefly.

The administration of the price objective provisions is, in our opinion, the key to legislation. To date, we have been disappointed with the failure to achieve announced price goals. We do support using a fee system as the primary tool in achieving the price objective, however, we also believe that import restrictions are an essential component in achieving the price and should be available to be used when and if the fee system fails.

With respect to the trade in refined sugar, there can be a serious problem if imported refined sugar is being allowed to come into the United States at lower prices than we in the beet industry must attain. While we prefer a prohibition of white sugar imports, we can support a fee differential if it is high enough to make it price competitive. One small truckload of imported refined sugar can create a serious problem in some of our marketing areas.

Concerning the ratio of domestic production to imports, we would support an administration concept of establishing imports at a proper level with domestic sweetener producers having the right to their historical share plus any growth which might occur. Establishing a specified level for imports would give an assurance to foreign producers of a market which would, we believe, be consistent with the provisions of the ISA as far as a commitment is concerned.

We believe it is essential that cost studies be mandated. As far as the factors which should be included, we believe that land costs at least recognition of a rent component be included in any studies conducted. This is a direct cost to over 60 percent of the sugar beet producers. The cost studies previously conducted by the U.S. Department of Agriculture for sugar beet growers were complete and we believe accurate as far as possible. We suggest the components they used be continued.

If direct payments are to be used in establishing a producer price, the legislation should contain language which would assure producers receiving at least the percentage of the net return for sugar provided in the purchase contracts. While actual division between growers and producers varies by area and by company, growers should be assured of receiving their fair share of any payments that are made.

Finally, Mr. Chairman with respect to the cost to the consumer and the Treasury. You have heard, or will hear, some very high numbers. Our figures show that the difference between the 15.8 price, for example, and the 17-cent price would amount to about 70 cents per consumer annually.

We ask your support in maintaining an industry which has made a great contribution to our country. Once we are out of business, we are out of business, period.

Thank you.

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

We will next hear from Mr. William M. Turrentine.

STATEMENT OF WILLIAM M. TURRENTINE, BEETGROWER AND DIRECTOR, COLO-KAN SUGAR COOPERATIVE

Mr. TURRENTINE. I am William M. Turrentine. I am a farmer engaged in the production of wheat, sugar beets, milo and seed products and I presently serve as secretary-treasurer of the Ark-Valley Beet-

growers Association. I am a director of the Colo-Kan Sugar Cooperative which, at this point, is a deceased industry.

I suppose you could say I am an incarnation of the accelerating demise of the sugar industry in this country and represent a refining industry only as a past entity in that industry.

Our organization sustained overwhelming losses both at the producer and refiner levels for the past 3 years, and the final and fatal climactic decision to close the factory came after we had completed a series of intense, computerized studies of our potential for survival covering the entire spectrum of known facts that we could relate to for the next several years as they pertained both to the industry and our factory.

Certainly a large part of the attitude of the country regarding sugar was molded by a series of totally disastrous cost studies which were produced by the Department of Agriculture and which were being taken as gospel in costs even at a time when the industry was protesting vigorously that these studies were totally inadequate. It is a lamentable fact that the tools have just not been developed for properly assessing the costs of production for any commodity in the refined form which is necessary to fit into the cost targeting concepts which are set forth in the Agricultural Act of 1973 and the succeeding act of 1977.

I have worked very closely with the economists who were responsible for assembling the current sugar cost data, and to say the least, they have been apprehensive of the methodology and the probable results of their study from the beginning. They felt that the system for data collection and certainly the budget generators which were being used to refine the raw data into its final configurations committed the studies to a high potential for error.

These economists were conscientious enough to instruct the Kansas Crop and Livestock reporting service to include my farm in their surveys because they wanted to run direct comparisons of their studies with those which I compile for my own farm. They knew that I maintained an excessively tight cost analysis of my own operation and felt that they could obtain some valuable insight into the accuracy of their studies if we could compare our data after their studies were completed.

The results of our effort developed into a disaster from the standpoint of comparative accuracy. We discovered that there was a 33-percent error in their calculation of production costs and that there was a 37-percent error in their calculations as they related to the gross income which was produced from my 1976 sugar beet crop.

There is no doubt that the Congress of these United States must address itself to the inadequacies of the present system as it relates to the preparation of cost data by the Department of Agriculture or it must abandon the cost targeting concepts which are presently embodied in the current agricultural legislation.

It would appear that the recent testimony presented by Mr. Howard Hjort before the House Agricultural Committee was an appeal to the Congress to give him the tools and the funding necessary to produce a viable set of cost data, and I would certainly encourage that this matter be looked into post haste.

I would like to conclude this testimony by stating that I have attached hereto my cost data for the production of sugar beets for 1976 and 1977 and would have included that for 1978 if it were completed at this time. I can assure you that the 1978 figures are extremely high.

I have also included a copy of the cost study which was done on my farm for the year 1976 by ESCS. I am sure you will be interested in the contrasts between the two studies.

I recently submitted some cost data from our factory to the sugar economists in ESCS and I have included copies of that data with this commentary with the hope that it will shed some light on the plight of the processing industry.

It is my hope that my meager effort has been of some assistance to this committee and I would conclude by saying that I will be at the disposal of the committee for any further information that I can provide.

Senator MATSUNAGA. Thank you very much. I appreciate the panel's taking the interest and time to enlighten the committee.

Senator Dole, do you have any questions?

Senator DOLE. I share the view expressed by the chairman and I am also, of course, pleased to see two Kansans as witnesses. I have read Mr. Turrentine's statement. I wonder, based on the cost of production work that you have performed, what recommendation would you make to us in formulating a price objective escalator, if that is to be based on cost of production?

Mr. TURRENTINE. My first recommendation would be that we get the Department of Agriculture into perspective as far as base cost of production is concerned. The 1973 Agricultural Act that mandated cost studies by the Department of Agriculture gave very sketchy instructions.

I would like to state that the cost structure standards that are used have been totally inadequate. I am surprised that they came up with any figures at all, considering the speed at which they had to develop studies and with the guidelines that they had to work with.

It was certainly a shock to me. I am sure that the economists that I work with in regard to these cost studies, regret the result of this thing, certainly no legislation is going to be of any significant consequence unless we get to the very root of the evil, that is, what is the cost to produce this stuff.

Senator DOLE. I think that is one of the problems. I assume it is not only sugar, but other commodities. Their figure is never higher than the producers, but it is never the same.

Mr. CARTER. May I add to that? In the beet sugar business, we are talking about a product that comes from the farm and goes out to the consumer and the total cost for producing that sugar has to be taken into consideration.

As an example, perhaps not at Colo-Kan, but in Washington, when the growers want to continue to grow beets, but the processor was unable to continue, if his volume drops, then he is wiped out. They may keep the most efficient farmer in business, but if he does not have a processing plant to run it through, they are both out of business.

I think the entire cost of producing a pound of refined beet sugar needs to be a part of the consideration of the cost study.

Senator DOLE. What is the situation in your area, as far as the state of the industry?

Mr. DAVIS. We are on the ragged edge, of course. I would like very much, if I had the opportunity, to submit for the record with your permission and yours, Mr. Chairman, some of the local economic impact the industry has on our area, on the State, and on the Nation. I think I can provide some interesting figures, but I do not have them with me. I did not know I was going to be here this morning.

Senator DOLE. Right. I think that would be helpful.

[The following was subsequently supplied for the record:]

DAVIS IMPLEMENT CO.,
MASSEY-FERGUSON,
Goodland, Kans., March 29, 1979.

Senator SPARK M. MATSUNAGA,
Chairman, Tourism and Sugar,
Senate Committee on Finance,
Washington, D.C.

DEAR MR. CHAIRMAN: I thank you very much for the opportunity of testifying before your committee on March 21, 1979.

At that time Senator Dole asked questions, which with your permission, I agreed to answer in more detail by letter.

This letter briefly calls attention to three points:

(1) The farmer is the victim, not the cause, of inflation.

(2) The diversion of any part of our sugar requirements from Domestic producers to foreign producers is inconsistent with our announced doctrine of Human Rights.

(3) The loss of our domestic beet sugar industry would have a devastating impact on our economy.

(1) Unlike other segments of our economy, the farmer cannot simply add on the increased cost of production to the price of his product. He has no voice in setting the price of his product.

In our business, almost every day of the week, we receive notice of a price increase on something we sell to farmers.

The sugar beet farmer must plant his crop almost two years before he receives settlement for that crop. He must rely upon Congress to protect him (as it now protects other industries) from the ruinous "dumping" of surplus foreign sugar on our market. As you know, Senator, residual surpluses of foreign sugar are now being "dumped" on our market at prices below the cost of production, anywhere on earth.

Inflation deals the farmer a "double whammy" or one-two punch. Prices he must pay for necessary goods and services wildly escalate, at the same time prices he receives for his crops continues to decline. For example we sold a 6-row Beet Harvester in 1974 for $20,000 (in 1973 it was $18,000). That year he could have paid for it in full with the proceeds from 430 tons of average beets. In 1978 this harvester sold for $36,000. However, with the declining price of beets, he must now sell 1380 tons of beets to pay for the harvester. That is a real cost increase of 320 percent!

(2) Foreign Sugars imported into the United States have not been produced by growers subjected to American Minimum wage rates, Fair Labor Standards, Act, Health Insurance, Unemployment Insurance, Workmen's Compensation, Housing standards, Social Security, EPA, OSHA, etc., etc. These regulations, designed to protect American workers and American Consumers, were passed by Congress in it's wisdom to guarantee basic human rights. Our government should not, in my opinion, force increased traffic with foreign plantations who exploit human labor and violate (our) standards on environmental protection. Such trade is inimical to our basic, publicly acknowledged concern for Human Rights. Such unfair competition denies a fundmental basic right to our farmers. That is the right to live; and to produce a needed commodity (at least up to 50 percent of our national requirements) at a reasonable price, and to insure our consumers a dependable source for at least half of the sugar they need.

(3) If the domestic sugar beet industry is forced out of business, the impact on the economy will have far reaching repercussions.

Our small town of 6000 population is perhaps typical of the thousands of villages in rural America which serve our sugar beet farmers. Our small Farm Equipment business is representative of the 500,000 small retail and service establishments which serve sugarbeet farmers.

In 1968 the Great Western Sugar Company built it's newest and most efficient Beet Sugar Factory near Goodland. It reportedly cost about $15,000,000. (Compared to $126,000,000 announced as the price of a new factory to be built in Egypt which our country is financing).

The economic impact of the local factory on our community was unbelievable. It is our largest employer. It is our county's largest taxpayer. All local services were dramatically expanded. Banks, schools, Churches, Libraries, Hospitals, Nursing Homes, Utilities, Police, Firemen; etc. were expanded. If Congress forces our farmers to quit raising beets, the factory will close. Its payroll will cease. It will stop paying taxes. It will no longer need goods and services provided through local merchants. The tax load, now carried by the factory, will revert to the remaining overloaded taxpayers. Countless employees, farmers and farm employees will drift to the Metropolitan areas to join the ranks of the unemployed.

The production of the factory is about 120,000,000 pounds per year. The "turnover" factor for an agr-manufactured product such as sugar is 7. Thus our little town will suffer an economic loss of some $168,000,000.00 annually if our factory is forced to close. Multiply that by the number of Sugar factories in the country and you come up with a figure that will cause a panic. Add in the factor of the value of sugar as a source of alcohol for fuel. With our dwindling petroleum reserves and our increasing energy requirements, that number becomes priceless.

Consider just one economic factor. The cost of harvesting and hauling beets. Beets is a bulky crop weighing about 20 tons per acres as compared to .9 tons for wheat. If one truck is needed to haul from a given acreage of wheat, 22 trucks will be needed to haul beets from the same acreage. So you see it requires 22 times as many trucks, 22 times as many tires, repairs, tractors, harvesters, drivers, taxes, services; etc. as would be required for the same acreage if we are forced to stop growing beets and substitute wheat. The repercussions would be felt in Detroit, Cleveland, Moline, et al.

The ramifications of the beet sugar industry, those who serve it, and those whom it serves are great and far reaching.

A National Sugar Policy should first of all assure consumers of a dependable supply of sugar at a reasonable cost. The history of sugar in our own country speaks eloquently to the necessity for orderly management of sugar.

Thank you very much, Senator Matsunaga, for allowing the introduction of this letter from a small business man to be placed on the record of your committee hearings.

Respectfully yours,

WILLIAM A. DAVIS.

Senator DOLE. I know firsthand that we are on the ragged edge in the States of Kansas, Colorado and, I assume now—I am not certain how bad it is in Washington, but Mr. Davis said that you have had your problems, too, and I am certain there are other areas. That is why some of us feel it is incumbent upon us from the best-producing States to at least be heard on this matter and to have some input.

I do not know how they arrive at a figure, but the cost of production is a very difficult thing to calculate. If we are going to base legislation on one figure, then we have to be very careful how we arrive at it. As I understand the administration's bill, even with the direct payment, it amounts to less than the cost of production.

I know of the problems they have; I know of the budget constraints, but it should not apply in this program. Growers should make some profit in this program.

Thank you.

Senator MATSUNAGA. Thank you very much, all of you. I certainly appreciate your enlightening this committee with your statements.

[The prepared statements of the preceding panel follow:]

STATEMENT OF DAVID C. CARTER, PRESIDENT, U.S. BEET SUGAR ASSOCIATION

Mr. Chairman: My name is David C. Carter. My colleagues on this panel will, I'm sure, ably present the financial difficulties and economic uncertainties that burden the sugarbeet growers they represent throughout the nation.

As President of the U.S. Beet Sugar Association, I represent the processors who produce and market some 80 percent of all the beet sugar and more than 25 percent of all sugar consumed in this country each year. As you know, America's sugarbeet processors and growers operate as a partnership, historically joined by a participating contract which provides that we share in the net proceeds derived from the sugar the farmers grow and that we process and sell. This interdependence goes beyond our contract. Sugarbeets are worthless without nearby processing plants. Similarly, the processing facilities can operate only if there are sugarbeets.

In 1970, there were 59 beet sugar processing plants in the United States. By January 1, 1979, that number had shrunk to 49 reflecting the financial crunch that has plagued the domestic sugar industry this decade. Indications are that five more plants will be shut down this year. If something is not done to turn this situation around, even more will probably close down forever in the near future. The President of U and I Incorporated made a similar prediction in testimony presented to the House Ways and Means Committee less than a year ago. He is not here today because his company found it economically necessary to quit the sugar business and its four beet sugar processing plants in Idaho, Utah and Washington are up for sale.

It is no exaggeration to say that the future of the entire industry rests with approval of a responsible sugar program early in this Session of Congress.

Time will not allow me to discuss every aspect essential to making new sugar legislation responsive to the needs of the processors and our grower-partners. I wish to point out, however, that total reliance on simple import duties and fees to achieve a price objective, without a back-up provision for quantitative restrictions on imported foreign sugar is not an effective tool. There is new and compelling evidence to support this view.

After Congress adjourned *sine die* October 15, 1978, without passing new sugar legislation, within a week the Administration announced that it would utilize special fees to achieve a 15¢-per-pound price objective for raw sugar, landed, duty paid in New York. December 28, 1978, a Presidential Proclamation set the special import fee on foreign raw sugar at 3.35¢ per pound, an amount aimed at achieving the 15¢ price objective in New York during the first calendar quarter of 1979. Since the New York Coffee and Sugar Exchange has been legally constrained from computing and publishing a spot price for daily sugar transactions in this country, a world spot price, calculated by the International Sugar Organization and adjusted for Caribbean ports plus attributed freight, insurance and related costs, was to be used. Substracting these costs, estimated by the Administration to be .90¢ per pound, plus the current duty of 2.81¢ and the new fee of 3.35¢ from 15¢, indicates that world prices must be 7.95¢ in order for the price objective to be achieved.

The Proclamation also provides that the special fee will be adjusted for the next and subsequent quarters based on the average of the world price during the "first 20 consecutive market days preceding the 20th day of the month preceding the calendar quarter during which the fee shall be applicable."

Attached is a listing of the applicable world market prices for sugar reported by the International Sugar Organization in London for the trading days since January 1, 1979. Note that the price floundered well below the amount (7.94¢) necessary to achieve the 15¢ New York price objective through January and up until February 8. The twenty days on which fees for the second calendar quarter will be determined started February 20 and ended Monday, March 19. During that time, the reported world price averaged 60¢ above 7.94¢ and, unless something is done very quickly, the import fee of 3.35¢ will be reduced by 60¢ for the quarter starting April 1.

It is our contention that, while the paper value of sugar landed in New York may have achieved the 15¢ target price during this brief period, precious little sugar was actually traded at or above that price. World sugar market manipulators have reported relatively small transactions at higher prices in order to artificially drive the price upward so the U.S. import fee will be reduced in accordance with the President's Proclamation.

This charge is substantiated by the following Commodity News Service wire story of March 7 which states: "Domestic cash market business remains quiet as

major refiners are content to wait for an expected sharp reduction in the U.S. import fee come April 1."

In the second paragraph, the CNS reported quotes an unnamed source as saying: "I have no hestiation in telling you that every refiner has a whole bunch of boats just outside the harbor waiting for April."

Some business was being transacted at the time, according to the article, which noted "good tonnages have been contracted for, with arrivals stretching from May out to October."

Other sources in New York maintain that substantial amounts of sugar are being imported and placed under bond pending the fee reduction. The value of going through this exercise in chicanery is clear: A .60¢ reduction in the import fee for a 20,000 long-ton cargo of raw sugar amounts to a savings of $264,000. That is the kind of windfall profit that will accrue to a handful of speculators. Meanwhile, we have a clear demonstration that the simple use of import fees has not resulted in a domestic price even approaching the 15¢ objective envisioned by the Administration.

We urge the Members of this Committee to call this travesty to the attention of the President and urge him to amend his Proclamation.. He shoulld insist that the International Sugar Organization provide data to indicate the actual amounts of sugar traded in transactions on which daily world spot prices are calculated. This would allow weighted average prices throughout each quarter to be used and would help insure that a relatively few sales over a brief period cannot be manipulated to establish the import fees set by the largest sugar importing nation in the free world.

It is precisely this kind of underhanded skulduggery that makes expanded dependence on the world sugar market a dangerous and uncertain gamble for American consumers.

Perhaps the most serious charge made against the proposed legislation is that it is inflationary and therefore not in the consumer interest. To back up these charges comparisons of the price objective in the legislation and the current world price are used. The differential is then multiplied by per capita sugar consumption and re-multiplied by the U.S. population. This results in a figure in the billions of dollars and this amount is then called the inflationary amount.

I concede that anything that increases the price of anything can in simplistic terms be classified as inflationary. However, no one in the world can produce sugar at the price now called "the world price." The GAO, the FAS and other governmental agencies—while not agreeing exactly on production cost numbers in various foreign sugar-producing areas, still conclude that nowhere can sugar be produced at present world prices. The Secretary of Agriculture is fond of calling the world market a dump ground and he is correct. The worlld market is homeless sugar left over after Cuba supplies the eastern bloc at 30¢ per pound equivalent; after the Australians supply Japan at 23¢ per pound; after the LOME agreement nations sell their export entitlements at something more than 30¢ per pound.

As a matter of fact the exporting and importing countries of the world got together in Geneva in 1977 and decided that the world floor price should be 11¢ beginning January 1, 1978. Having attended those negotiations as an industry observer I can testify to the fact that the exporting nations opened the negotiations at substantially above the 11¢. The U.S., as the largest importer, led the charge to lower that opening bid from the 13–14¢ range to its present level. The U.S. conceded that whenever the world price was below 15¢ (remember this was 1977), exports should be restrained and attempts made to keep sugar in a "free-trade" range of 15–19¢ per pound.

Under the terms of the Old Sugar Act that provided us a reliable supply of sugar at a fair and reasonable cost for 40 years, the price objective today would be 17.09¢. Many have forgotten that when the old Sugar Act was killed, prices went up to 65¢ in a few months. Those record high sugar prices of late 1974 and earily 1975 are still reflected in the grocery shelf costs of many sugar-containing products and that is the basis for our contention that much—if not all—of a modest price increase in sugar today can be absorbed by the processors of these food and beverages and never passed on to consumers.

Some who are willing to sacrifice the domestic sugar industry see the expanded use of corn-based sweeteners as our hedge against becoming victimized on price and supply by foreign sugar producers. The facts are, of course, (1) corn sweeteners cannot replace sugar in many instances; (2) there is insufficient wet-milling capacity to meet sweetener demands now met by domestically produced sugar and (3) finally, the same sugar dumping tactics foreigners are using to drive the

domestic sugar industry to the brink of economic ruin have and will continue to discourage future expansion of corn sweetener production.

In summary, Mr. Chairman, consumers as well as sugar producers have a real stake in prompt Congressional approval of responsible sugar legislation.. I commend this Committee for the dispatch with which this vitally important legislation is being considered and I appreciate the opportunity to testify here today.

International Sugar Organization daily world sugar prices (Caribbean ports—in bulk)

Date	Price	Date	Price
Jan. 2	7.66	Feb. 9	8.08
Jan. 3	7.71	Feb. 12	8.09
Jan. 4	7.77	Feb. 13	8.09
Jan. 5	7.79	Feb. 14	7.91
Jan. 8	7.81	Feb. 15	8.00
Jan. 9	7.69	Feb. 16	8.27
Jan. 10	7.56	Feb. 19	8.36
Jan. 11	7.53	Feb. 20	8.50
Jan. 12	7.51	Feb. 21	8.79
Jan. 15	7.68	Feb. 22	8.88
Jan. 16	7.54	Feb. 23	8.81
Jan. 17	7.55	Feb. 26	8.94
Jan. 18	7.57	Feb. 27	8.58
Jan. 19	7.54	Feb. 28	8.49
Jan. 22	7.52	Mar. 1	8.58
Jan. 23	7.42	Mar. 2	8.39
Jan. 24	7.44	Mar. 5	8.21
Jan. 25	7.41	Mar. 6	8.31
Jan. 26	7.42	Mar. 7	8.44
Jan. 29	7.42	Mar. 8	8.48
Jan. 30	7.42	Mar. 9	8.55
Jan. 31	7.58	Mar. 12	8.47
Feb. 1	7.64	Mar. 13	8.42
Feb. 2	7.75	Mar. 14	8.50
Feb. 5	7.85	Mar. 15	8.50
Feb. 6	7.87	Mar. 16	8.47
Feb. 7	7.86	Mar. 19	8.44
Feb. 8	7.91		

STATEMENT OF CALIFORNIA BEET GROWERS ASSOCIATION, LTD.

My name is Malcolm Young. My address is 2 West Swain Road, Stockton, California 95207. I have been instructed by our Board of Directors to appear here today and submit this statement on behalf of the more than 2,400 sugar beet grower members of our state-wide Association.

California is in its 110th year of sugar beet production and is the location of the first successful beet sugar factory in the United States, which started operation in 1870. Throughout the intervening years, we have been a major producer of sugar beets with our production ranging between 25 and 30 percent of all of the beet sugar produced in the United States. This represents from 7 to 10 percent of the nation's sugar consumption.

Sugar beet production has been a cornerstone of many of our farming operations in the State and may be forced out of business unless your Committee approves legislation which will protect us from burdensome world surpluses and unfair foreign competition.

With the demise of the Sugar Act in 1974, we were subjected to a tremendous upswing in prices, followed by a continual downward trend. This situation has not provided the stability necessary for the long range planning of crop rotation and financing required to stay in the sugar beet business.

Throughout California, and most of the U.S. beet area, sugar beet growers are paid on the basis of a participating contract, i.e., they participate in approximately 60 percent of the processor's net returns for refined sugar marketed. The net return is computed on the average for a sales year which starts fairly close to the start of harvest and ends 12 months later. This results in a grower not knowing what his returns for beets will be until approximately 18 months after he plants his crop. Without a stable price, no one can risk the over $700.00 per acre it costs to grow a crop.

Ruinous prices for sugar, during the past three years, have resulted in an erosion of our beet acreage from about 312,000 acres in 1976, to about 217,000 acres in 1977, and 195,500 acres in 1978. Growers are waiting for some indication of legislative trend before deciding what to do in 1979.

We have studied S-463 and compliment Senator Church, Senator Long, and its co-sponsors for a sugar bill that incorporates the essentials necessary to maintain a viable domestic industry and provide stable prices for consumers.

The Bill which you have under consideration (S-463) has our support. Its purposes are two-fold. It includes legislation necessary to implement the International Sugar Agreement and, at the same time, provides for a Domestic Sugar Program for sugar beets and sugar cane.

We believe that the objectives of the International Sugar Agreement are worthwhile and if fully carried out, can lead to the eventual stabilization of world sugar prices over the next two or three years. However, price levels in the International Sugar Agreement are based on production, in tropical or sub-tropical countries, with labor rates and conditions that are in no way comparable to our own. Also involved in the disparity of production costs is the fact that our crop is grown and processed under American standards of living and environmental and other restrictions which are costly.

This Bill provides for what we believe to be a fair price objective of .17 cents per pound of raw sugar, delivered to New York with duty paid. It provides for the attainment of the price objective through special fees on imported sugar and the use of quotas on imports if the fee system does not attain the price objectives. Its provisions for fee adjustments and quotas under certain conditions are realistic. Its provisions against the importation of refined sugar will prevent the dumping of refined sugar on our market and erosion of the price objective.

We urge this Committee to round out the provisions of this Bill in a manner that will bring it into reasonable conformity with similar legislation being developed in the House and lead to its quick acceptance by the Congress and approval by the President.

We support the adjustment of the price objective based on the percentage increase in cost of production of sugar beets and sugar cane and recommend that the items considered as production cost be more fully spelled out. We are concerned with the effect of inflation and this must be considered. Fuel prices are soaring. Rail freight rates on sugar beets will increase as much as 20 percent above a year ago. Equipment, electric power, supplies, chemicals and repair parts are only a few of many items with rapidly escalating prices.

Under present conditions, California growers need prices in the range of $28.00 to $31.00 per ton for the 1978 and 1979 Crops, if our industry is to survive. The Bill before this Committee can accomplish this and also provide price protection for future inflation through its adjustment of the Price Objective.

ECONOMIC AND CONSUMER FACTORS

In 1976, the United States beet sugar processing industry provided employment for approximately 13,400 factory workers, and we estimate that the employment created by the nation's sugar beet growers was nearly 70,000 farm workers. This employment declined substantially in 1977 and 1978, a situation that will become worse in 1979 because of factory closings.

As for California:

1. A full sugar beet acreage in 1976 of 312,000 acres harvested provided employment for approximately 4,000 factory workers and 20,000 farm workers.

2. In 1978, acreage was down to about 195,000 acres, 37.5 percent below 1977, and as a result:

(a) Factory payrolls were down over 37.5 percent, and unemployment rolls increased.

(b) The demand for farm workers was reduced as farmers replaced sugar beets with crops that required less labor.

(c) Small independent truckers hauled about 5.5 million tons of sugar beets, as compared to 9 million tons in 1976.

(d) The local economy in towns where factories are located was affected.

3. Over 100,000 acres of prime farm land which produced sugar beets is now growing low labor imput crops such as: feed grains, cotton, beans, and other crops, most of which are already being overproduced.

44-979—79——7

4. As a result of low sugar prices, inflated freight rates and environmental factors, the Holly Sugar Corporation has discontinued beet processing at its factory near Santa Ana, California.

5. Additionally, low sugar prices and inflated freight rates have caused processors to reduce or eliminate acreage in areas distant from factories.

6. Unless sugar prices are stabilized to give growers and processors a fair return, California will not be able to support its remaining factory capacity, which we estimate as sugar from 280,000 acres of sugar beets. This means more closed factories!

The Western United States is almost wholly dependent on the domestic sugar industry for all of the sugar it consumes. There is virtually no additional cane refining capacity available to replace the 4.5 million tons of domestic sugar regularly supplied to this market. Unless we maintain a viable domestic industry, all consumers may be faced with paying unreasonable prices for foreign sugar refined at distant points and shipped to this market.

Over the years, the fact that the Western United States has produced more beet sugar and Hawaiian cane sugar than is consumed in the producing states has provided competition that has saved the consumer about 2.0 cents per pound. This is exemplified by the following comparison of average annual quoted wholesale refined sugar prices in the Pacific Coast and Chicago/West markets, where this domestic sugar is sold, and in the Northeast market, which is normally 100 percent refined cane sugar, mostly from imports:

[In cents per pound]

	Pacific coast	Chicago/West	Northeast
Year:			
1970	10.80	11.08	11.97
1971	11.37	11.59	12.48
1972	11.65	11.82	13.09
1973	12.38	12.38	14.07
1974	31.90	32.07	34.35
1975	27.87	27.61	31.42
1976	17.48	16.93	19.20
1977	15.95	15.08	17.28
1978	18.89	18.66	20.87

A phase-out of the Domestic Sugar Industry would eliminate important competition factors in the Chicago/West, Pacific Coast and other markets where beet sugar is sold. Further than that, nearly 100 percent of the sugar sold in the Pacific Coast market is California's beet sugar and Hawaiian cane sugar, and approximately 60 percent of the sugar sold in the Chicago/West market is beet sugar. There are no conveniently located cane refineries that could supply the over 3,500,000 tons normally supplied by the beet sugar industry.

The consumer would pay dearly for imported raw sugar refined at coastal facilities, shipped inland at high freight cost and with virtually no competition in the market place.

The maintenance of a healthy domestic sugar industry, capable of protecting this country's consumers from unstable high price caused by weather, political or other factors in foreign countries is imperative when consideration is given to the fact that:

Sugar is the only essential food commodity which must be imported in substantial amounts. Sugar imports have ranged from 40 to 50 percent of annual consumption.

The U.S. is the world's largest sugar consumer—10.5 to 11.5 million short tons annually.

The U.S. is the world's largest sugar importer—4.0 to 6.0 million short tons annually.

The U.S. is the fourth, and sometimes the third, largest sugar producer—6.0 to 7.0 million short tons annually.

SUMMARY AND RECOMMENDATIONS

We fully support the Committee's development of a sugar bill that will become operative upon passage and realize that the bill under consideration may be modified somewhat.

With this in mind we offer the following comments.

1. The price objective should not be so low as to further reduce utilization of present processing facilities.

2. While we believe the price objective should be attained in the market place and not through payments, we will accept the Committee's judgment on this issue. However if payments to processors are provided we urge that such a section contain language clearly indicating what the producer's share of such payments shall be.

3. We disagree with any approach to a policy stabilizing imports at recent historic levels and point out that the 4.8 to 5.2 million ton range proposed by the Administration is excessive.

It could be that imports may have to decline to 4.0 million tons, or less, whenever domestic sugar under loan is sold. The effect of such a policy would be to force the domestic beet and cane producers to reduce production below their historic levels to off-set gains in the sweetener market by corn refiners.

Any measure of fairness requires that gains in corn sweetener distribution be absorbed by all competitors in the market and not just by domestic sucrose producers. We urge the Committee not to give comfort to a policy that would give preference to foreign producers to the detriment of American farmers.

4. If wage provisions become a part of the final bill, we recommend and urge that wage rate coverage for the beet area be identical to that which was provided for in regulations issued under the Sugar Act and the de la Garza Sugar Amendment to the 1977 Farm Bill. We also urge that all wage provisions be administered by the Secretary of Agriculture.

We appreciate this opportunity to present our views to the Committee and urge prompt and immediate action so that the United States can be a full participant in the International Sugar Agreement and that the domestic program provided for can go into effect immediately.

STATEMENT OF RICHARD W. BLAKE, EXECUTIVE VICE PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. Chairman and members of the committee: My name is Richard W. Blake, I am executive vice president of the American Sugarbeet Growers Association, with offices at 1776 K Street, Washington, D.C. The Association represents sugarbeet growers in twelve states. A list of the Associations is attached to this statement.

Mr. Chairman, with your permission, I would like to file for the record the statement of our president, Mr. Kish Otsuka, presented at hearings in the House Agriculture Committee last week.

We sincerely appreciate this committee's prompt action in holding these hearings. As you know, we have been involved in a series of meetings with the Administration in trying to develop a consensus. It is quite clear that the Administration wants sugar legislation. It is also clear that the domestic sugar industry needs legislation if it is to survive.

Since November five sugarbeet processing factories have closed, or have been placed up for sale. The four factories for sale constitute the entire sugar operation of a company that has been a pioneer in the industry. Growers in the State of Washington where two of these factories are located tried desperately to save the industry through a purchase. However, they have failed in their effort, as lending agencies are reluctant to loan the necessary funds, considering the great uncertainty which exists in the industry today, especially whether there will be legislation, and if so, what type.

There are some issues on which we would like to comment briefly.

The administration of the price objective provisions is, in our opinion, the key to legislation. To date, we have been disappointed with the failure to achieve announced price goals. We do support using a fee system as the primary tool in achieving the price objective, however we also believe that import restrictions are an essential component in achieving the price and should be available to be used when and if the fee system fails.

With respect to the trade in refined sugar, there can be a serious problem if imported refined sugar is being allowed to come into the U.S. at lower prices than we in the beet industry must attain. While we prefer a prohibition of white sugar imports, we can support a fee differential if it is high enough to make it price competitive. One small truckload of imported refined sugar can create a serious problem in some of our marketing areas.

Concerning the ratio of domestic production to imports, we would support an Administration concept of establishing imports at a proper level with domestic sweetener producers having the right to their historical share plus any growth which might occur. Establishing a specified level for imports would give an assurance to foreign producers of a market which would, we believe, be consistent with the provisions of the I.S.A. as far as a commitment is concerned.

We believe it is essential that cost studies be mandated. As far as the factors which should be included, we believe that land costs at least recognition of a rent component be included in any studies conducted. This is a direct cost to over 60 percent of the sugarbeet producers. The cost studies previously conducted by the U.S. Department of Agriculture for sugarbeet growers were complete and we believe accurate as far as possible. We suggest the componets they used be continued.

If direct payments are to be used in establishing a producer price, the legislation should contain language which would assure producers receiving at least the percentage of the net return for sugar provided in the purchase contracts. While actual division between growers and producers varies by area and by company, growers should be assured of receiving their fair share of any payments that are made.

Finally, Mr. Chairman with respect to the cost to the consumer and the Treasury. You have heard or will hear some very high numbers. We have heard them from various quarters. We can only point out that the President and his Administration have taken the position that a viable domestic sugar industry is in the interests of this country. They have followed through by drafting a bill and while we are disappointed that it doesn't fully recognize at least in our opinion, what the industry needs in the way of price, it still demonstrates the need to maintain a domestic sugar industry. Who can say what would happen to the cost to the consumer without domestic production. Certainly in the short term maybe a year the price to consumers may seem a little high as compared to the very distressed world market prices, but we believe you must look at the long term as the Administration apparently has. Once we are out of business, we are out of business period.

Thank you, Mr. Chairman.

STATEMENT OF KISH OTSUKA, PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION

Mr. Chairman and members of the committee: My name is Kish Otsuka. I am a farmer and live near Sedgwick, Colorado. I am President of the American Sugarbeet Growers Association, our office is at 1776 K Street, N.W., Washington, D.C. The Association represents sugarbeet growers in twelve states. A list of the member associations is attached to this statement.

Mr. Chairman, I first want to express our sincere appreciation for the leadership you have demonstrated along with Chairman Ullman in introducing H.R. 2172. I also want to extend our appreciation to those who co-sponsored that bill and other members who have introduced similar though slightly differing versions. It is certainly a recognition by many members of the Congress of the very serious concern which exists about the future of a domestic sugar producing industry in this country.

I don't believe I have to go into a lengthy presentation as to why legislation is needed as public pronouncements by various members of Congress and representatives of the Administration, including President Carter have expressed the need for sugar legislation to maintain and protect a viable domestic sugar industry. While proposed levels of support vary in different quarters the fact remains, people in responsible positions have come to the basic conclusion that something must be done and done quickly if the industry is to survive.

Since hearings were held last year, five sugarbeet factories have either been closed or have been placed up for sale. There is at least one more factory that is in serious jeopardy. The four factories which are up for sale involve the entire sugar operation of one company, who will not contract for sugarbeets this year. This means that in excess of 100,000 acres will be removed from production of sugarbeets, acreage which can only go into crops now in surplus, thus adding to the surpluses which are already of grave concern not only to the Government but, to the producers of those crops. In addition there is a serious economic impact on the small communities and towns who will have to bear the

loss in tax revenues and the loss of general income flowing from one of the main cash crops of the irrigated farming areas.

I would just reiterate the very, very serious economic situation facing the sugar producing areas of this country. We recognize the concern of consumers, farmers are consumers too. We are concerned with the rampant inflationary period which our nation is undergoing. We believe it is not only short sighted, but naive to think that refusing to maintain a viable domestic sugar producing industry is in the best interests of this country or that by holding sugar prices below cost of production will result in lower food prices. It is time tha the public recognizes that it is not the price received by the farmers, which is the major contributor to inflation, but rather what happens between the time the raw product is delivered and when it reaches the checkout stand of the supermarket.

With respect to specifics in the legislation which you have before you.

We support the provisions dealing with the International Sugar Agreement. The Agreement should be ratified and enabling legislation passed if a chaotic world price situation is to be averted. The failure of the Congress last year to pass satisfactory legislation has raised serious questions with respect to the position of the United States and unless comprehensive legislation can be passed early in this session, there could be a serious erosion of confidence by member countries.

We cannot, unfortunately over the short term rely solely on the I.S.A. to provide the necessary support for an economically sound domestic industry. Therefore, a domestic backup program must go hand in hand with the I.S.A. provisions. In addition to the fact that we believe the two programs are interrelated, we believe it will contribute to the success of the I.S.A. as production and consumption will achieve some sense of balance and stability world wide.

Turning to the domestic provisions, if the program is to accomplish its objective, a price climate must be provided which will maintain and encourage the production of domestic sugar at close to historical levels, i.e. approximately 50 to 55 percent of the nations sweetener needs. Current prices are obviously unsatisfactory. We were sincere in our support of a 17 cent price level during last year's legislative proceedings. We still believe that a 17 cent base price is a modest and supportable objective for the 1979 crop year, which is contained in H.R. 2394 and H.R. 2408.

Probably one of the most important issues in the legislation, is a proper adjustment factor for increases in cost of production. We believe there must be a recognition of land costs at the very least a rent componet. Nearly 60 percent of the land utilized for beet production is leased either on a cash or crop share basis. Unless this cost componet is recognized at some point in the calculations which amounts to 20 to 30 percent of a renters actual costs, there cannot be a true representation of the cost factor. We are also concerned that there appears to be no recognition of the beet sugar processors cost which under our contractual relationships is an integral part of the basis for division of returns between growers and processors. While we are uncertain about the comparative cost relationship, we do know that both the processor and grower must be relatively profitable if the industry is to be maintained. Sugarbeet growers cannot exist without a processor and vice-versa.

We would reiterate our position that has been previously expressed that producer prices should be received from the marketplace. If payments should become a part of the program, it will be essential to have a safeguard mechanism such as contained in the bill introduced by Chairmen Foley and Ullman. In addition, we would propose that if payments are to be made through the processor, at least in the sugarbeet industry, the Committee, either in the bill or in the Report, make certain that such payments shall be divided on the basis of existing contractual sharing of net proceeds.

While we believe import quotas will be required to maintain market price levels we accept the use of special import fees as the primary tool in achieving the price. We urge as a result of recent experience, that import fees on refined sugar be applied on a more realistic basis. The proper and most effective manner is an outright prohibition on refined sugar, however if fees can be established at levels which would prevent a disruption of the market, we are willing to accept that concept. It might be well, however to consider the possibility of inserting language which would prevent market disruption if fees were not operating properly.

With respect to the wage provisions in H.R. 2172. . . .

We continue to hold very strong views that sugar farmers should not be required to pay wage rates in excess of those rates required under the Fair Labor Standards Act for other farm workers. We did agree last year to the inclusion of

wage rates, however, it was under a different set of circumstances than we face today. If wage provisions are to be included, we do have specific recommendations: (1) Determination of wage rates should be made by the Secretary of Agriculture (2) The 10 percent premium for field equipment operators should not be required in the sugarbeet industry. The latter recommendation is extremely important to us. During the period of the Sugar Act, these rates were never required for the sugarbeet industry. They were not required under the de la Garza provisions for the 1977 and 1978 crops. In the sugarbeet industry, the workers who are used as equipment operators and truck drivers are generally working in other crops as well as sugarbeets and could create very serious problems for the farmers, as hired personnel move from one crop to another during the day.

Finally, Mr. Chairman while we much prefer the legislation as introduced by Mr. Johnson (H.R. 2394) and (H.R. 2408) introduced by Mr. Nolan as it recognizes the real needs of our industry from a purely economic standpoint, we must have legislation and we look to this committee to obtain the best that is possible.

The very existence of the industry is in serious jeopardy and we urge this committee to report out a bill which recognizes the requirements of sugar producers, and which in turn will protect the interests of consumers over the long term.

Again, Mr. Chairman may I express the appreciation of our association for the leadership you have demonstrated and your willingness to hold early hearings. As you well know, time is of the essence.

Thank you.

ASSOCIATIONS AFFILIATED WITH THE AMERICAN SUGARBEET GROWERS ASSOCIATION

Arkansas Valley Beet Growers Association, 1410 E. Hackberry, Garden City, Kans.

Big Horn Basin Beet Grokers Association, Star Route, Box 294A, Powell, Wyo.

Central Nebraska Beet Growers Association, Route 2, Lexington, Nebr.

Elwyhee Beet Growers Association, Route 1, King Hill, Idaho.

Goshen County Cooperative Beet Growers Association, Veteran, Wyo.

Farmers and Manufacturers Beet Sugar Association, (Growers Section), 470 Plaza North, Saginaw, Mich.

Idaho Beet Growers Associaion, Route 2, Burley, Idaho.

Montana-Dakota Beet Growers Association, Route 1, Box 28, Fairview, Mont.

Mountain States Beet Growers of Colorado-Kansas, Greeley National Plaza Suite 740, Greeley, Colo.

Moutnain States Beet Growers of Montana, Route 1, Laurel Frontage Road, Billings, Mont.

Nebraska Beet Growers Association, 637 Valley View Drive, Scottsbluff, Nebra.

Nyssa-Nampa Beet Growers Association, Route 5, Caldwell, Idaho.

Southern Colorado Beet Growers Association, Route 1, Box 60, Rocky Ford, Colo.

Utah Sugar Beet Growers Association, 225 West First South, Salt Lake City, Utah.

Washakie Beet Growers Association, Route 2, Box 41, Worland, Wyo.

Washington Sugar Beet Growers Association, P.O. Box 1002 Pasco, Wash.

STATEMENT OF WILLIAM M. TURRENTINE

My name is William M. Turrentine. I reside at 1410 East Hackberry, Garden City, Kansas. I am a farmer and I am principally engaged in the production of Wheat, Sugar Beets, Milo and Hybrid Seed products.

I presently serve as Secretary Treasurer of the Ark-Valley Beet Growers Association; I am a member of the board of directors of Colo-Kan Sugar Inc., and am presently serving in the directorships of several other agriculturally oriented organizations.

I have a Bachelor of Science degree in business administration with a major in Economics and a Minor in Accounting. Before I returned to the farm I was an accountant, principally involved in the areas of Cost and Tax Accounting.

I feel that my experience and background equips me with a reasonably high degree of qualification to testify on the behalf of myself and my compatriots relative to problems relating to sugar legislation and cost matters that may relate thereto.

It is my hope that I may enlighten this committee and those who are both interested and involved in the industry as to some of the problems that exist and to encourage some constructive legislation which will be beneficial to both the industry and to the consuming public.

In appearing here today I suppose you could say that I am an incarnation of the accelerating demise of the sugar industry in this country. I represent the grower refiner industry only as a past entity of that industry.

As I have said before I am a producer and director of Colo-Kan Sugar Company, a small refinery which is the last of several such refineries which were originally located in this area and which is headquartered at Rocky Ford Colorado. We were a sub-entity of the American Crystal Sugar Company of North Dakota and Minnesota. We have operated our factory under a lease management agreement with American Crystal since 1973 and we closed our factory permanently at the completion of our sugar campaign in January of this year. Even if some miracle should occur which could conceivably rescue the industry from financial disaster it would be too late for us because our factory is presently in the state of being dismantled and salvaged for its remaining value.

Our organization has sustained overwhelming losses at both the producer and refiner levels for the past three years and the final and fatal climatic decision to close the factory came after we had completed a series of intense computerized studies of our potential for survival covering the entire spectrum of known facts that we could relate to for the next several years as they pertained to both the industry and our factory.

We realized after having completed these surveys that it appeared futile for us to attempt to continue our operation considering the adamant approach which was being taken by this country in regard to the sugar industry.

Certainly a large part of the attitude of the country regarding sugar was molded by a series of totally disastrous cost studies which were produced by the Department of Agriculture, and which were being taken as gospel in costs even at a time when the industry was protesting vigorously that these studies were totally inadequate. It is a lamentable fact that the tools have just not been developed for properly assessing the costs of production for any commodity in the refined form which is necessary to fit into the cost targeting concepts which are set forth in the Agricultural Act of 1973 and the succeeding act of 1977.

I have worked very closely with the economists who were responsible for assembling the current sugar cost data, and to say the least, they have been apprehensive of the methodology and the probable results of their study from the beginning. They felt that the system for data collection and certainly the budget generators which were being used to refine the raw data into its final configurations committed the studies to a high potential for error.

These economists were conscientious enough to instruct the Kansas Crop and Livestock reporting service to include my farm in their surveys because they wanted to run direct comparisons of their studies with those which I compile for my own farm. They knew that I maintained an excessively tight cost analysis of my own operation and felt that they could obtain some valuable insight into the accuracy of their studies if we could compare our data after their studies were completed.

The results of our effort developed into a disaster from the standpoint of comparative accuracy. We discovered that there was a 33 percent error in their calculation of production costs and that there was a 37 percent error in their calculations as they related to the gross income which was produced from my 1976 sugar beet crop.

The errors as they relate to income are, to some extent, excusable due to the fact that none of these economists were sufficiently familiar with the new concepts of cooperative refining which had so recently developed in the sugar beet industry, and certainly they were not familiar with the facts that our losses at the factory has been pro-rated back to the producers patronage reserves. This situation was, conceptually, a completely different ball game to these economists, and their limited knowledge of these matters was without doubt dramatically reflected in their sugar cost studies.

I am not completely familiar with the techniques which were used to assess the cost of refining sugar, but I did submit copies of data which was produced by our factory in Rocky Ford, Colorado and it is apparent from the total cost standpoint as it relates to our factory that the figures for the combined effort of producing and refining sugar probably have large margins of error commensurate with those which exist in the production components of the industry.

There is no doubt that the Congress of these United States must address itself to the inadequacies of the present system as it relates to the preparation of cost data by the Department of Agriculture or it must abandon the cost targeting concepts which are presently embodied in the current agricultural legislation.

It would appear that the recent testimony presented by Mr. Howard Hjort before the House Agricultural Committee was an appeal to the congress to give him the tools and the funding necessary to produce a viable set of cost data, and I could certainly encourage that this matter be looked into post haste.

I would like to conclude this testimony by stating that I have attached hereto my cost data for the production of sugar beets for 1976 and 1977 and would include that for 1978 if it were completed at this time. I can assure you that the 1978 figures are extremely high.

I have also included a copy of the cost study which was done on my farm for the year 1976 by ESCS. I am sure you will be interested in the contrasts between the two studies.

I recently submitted some cost data from our factory to the sugar economists in ESCS and I have included copies of that data with this commentary with the hope that it will shed some light on the plight of the processing industry.

It is my hope that my meager effort has been of some assistance to this committee and I would conclude by saying that I will be at the disposal of the committee for any further information that I can provide.

SUGAR BEET PRODUCTION COSTS, 1976

Account name	Total 1976 costs	1975 costs forward to 1976	1976 adjusted costs	1976 costs per acre	1976 costs per ton	1976 costs per hundredweight
Repairs and supplies (IC)	$5,071.95	$954.87	$6,026.82	$46.93	$2.15	$0.66
Ordinary labor (IC)	8,856.96	943.32	9,800.28	76.31	3.50	1.08
Special labor	3,894.44		3,894.44	30.33	1.39	.43
Petroleum products (IC)	3,576.03	392.40	3,968.43	30.90	1.41	.44
Utilities: Electric, Telephone (IC)	302.15	30.72	332.87	2.59	.12	.04
Irrigation gas	438.11		438.11	3.41	.16	.05
Machine hire	7,628.25		7,628.25	59.40	2.72	.84
Fertilizer	4,142.17		4,142.17	32.25	1.48	.46
Agriculture chemical general (IC)	70.39		70.39	.55	.03	.01
Direct	2,733.44		2,733.44	21.29	.97	.30
Seed	2,033.75		2,033.75	15.84	.73	.22
Employees board and room (IC)	916.47	128.05	1,044.52	8.13	.37	.12
Legal and administrative costs (IC)	375.01	31.41	406.42	3.16	.14	.04
Interest and service charges (IC)	612.82	62.68	675.50	5.26	.24	.07
Dues and subscriptions (IC)	72.31	6.79	79.10	.62	.03	.01
Travel and transportation (IC)	11.95	40.75	52.70	.41	.02	.01
Insurance (IC)	1,227.76	96.25	1,324.01	10.31	.47	.15
Storage and handling						
Other expenses						
Depreciation (IC)	6,344.46	755.54	7,100.00	55.29	2.53	.78
Taxes (IC)	863.47	75.64	939.11	7.31	.33	.10
Total raw costs	49,171.89	3,518.42	52,690.31	410.29	18.79	5.81
Land costs (½ net rent) (IC)	8,216.48		8,216.48	63.98	2.93	.91
Operators wages 4.50 per hour (OW)	5,922.00		5,922.00	46.11	2.11	.65
Management costs 7 pct gross (MC)	3,230.15		3,230.15	25.15	1.16	.36
Total all costs	66,540.52	3,518.42	70,058.94	545.53	24.99	7.73

NOTES

Total units produced, 2,804×16.4568; price per unit, 46.144.98; number of acres 128.42; average yield per acre, 21.84; hour percent allocation, 32.23.

Amount received for sugar beets	$46,144.98
Less debit patronage	6,183.10
Net actually received from 1976 sugar beet crop	39,961.88
Landlord rent share	6,214.50
Rent share calculation my land	2,001.68
Total	8,216.48

OW: Calculated at pay rate of highest paid hand man (4.50 per hour) prorated as a percent of gross income that this crop bears to total gross from all crops.

IC: Indirect costs; LC: Land costs; OW: Operators wages; MC: Management costs.

USDA ANALYSIS, IRRIGATED SUGARCANE PRODUCTION COSTS, 1976

Account name	1976 costs per acre	1976 costs per ton
Repairs and supplies (IC)	$26.55	$1.21
Ordinary labor (IC)	31.39	1.43
Special labor	30.42	1.38
Petroleum products (IC)	15.13	.69
Utilities: Electric, telephone (IC)	1.80	.08
Irrigation gas		
Machine hire	59.59	2.72
Fertilizer	38.48	1.76
Agriculture chemical, gen. al (IC)	27.45	1.25
Direct		
Seed	15.89	.73
Employees board and room (IC)		
Legal and administrative costs (IC)	4.30	.20
Interest and savings charges (IC)	27.85	1.27
Dues and subscriptions (IC)	1.75	.08
Travel and transportation (IC)		
Insurance (IC)	14.08	.64
Storage and handling		
Other expenses	3.39	.15
Depreciation (IC)	28.16	1.29
Taxes (IC)	4.13	.19
Total raw costs	330.06	15.08
Land costs (LC)	59.55	2.72
Operators wages (OW)		
Management costs (MC)	21.43	.98
Total all costs	411.36	18.77

NOTES

Total units produced, 2,804 TPA; number of acres, 128.42; average yield per acre, 21.91 TPA.
1. How has land costs on owned land been calculated? It is too low.
2. Operators wages—where.
3. Major discrepancies over maintenance and repairs and food consumed.
4. See also analysis of Crop. Receipts—Totally wrong.
IC: Indirect costs; LC; Land costs; OW: Operators wages; MC: Management costs.

[Acres planted: 128; production per acre: 21.91 tons; sugar content: 15.14 percent]

	Production costs (per pound)	Receipts (per pound)	Net return (per pound)
Raw beets	$0.009	$0.010	$0.000
Refined sugar	.062	.065	.003
Raw value (basis)	.058	.060	.002

	Cost	
	Per acre	Per ton
Variable costs:		
Materials:		
Fertilizer (dry)	$38.484	$1.757
Fertilizer (liquid)	0	0
Lime	0	0
Manure	0	0
Seed	15.891	.725
Fungicides	17.523	.800
Herbicides	6.422	.293
Insecticides	3.508	.160
Other materials	0	0
Machinery and equipment:		
Tractors:		
Fuel and lube	8.397	.383
Repairs	3.279	.150
Trucks:		
Fuel and lube	6.719	.307
Repairs	11.008	.503
Machinery:		
Fuel and lube	0	0
Repairs	1.735	.079
Irrigation:		
Fuel and lube	.010	0
Repairs	10.530	.481
Hired equipment:		
Custom work	59.594	2.720
Rental fees	0	0

	Cost	
	Per acre	Per ton
Variable costs—Continued		
Labor:		
Paid:		
Hand labor	0	0
Machinery labor	$10.351	$0.473
Truck labor	0	0
Irrigation labor	19.643	.897
Contract labor	30.422	1.389
Unpaid: Operator and family	0	0
Other labor	1.398	.064
General farm costs:		
Utilities	1.804	.082
Fees and dues	1.750	.080
Office supplies	4.304	.196
Interest on operating capital	10.465	.478
Total, variable costs	263.237	12.016
Ownership costs:		
Depreciation:		
Machinery	3.017	.138
Trucks	8.316	.380
Tractors	6.731	.307
Irrigation	10.093	.461
Taxes	4.125	.188
Interest:		
Real estate	.820	.037
Machinery	9.456	.432
Irrigation	7.109	.325
Insurance	14.083	.643
Housing:		
Machinery	.458	.021
Trucks	1.485	.068
Tractors	1.448	.066
Total, ownership costs	67.142	3.065
Total of above costs	330.378	15.081
Return to land, overhead, risk, and management	98.127	4.480
Land charges:		
Owned land	5.666	.259
Cash rent	0	0
Share rent	53.886	2.460
Management charge (5 percent of gross receipts)	21.425	.978
Total, production costs	411.355	18.777
Return to overhead and risk	17.150	.783
Sugar beet value	54,848.68	
Livestock value	0	
Hay value	0	
Crop value	61,046.66	
Gross value	115,895.31	

IRRIGATED SUGAR BEET PRODUCTION COSTS, 1977

Account name	Total 1977 costs	1976 costs forward to 1977	1977 adjusted costs	1977 costs per acre	1977 costs per ton	1977 costs per hundredweight
Repairs and supplies (IC)	$5,398.50	$1,077.97	$6,476.55	$53.64	$2.85	$0.87
Ordinary labor (IC)	7,099.53	1,882.41	8,981.94	74.38	3.95	1.20
Special labor	1,783.14		1,783.14	14.77	.78	.24
Petroleum products (IC)	2,774.18	760.03	3,534.21	29.27	1.55	.48
Utilities, electricity, telephone (IC)	233.94	64.21	298.15	2.47	.13	.04
Irrigation gas	406.33		406.33	3.36	.18	.05
Machine hire	6,974.60		6,974.60	57.76	3.06	.94
Fertilizer	2,903.29		2,903.29	24.04	1.27	.39
Agriculture, chemicals, general (IC)	71.92		71.92	.60	.03	.01
Direct	2,734.23		2,734.23	22.64	1.20	.37
Seed	1,982.50		1,982.50	16.42	.87	.27
Employees board and room (IC)	331.02	194.79	525.81	4.35	.23	.08
Legal and administrative costs (IC)	273.76	79.70	353.46	2.93	.16	.05
Interest and service charges	644.64	130.25	774.89	6.42	.34	.10
Dues and subscriptions (IC)	139.03	15.37	154.40	1.28	.07	.02
Travel and transportation (IC)	(84.66)	2.54	(82.12)	(.68)	(.04)	(.01)
Insurance (IC)	1,322.25	260.94	1,583.19	13.11	.69	.21
Depreciation (IC)	5,570.62	1,348.42	6,919.04	57.29	3.04	.93
Taxes (IC)	840.86	183.52	1,024.38	8.48	.45	.14
Total raw costs	41,399.76	6,000.15	47,399.91	392.52	20.81	6.38
Land costs (⅙ rent) (IC)	9,711.66		9,711.66	80.42	4.26	1.31
Operators wages, $4.50 per hour (OW)	4,032.00		4,032.00	33.39	1.77	.54
Management costs, 7 percent gross (MC)	3,399.08		3,399.08	28.15	1.49	.46
Total all costs	58,542.50	6,000.15	64,547.65	534.48	28.33	8.69

Total units produced, 2,278/16.3 percent×21.32; price per unit=45,588.32; gross return number of acres, 120.76 average yield per acre, 18,86 TPA; hour percent allocation, .2907 percent. 7,426.28 hundredweight sugar produced; 16.33 percent average sugar.

IC=indirect costs, LC=land costs, OW=operator wages, MC=management costs.

EXHIBIT I

COLO-KAN SUGAR, INC.—COMPARATIVE STATEMENT OF OPERATIONS FOR THE 3 YEARS ENDING AUG. 31, 1979

	Amount			Per hundredweight sold		
	1979 budget	1978 actual [1]	1977 actual	1979 budget	1978 actual [1]	1977 actual
Sugar sales, net of discounts, returns and allowances	$10,176	$10,508	$10,042	$17.16	$17.48	$14.14
Marketing expenses	(468)	(441)	(376)	(.79)	(.73)	(.52)
Net selling price	9,708	10,067	9,666	16.37	16.75	13.62
Cost of product sold	(11,752)	(11,076)	(11,820)	(19.82)	(18.43)	(16.66)
Operating profit (loss)	(2,044)	(1,009)	(2,154)	(3.45)	(1.68)	(3.03)
Expenses:						
Allocated general and administrative	(332)	(266)	(197)	(.56)	(.44)	(.26)
Allocated seasonal interest, net	(200)	(93)	(175)	(.34)	(.16)	(.25)
Total expenses	(532)	(359)	(372)	(.90)	(.60)	(.53)
Net income (loss) before reduction of member beet payments	(2,576)	(1,368)	(2,526)	(4.35)	(2.28)	(3.56)
Reduction of member beet payments	2,576	1,368	1,892	4.35	2.28	2.66
Net income (loss)			(634)			(.90)
Hundredweight of sales (thousands)	593	601	710			
Beet payment summary:						
Scale payment	25.42	25.21	19.97	10.64	11.09	9.17
Reduction	(10.39)	(6.55)	(4.86)	−4.35	−2.28	−2.66
Net payment per ton	15.03	18.66	15.11	6.29	8.81	6.81

[1] Unaudited.

Note: The assumption has been made in the 1979 budget that beginning and ending inventories will not change, therefore, cost of sales is equal to cost of production.

EXHIBIT II

COLO-KAN SUGAR, INC.—COMPARATIVE STATEMENT OF PRODUCTION COST FOR THE 3 YEARS ENDING AUG. 31, 1979

	Amount (thousands)			Per hundredweight produced		
	1979 budget	1978 actual [1]	1977 actual	1979 budget	1978 actual [1]	1977 actual
Sugar operations:						
Campaign labor	$615	$511	$917	$1.04	$1.08	$1.12
Boilerhouse fuel	985	717	1,094	1.66	1.51	1.33
Coke	204	169	314	.34	.36	.38
Limerock	216	176	324	.36	.37	.40
Operating supplies	86	68	97	.15	.14	.12
Other	125	160	567	.21	.34	.69
Factory operations:						
Maintenance	985	839	372	1.66	1.76	.45
Factory overhead	778	465	786	1.31	.98	.96
Insurance and taxes	372	292	165	.63	.61	.20
Total sugar manufacturing	4,366	3,397	4,636	7.36	7.15	5.65
Byproduct credit	(780)	(515)	(1,354)	(1.32)	(1.08)	(1.65)
Manufacturing costs before management fee	3,586	2,882	3,282	6.04	6.07	4.00
Management fee	248	209	389	.42	.44	.47
Manufacturing costs	3,834	3,091	3,671	6.46	6.51	4.47
Agricultural operations:						
Agricultural services	361	175	383	.61	.36	.47
Freight and delivery	1,253	1,010	1,519	2.11	2.13	1.85
Total agriculture	1,614	1,185	1,902	2.72	2.49	2.32
Total factory operations	5,448	4,276	5,573	9.18	9.00	6.79
Beet payment—Scale	6,304	5,267	7,768	10.64	11.09	9.47
Total production cost	11,752	9,543	13,341	19.82	20.09	16.26
Beet processing summary:						
Tons of beets purchased (thousands)	248	209	389			
Production of sugar (hundredweight)	593	475	820			
Hundredweight of sugar extracted per ton of beets purchased	2.39	2.27	2.11			

[1] Unaudited.

BEST COPY AVAILABLE

Senator MATSUNAGA. Our next witness is Mr. Vernie R. Glasson, assistant director of national affairs, American Farm Bureau Association.

We will be happy to hear from you, Mr. Glasson.

STATEMENT OF VERNIE R. GLASSON, ASSISTANT DIRECTOR OF NATIONAL AFFAIRS, AMERICAN FARM BUREAU ASSOCIATION

Mr. GLASSON. Thank you, Mr. Chairman. We have a short statement that I would like to make even shorter in the interest of time.

In the middle of the page, basically, we indicate the support that the voting delegates of the member state farm bureaus indicated at our annual meeting this year for a long-term sugar program. The Farm Bureau is strongly supportive of S. 463, and we do commend this committee for their earlier consideration of this particular piece of legislation.

We have a Sugar Advisory Committee, which is appointed by the president of the American Farm Bureau, representatives of the 16 sugar-producing States. We met earlier this year and down toward the bottom of the page you will find six items that they specifically recommended to the board of directors for consideration in new legislation.

I would point out two of those at this time, items two and four. Item two, to provide the domestic producer a minimum price in the range of 16 cents per pound with, rice objective to be achieved through the use of strict import quotas and fees and the domestic sugar loan program.

Item four, to provide that the price objective be obtained in the marketplace, paid for by sugar users, not the government.

At the bottom of the page, the committee was also very adamant to encourage the continued use of research in the area of sugar cane and sugar beets, as well as other crops, in the production of energy.

The Farm Bureau has stated on several occasions that sugar legislation should be a high priority in this session of the 96th Congress and again, Mr. Chairman and Senator Dole, we commend this subcommittee for its early consideration.

The next paragraph outlines actions that we have taken in the last three years to give some assistance to sugar growers in this country.

Finally, Mr. Chairman, unless a workable domestic sugar program is enacted promptly, U.S. sugar cane and sugar beet producers will be forced out of production by depressed prices and the United States will become even more dependent on sugar imports for our supply of this important commodity.

We thank you for the opportunity to present our views today.

Senator MATSUNAGA. Thank you very much, Mr. Glasson, I am sure the growers, many of whom are members of the American Farm Bureau Federation, appreciate your position.

Senator DOLE. Are you opposed to direct payments?

Mr. GLASSON. Yes, sir, at this time. This was an important item of consideration by the committee and by our board of directors at its board meeting 2 weeks ago when they did take the position of opposing direct payment programs, Senator Dole.

Senator DOLE. What about forgiveness of interest? Did you take a position on that?

Mr. GLASSON. We do not have a position on that. It is an item, I might add under consideration. Also your discussion and concern relative to the payments side. The Board of Directors has appointed a committee of the board members to monitor the continued efforts of the Congress for sugar legislation and, of course, they will be taking a look at each new change as the legislation proceeds through Congress.

Of course, the payment situation would be one of the items under consideration, as well as the interest question which you have raised.

Senator DOLE. I assume if there were some direct payments you would want to limit the payments?

Mr. GLASSON. No, sir. The Farm Bureau has always opposed payment limitations.

Senator DOLE. Do you also oppose direct payments?

Mr. GLASSON. We are not opposing direct payments on other commodities; we are opposing them on sugar at this point in time.

Senator DOLE. Thank you.

Mr. GLASSON. Thank you.

Senator MATSUNAGA. Thank you.

[The prepared statement of Mr. Glasson follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION, PRESENTED BY VERNIE R. GLASSON, ASSISTANT DIRECTOR, NATIONAL AFFAIRS

We appreciate the opportunity to express Farm Bureau's views regarding sugar legislation. Domestic sugar producers are in serious need of a program to help bring stability to their industry.

Farm Bureau is the nation's largest general farm organization, representing more than 3 million families who are voluntary, dues-paying members in more than 2,800 county Farm Bureaus in 49 states and Puerto Rico. Farm Bureau members are engaged in the production and marketing of every major commodity produced in this country, including sugarcane and sugar beets as well as corn for the sweetener industry.

At the most recent annual meeting of the American Farm Bureau Federation the voting delegates of the member State Farm Bureaus adopted the following policy statement:

"We support long-term legislation to protect the interests of domestic producers and maintain a viable sugar industry. Long-term sweetener legislation should provide reasonable levels for raw and refined sweetener imports. These import levels should be set on a quarterly basis to meet the needs of U.S. consumers."

The AFBF Board of Directors considered a number of detailed recommendations from the sugar advisory committee which is comprised of producer-members from 16 sugar-producing states. The following recommendations were approved relative to new legislation:

(1) Make raw and refined sugar, and any products containing substantial amounts of sugar, subject to import fees, tariffs, and quotas;

(2) Provide the domestic producer a minimum price in the range of 16 cents per pound (raw material equivalent), with the price objective to be achieved through the use of strict import quotas and fees and a domestic sugar loan program;

(3) Provide a price objective for sugar that will maintain a viable domestic sugar industry;

(4) Provide that the price objective be obtained in the marketplace, paid for by sugar users—not the government; and

(5) Provide that any criminal penalties, if necessary, be set at minimal and reasonable levels.

Farm Bureau endorses further efforts to utilize sugarcane, sugar beets and other crops as resources in the production of energy.

Farm Bureau has stated on several occasions that sugar legislation should be a high priority item in the 96th Congress. We commend this subcommittee for its early consideration of this matter.

Farm Bureau has repeatedly sought action that would protect the interests of domestic growers. Prior to last year we sought, and were denied, a reduction in the global import quota to a level that would have been commensurate with our needs. Last year we supported legislation that was reported favorably by this subcommittee. However, domestic growers still find themselves without an adequate program.

Unless a workable domestic sugar program is enacted promptly, U.S. sugarcane and sugar beet producers will be forced out of production by depressed prices and the United States will become even more dependent on sugar imports for our supply of this important commodity.

S. 463, the Sugar Stabilization Act of 1979, would provide welcome relief for this depressed industry. Farm Bureau supports this proposal and urges its favorable consideration.

We thank you for this opportunity to present our views and suggestions.

Senator MATSUNAGA. Our next witness is Mr. E. Linwood Tipton, vice chairman, Sugar Users Group.

We will be happy to hear from you, Mr. Tipton.

STATEMENT OF E. LINWOOD TIPTON, VICE CHAIRMAN, SUGAR USERS GROUP

Mr. TIPTON. Thank you, sir.

I would request that the statement be printed in the record as we have provided it to the committee.

Senator MATSUNAGA. Without objection, so ordered.

Mr. TIPTON. Thank you. I will summarize some of the points that we make in the statement.

I am the vice chairman of the Sugar Users Group and we thank you very much for the opportunity to appear before you today. The Sugar Users Group, contrary to what is frequently thought to be the case, are very supportive of a strong, viable domestic industry and we think it is necessary to provide a reasonable price to the domestic industry to continue production of sweeteners in the United States for a substantial part of our supply.

To that end, we support a price of 15¾ cents in New York. In the statement, we go into some detail in specifying the specific price that we are talking about in New York, and I think it is important that that be emphasized, because there has been some confusion about whether we are talking about prices in New York, at the marketplace, or whether you are talking about prices at the farm level.

The price we are talking about is New York with all duties and fees paid, and I think this is true in all of the bills, but we think it needs to be very explicitly stated on that point. We believe this price would be generous and would end up increasing the share of the total domestic sweeteners that are supplied from domestic sources. We are opposed to any increase in the price in 1978. We believe the 1978 support price program should continue to run its course as it has been established.

We also believe that it is important that the committee focus on some of the differences in the type of sugar that is being discussed, particularly as it relates to the cost data. The 15.8 cents that we are suggesting, is in raw form.

Now, there has been a considerable amount of cost data presented with respect to beet sugar. I have not heard the testimony here, but in some of the other hearings, there has been a considerable amount of testimony indicating it was around 17 cents. This is the number

that was also used in the General Accounting Office's study. That number, by the way, is for refined beet sugar.

That is why it is higher than the 15.8 for cane, which is the raw sugar price, and the 15.8 cents for cane would relate to 21 to 21.5 cents for refined cane sugar.

The same is true with respect to high-fructose corn sweetener that is a product that goes directly to its finished form, so the cost numbers that are bandied around for that are relating to it in its finished form, which would be equivalent to refined cane.

I think it is important to point that out, because there has been a considerable amount of confusion at times as to how those cost numbers relate to each other.

We are concerned about the future adjuster. We would suggest there should be authority for the Secretary to adjust the market support price in future years. However, we do not believe it should be based upon the cost of producing cane and beet sugar in the United States.

We believe there should be some discretion for the Secretary. There should be a hearing in which he would receive evidence on various specific factors that he would take into consideration in setting the price. We would suggest that the factors include consideration of the cost of producing cane and beet sugar as well as high-fructose corn sweeteners, that he also consider the supply and demand condition in the world as well as that in the United States and that he consider the impact on inflation. After having received that evidence, he would then make a determination as to what adjustment could be made in the market price support program for future years.

We would also suggest that his discretion be limited and that it be limited to an adjustment of not more than 5 percent upward, or 5 percent downward in any given year.

We suggest and urge that the price objective be accomplished by the use of fees. However, we are opposed to a quota concept that would limit the amount the price could vary around the price objective.

There are suggestions that there should be something that would limit the price variations to not more than a quarter of a cent variance before an automatic required change in the import fee.

There also are some suggestions that there should be a quota imposed if the actual market price varies by more than a half a cent around the market price objective for a specified period of time. This, we are very much opposed to, either one of those limitations, largely because it would eliminate the futures market, and the futures market is an extremely important part of the sugar users purchase program and provides a mechanism whereby one can fix the cost and go ahead and bid forward on cookies or ice cream, or whatever.

Most of these things are normally bid for future delivery for a considerable period of time. It is important we have some sort of mechanism to fix that cost. The futures market provides that mechanism.

We are very much concerned that it would be eliminated if these quota provisions were included. We are opposed to quotas, the imposition of quotas, just on the basis of the imposition of quotas.

We are not seeking payments as a part of the return to growers. We do believe, however, that there should be provisions to make payments, and we do believe that it is important, particularly in this regard, if the Secretary, in establishing the import fee, fails to achieve

the market objective and we believe that there should be some authority to make up that deficiency in the form of payments.

We believe that the legislation should clearly direct the Secretary to achieve the market price objective by the use of fees. However, in the event of inadvertentness that there should be some authority to provide for a direct payment. This would assure the grower that he is going to achieve the stated market price objective irrespective of whether the Secretary was able to carry out the function exactly as directed.

There is one other provision that is being discussed in some quarters, the imposition of a loan program. I know there have been a number of suggestions that the program provide that the loan rate be 89 percent of the market price objective. As was pointed out, one of the reasons that the Government is receiving a considerable amount of sugar under its loan program and probably the Government will take title to the sugar, is because there is not an adequate differential between the loan rate and the market price.

There are a number of factors. The loan rate applies to the sugar at the processor location or mill location and there is a considerable difference between the cost of the sugar at that point and at the market.

We believe, if one were to have an 89 percent loan rate of a 15.8 cent raw sugar price that the market price would have to be about 16.3 cents, assuming a 7-percent interest rate, which is the current interest rate on CCC loans, and that is considerably above the 15.8 cents that would be the target price of this legislation for 1979, as many people have been discussing.

If the interest rate were increased to 10 percent, which is being discussed by the Commodity Credit Corporation, then it would require a price in the 16.7 cent to 16.8 cent area in order for that sugar not to be forwarded to the Government.

We think those two are totally inconsistent with each other and we do not believe there is a need for the loan program under this legislation.

Thank you very much for the opportunity to appear before you.

Senator MATSUNAGA. Thank you very much, Mr. Tipton. I appreciate very much your keeping within the time limit.

Senator Dole?

Senator DOLE. As I understand it, you do not object to payments?

Mr. TIPTON. We are not seeking them. We do not really object to them either. We are not seeking them as a part of the payments structure. There are some proposals that the price should be 15.8 cents plus a half a cent of payments. We are not seeking them in that form. We do believe that it is important, however, that there be some discretionary authority to the Secretary in the event that he misses the market price objective.

Senator DOLE. He has not hit it yet, has he? Has he ever reached the market price objective?

Mr. TIPTON. I think so; yes. There have been years when it has, not under this current program; no, sir.

In the event that he does fail to achieve it, then we suggest there should be a mechanism where he can make up that difference in the form or payments.

Senator DOLE. Thank you.

Senator MATSUNAGA. Thank you very much.

[The prepared statement of Mr. Tipton follows:]

STATEMENT OF THE SUGAR USERS GROUP

My name is E. Linwood Tipton. I am the economist and executive assistant for the International Association of Ice Cream Manufacturers, and also Vice Chairman of the Sugar Users Group. I am accompanied by Mr. James V. Stanton, our Counsel, with the law firm of Ragan and Mason and Mr. Joseph M. Creed, Chairman of the Sugar Users Group.

The Sugar Users Group is an organization representing trade associations whose members are the major users of sugar in the United States. The company members of the associations comprising the Sugar Users Group use over 60% of the sugar consumed in the United States. Our member associations are:

American Bakers Association;
Association for Dressings and Sauces;
Biscuit and Cracker Manufacturers Association;
Chocolate Manufacturers Association of the United States of America;
Flavor & Extract Manufacturers Association;
International Association of Ice Cream Manufacturers;
Milk Industry Foundation;
National Bakery Suppliers Association;
National Association of Fruits, Flavors, Syrups, Inc.;
National Food Processors Association;
National Soft Drink Association;
National Restaurant Association;
Pickle Packers International, Inc.;
Processed Apples Institute; and
Retail Bakers of America.

SUPPORT VIABLE DOMESTIC INDUSTRY

We appreciate the opportunity to appear before you today and share our views on sugar policy. Unfortunately, there are some who believe that industrial sugar users are only interested in buying sugar at the lowest price possible. I want to assure you that this is not the position of the Sugar Users Group. We favor a support price program designed to maintain a viable domestic sugar industry. We know this can be done only through policies which afford an adequate return to efficient domestic producers. However, we do not believe government programs should support prices at levels that would guarantee a profit to inefficient producers.

15.75-CENT PRICE IS GENEROUS

We believe a 1979 price of 15.75¢ per pound for 96 degree raw sugar, basis New York ex dock, with all duties and fees paid including any future International Sugar Agreement levies, is quite generous. It would provide a return to domestic sugar producers at prices in excess of the average cost of production when calculated in the same manner as provided in the Agriculture Act of 1977 for many other commodities. We oppose any price in excess of this level.

SHOULD NOT INCREASE DOMESTIC MARKET SHARES

We believe this price would more than maintain a viable domestic sweetener industry. In fact, we would expect domestically produced nutritive sweeteners to continue to provide an increasing share of our nutritive sweetener needs at such a price support level. This, of course, would mean a decrease in lower cost imported sugar.

We question the desirability of continuing such a shift of sources. Only a few years ago, about half of our sugar requirements were produced domestically and half imported. The argument was repeatedly heard that the United States should produce about half of its requirements within its own boundaries to assure the availability of basic supplies in the event of supply disruptions from foreign sources. Although it was recognized that foreign supplies would provide a lower cost source of sugar, nevertheless this was the policy established by the old Sugar Act. However, with the development of high fructose corn sweeteners (HFCS), which is an alternative sweetener source for many products, the share of the market supplied by foreign sugar has declined. Foreign sugar now accounts for only about 40%, while domestically produced sugar and high fructose corn sweeteners make up the other 60 percent.

Recent government sugar pricing policies have resulted in continued reliance on domestically produced sugar to virtually the same extent as previously. This resulted in the increased production of HFCS replacing imports of lower cost foreign sugar. We do not believe this is in the best interest of consumers or the U.S. economy.

CONSUMERS SHOULD ENJOY BENEFIT OF TECHNOLOGICAL DEVELOPMENTS

Consumers should enjoy the benefit of the lower cost high fructose corn sweeteners. However, at a 15.75¢ basis New York ex dock price for raw sugar, we would expect domestic sugar and HFCS production to increase while imports decline even further. To continue this policy in future years would be a classic case of creating inflation by government programs, the very thing that millions of United States citizens agree is currently plaguing our country. It would be another case of preventing the benefits of an important technological development from accruing to consumers in order to protect a limited number of domestic sweetener producers.

Domestic sugar prices generally provide an umbrella for high fructose corn sweeteners, which are usually priced below but in direct relation to sugar prices. This occurs despite the fact that HFCS production costs are lower and bear no relationship to the cost of producing sugar. Thus, high domestic sugar prices protected by import duties and fees rob consumers of the benefits of lower cost high fructose corn sweeteners as well as lower cost foreign sugar supplies.

We do not believe Congress wishes to perpetuate particularly in these inflationary times such a situation, which is injurious to consumers and the U.S. economy.

OPPOSE ANY ADJUSTMENT TO PRESENT SUPPORT PRICE FOR 1978

Although we support a price of 15.75¢ for raw sugar for the 1979 crop years, as stated earlier, we believe it is generous. We do object, however, to any higher price and to a congressional mandated further escalation of an already high price. We also strongly oppose any change in the present 15¢ support price prior to October 1, 1979.

OPPOSE AUTOMATIC PREDETERMINED ESCALATION

The Sugar Users Group opposes an automatic escalation of the domestic market price objective. However, recognizing the possibility of increasing production costs, we recomend granting authority for the Secretary of Agriculture to review the market price objective annually and make adjustments as appropriate based on evidence introduced at a public hearing.

FUTURE ADJUSTMENTS SHOULD BE BASED ON SEVERAL FACTORS

The annual review process should provide authority for the Secretary to conduct public hearings in which evidence on the following factors would be requested. The Secretary should then be required to make a decision as to what, if any, adjustment should be made based on the record evidence.

The factors which we believe should be considered are:

1. The cost of producing domestic sugar and high fructose corn sweeteners. The basis for determining production costs should be calculated in a manner similar to that provided for other commodities in the Agriculture Act of 1977.

2. World and domestic supply and demand conditions.

3. The domestic economic situation, particularly including the impact of any change in the market price objective on inflation.

After considering the cost and availability of foreign sugar and domestically produced HFCS, the Sugar Users Group has concluded it is uneconomical and unnecessarily inflationary to set a domestic price objective designed to maintain all of the existing domestic cane and beet industry capacity. Therefore, we oppose a system of adjusting sugar prices based on a formula using the average cost of producing domestic beet and cane sugar. Instead the anual review of the market price objective should include consideration of the cost of high fructose corn sweeteners as well as that of beet and cane sugar. To provide data for such a hearing, we support provisions requiring and funding a detailed study of the cost of producing sugar and fructose corn sweeteners.

ADJUSTMENTS SHOULD BE LIMITED TO 5 PERCENT PER YEAR

To avoid unusual adjustments for producers and consumers in any given year and the consequences of anually compounding sharp increases in market price

objectives, the increase or decrease in market price objectives should be limited to 5 percent in any given year.

PAYMENTS

The Sugar Users Group is not seeking direct payments to growers as a means to reduce market prices. However, we as a group, do not oppose payments either. However, we do not believe payments to return a price to growers in excess of 15.75¢ basis New York, ex dock, is necessary or appropriate.

AUTHORITY TO MAKE PAYMENTS TO ASSURE GROWERS OF RECEIVING MARKET PRICE OBJECTIVE

Legislation should include authority to permit payments to domestic growers if, through inadvertance, the market price objective is not achieved through commercial market prices. The market price objective should be achieved by setting fees and import duties on imported sugar to cover the difference between the cost of foreign sugar and the domestic price objective. Authority to make payments to domestic producers would assure them of receiving the specified price objective even if the market price failed to meet the annual average price objective.

REMOVAL OF 50 PERCENT AD VALOREM LIMITATION ON FEES

We recommend the removal of the present 50 percent limitation on duties on imported sugar. The total import fees and duties imposed should not be limited arbitrarily to 50 percent of the ad valorem value. Authority should be provided to set duties and fees at the level required to achieve but not exceed, the market price objective on an annual average basis. Section 22 of the Agriculture Adjustment Act of 1948, as amended should be permanently amended to remove the 50 percent limitation as it applies to sugar.

RATIFICATION OF I.S.A.

We support ratification and enactment of the necessary enabling legislation to implement the International Sugar Agreement. We recognize the importance of an ISA to help sustain a viable world sugar industry and to avoid the cyclic shortages and surpluses of the past and the resulting extreme world price fluctuation. Therefore, we support ratification of the ISA as a mechanism to help stabilize the world supply and price of sugar in a range that will benefit participants in both the domestic and the world sugar industries.

OPPOSE INCLUSION OF LOAN PROGRAM

We oppose inclusion of a loan program for sugar in any new legislation. The present loan program has resulted in the accumulation of substantial stocks of raw sugar. Under the International Sugar Agreement, exporting countries are required to maintain buffer stocks and storage costs are borne by importing countries through special fees on all imports. As an importing member of the ISA, the United States has no obligation to maintain domestic stocks nor is there any provision for the United States to be reimbursed for the costs of storage if it does maintain stocks. Therefore, U.S. consumers are paying twice for the maintenance of standby sugar stocks.

Furthermore, it is difficult, without disrupting the market, to release to the commercial market sugar which has been stored under loan and subsequently forfeited to the Commodity Credit Corporation. Irrespective of whether, as under the present law, sugar is a storable or a nonstorable commodity, the fact remains that raw sugar does not store well over extended periods of time and much of the value could be lost by the time it can effectively be released from government stocks for commercial use. It does not seem appropriate or necessary to store domestically produced sugar while importing foreign supplies.

QUOTAS UNNECESSARY

Standby authority to use quotas is unnecessary if the 50 percent limitation on import fees is eliminated. However, we would support standby authority for the establishment of import quotas on an emergency basis only. The legislation should contain provisions to require a finding by the Secretary that the annual average price objective cannot be achieved by the use of fees and that quotas will achieve the price objective. The legislation should also provide for the removal of quotas at the earliest practicable moment when the emergency has ceased.

The Sugar Users believe that with removal of the 50 percent ad valorem limitation on import fees in the present law, the fee and payments concept as set forth by the Sugar Users Group, can assure domestic sugar producers that they will receive the price objective without disrupting either the marketplace or interfering with the relationship between the United States and the supplier nations.

However, we recognize that support for using the quota approach to protect domestic prices is ingrained in many groups, and therefore, do not object to the inclusion of standby authority for the Secretary to impose quotas when it has been determined that no other means will maintain the desired return to growers.

Although we do not foresee this situation developing, if it nevertheless did occur, it is believed it could exist only for a brief period. Therefore, provisions must also be made for removal of quotas as quickly as possible after accomplishment of the objective.

Mr. Chairman, again we appreciate the opportunity to testify on sugar legislation and will be happy to respond to your questions.

Senator MATSUNAGA. Our next witness is Mr. Robert J. Mullins, Assistant Director of Legislative Services, the National Farmers Union.

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

STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR OF LEGISLATION, NATIONAL FARMERS UNION

Mr. MULLINS. Thank you, Mr. Chairman. I have a very short statement also, but I will make it even shorter.

I am Robert J. Mullins, Assistant Director of Legislative Services for the National Farmers Union.

A year ago, we appeared before the committees of the House and Senate to advocate adoption of a domestic sugar stabilization program for five years ahead, providing a 17 cents price stabilization goal for 1979 together with an escalator provision for later years.

The Congress was unable, due to pressures from the White House and from sugar users, to conclude approval of needed legislation before adjournment last October.

In the interim, conditions for sugar beet and cane producers and for the domestic processing industry have worsened. All of that has been outlined earlier today.

I would like to point out, though, that the sugar production in the world is growing and we deem it because of this necessary to enact legislation immediately. World sugar output is now projected at 93.2 million metric tons for 1978–79. This would be 3 million metric tons in excess of expected consumption.

Carryover stocks are 32.2 million metric tons. Add that, and that is about 34 percent over world consumption. This year, 1978–79, we are looking at 35.2 million metric tons or 38 percent of consumption carryover. This is the sixth successive year that we have been building stocks in the world.

We heard from a couple of other spokesmen this morning that enactment of this legislation would be inflationary. It is our view that by holding the price objective to approximately 15 cents and continuing the demise of the domestic sugar industry could, in the long run, be the most inflationary of all measures that we could take.

For more than 40 years we had price stability in the sugar market. During that time, sugar rose less than the overall average of food products in the Consumer Price Index.

When the Sugar Act expired in 1974, it put consumers on a roller-coaster. Prices went as high as 65 cents a pound, or thereabouts.

To suggest that the consumers would have to rely on the gyrations of the world market, if at a time when we would have worldwide shortages, could effectively double, triple or quadruple the price that producers are paying for sugar.

Thank you.

Senator MATSUNAGA. Thank you very much, Mr. Mullins. I appreciate your testimony. I am sure the growers appreciate the support of the National Farmers Union.

If there are no questions.

[The prepared statement of Mr. Mullins follows:]

STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

I am Robert J. Mullins, Assistant Director of Legislative Services.

A year ago, we appeared before the committees of the House and Senate to advocate adoption of a domestic sugar stabilization program for five years ahead, providing a 17¢ price stabilization goal for 1979 together with an escalator provision for later years.

The Congress was unable, due to pressures from the White House and from sugar users, to conclude approval of needed legislation before adjournment last October.

In the interim, conditions for sugar beet and cane producers and for the dometic processing industry have worsened:

Several sugar cane mills and one refinery at Huoma, Louisiana have closed since 1977–78.

Four sugar beet refineries have closed for 1979 (Rocky Ford, Colorado, Idaho Falls, Idaho, and Moses Lake and Toppenish, Washington), leaving farmers without markets for 87,000 acres of sugar beets they grew in 1978.

Beet sugar acreage intentions for 1979 are reduced by 11 percent from a year ago.

World raw sugar prices remained depressed at about 8¢ a pound.

The International Sugar Agreement (ISA), negotiated in 1977, still lacks major signatories and shows no indication of being able to rally world market prices to the objectives of the agreement.

World sugar output is now projected at 93.2 million metric tons in 1978–79, 3 million MT in excess of expected consumption.

Carryover stocks at 32.2 million MT and equal to 34 percent of world consumption will grow in 1978–79 to 35.2 million MT or 38 percent of consumption. This is the sixth successive year of stocks build-up and the largest carryover in recent years.

It is clear to us that there is no way that the ISA pact can cope with the worsening world market situation.

At the same time, it would be short-sighted to expect that the attrition of the domestic sugar industry will be halted if the sugar price objective remains at 15¢ per pound of raw sugar.

Continued deterioration of the production industry will risk the huge investment farmers have in their sugar production equipment and in their cooperative refineries and, at the same time, pose a threat to the 150,000 full-time and part-time workers employed in the fields, mills, and refineries.

Holding down the sugar price objective to 15¢ a pound or therebout is being defended on inflationary grounds, but it will be the most inflationary course of all if the domestic industry is allowed to disintegrate.

For more than 40 years, from 1934 to 1974, consumers of our nation enjoyed relative supply and price stability in sugar. The price of sugar during that period rose less than the overall average of other foods in the Consumer Price Index.

The termination of the Sugar Act at the end of 1974 took consumers on a frightening ride on the roller-coaster, with prices reaching a peak of 65¢ a pound.

To suggest that consumers should depend principally on imports for their sugar supply is to invite a second ride on the roller-coaster, but the eventually peak this time may well be $1 a pound.

Without a viable domestic industry, there is no way that the gyrations of the roller-coaster can be avoided for consumers.

At the 77th annual convention of National Farmers Union, March 11–14, 1979, at Kansas City, Missouri, our delegates and members adopted the following statement on sugar policy for 1979:

"We urge the Congress to adopt new sugar legislation providing for:

(a) A price objective of 17¢ per pound for the 1979–80 marketing year, through the management of import quotas and tariffs;

(b) A support program covering at least five marketing years to allow producers the opportunity for long-range planning. The program should provide for annual adjustment in the support price to reflect the cost of production; and,

(c) We ask the Executive Branch to invoke Section 22 of Agricultural Act of 1935, putting into effect tariff levies or import quotas, or a combination of both, to ensure that imports do not interfere with the conduct of the domestic support program. Section 22 measures, however, should be replaced as soon as necessary legislation can be enacted for a variable levy representing the difference between the world sugar price and the U.S. support level, in effect, raising the price of imported sugar to that of the domestic product."

In conclusion, we reiterate again the urgency of the situation and recommend your favorable action on a bill providing a price objective of not less than 17¢ for 1979.

Senator MATSUNAGA. The subcommittee will stand in recess, subject to the call of the Chair.

[Thereupon, at 12:55 p.m., the subcommittee recessed, to reconvene at the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT BY SENATOR LLOYD BENTSEN

Mr. Chairman, I appreciate this opportunity to testify before the Subcommittee on S. 463, the International Sugar Stabilization Act 1979, of which I am a cosponsor.

Mr. Chairman, the need for this legislation is very real and very pressing. Without it, the sugar industry in Texas will go bankrupt, with severe consequences both for the local areas and for consumers throughout the State and nation. Texas grows over 34,000 acres of sugar cane in the Rio Grande Valley, an area which is among the poorest in the nation in terms of per capita income. It is an area which cannot afford to lose an industry with an annual payroll of $7.7 million, yet at current sugar prices that is exactly what they are faced with.

Texas is also a major producer of beet sugar. The High Plains area of Texas produced over 23,000 acres of sugar beets last year, and this has become a staple local industry. However, producers in this eight-county area are threatened by very low prices on the one side and declining water tables and very expensive natural gas for irrigation pumps on the other side. In the balance hangs the livelihood of hundreds of farmers and farm workers, 400 employees of the local processing plant, and hundreds more in the local communities who provide services to support and in turn earn their living from this economic activity.

Mr. Chairman, the benefits of this legislation to Texas producers are obvious. However, to be worthy of support, this legislation must also benefit sugar consumers. I believe that these benefits are obvious when the position of the United States in the world sugar market is understood. The United States consumes about eleven million tons of sugar annually, but we produce only about 4 million tons of sugar. Thus, we are already largely dependent on the world sugar market. This world market is noted for its volatility, and I would remind those who seek only low prices that a few short years ago sugar prices went above 70 cents per pound. A viable domestic sugar industry provides us with a cushion against shifts in world supplies, and it provides a shield and deterrent against any attempt to form a sugar cartel.

This bill, by implementing the International Sugar Agreement and by establishing a market price objective of 17 cents per pound, will provide consumers with a more stable and reliable sugar supply. It will not guarantee producers a profit, but this price will stem the flow of red ink and allow an important domestic industry to survive and return benefits to all our citizens.

Mr. Chairman, I commend my distinguished Colleague, Senator Church, for his untiring efforts in seeking a solution to this complex problem and in sponsoring this bill. I strongly urge that its recommendations be accepted by the Subcommittee.

STATEMENT BY SENATOR DANIEL K. INOUYE

Mr. Chairman, today I wish to submit testimony in support of legislation that is crucial to the economic survival of my State.

Hawaii is the Nation's largest sugar producing state, producing about one-fifth of all sugar produced in the United States. The sugar industry is Hawaii's most important agricultural product and in 1977 occupied 220.7 thousand acres of land, or 74.2 percent of all Hawaii's cultivated cropland. Furthermore, sugarcane is the major agricultural crop on each of the major Hawaiian Islands.

Approximately 29,000 people in Hawaii depend on the sugar industry for their employment. The First Hawaiian Bank, one of Hawaii's leading banks, estimates that if Hawaii's sugar industry was to collapse the overall unemployment rate would increase to 15 percent, Hawaii's general fund tax revenues would drop by 10 percent, and the State's welfare cost would increase a minimum of 50 percent to nearly $200 million per year. Extremely high expenditures for unemployment compensation, welfare and food stamps seem to be the only short-term alternatives for that segment of Hawaii's population that would be left jobless if sugar prices were to remain depressed. The First Hawaiian Bank concludes that the "closing of the sugar industry would be devastating to the State of Hawaii's economy and would result in the almost complete collapse of the Neighbor Island economies". Yet, both Hawaii sugar earnings and acreage have been steadily declining in recent years.

Alternative forms of employment for people employed in Hawaii's sugar industry are very limited. Hawaii's relatively small population and distance from the mainland prohibits local production of many consumer and capital goods at efficient economies of scale. I must emphasize that there are no viable alternative crops which could replace the sugar industry in Hawaii. While diversified agriculture has grown, even under the most favorable assumptions, Hawaii State planning officials do not expect to match sugar sales or acreage. Diversified agriculture in Hawaii faces serious obstacles, including a small market which cannot support large scale operations; competition from overseas producers with lower production costs; and high costs in supplying overseas markets due to transportation costs and high labor, land and material costs. Total self-sufficiency in vegetables and fruits which can be grown in Hawaii, regardless of cost, would occupy only an additional 3,500 acres.

A dismal record exists in finding a replacement for growing sugar on those plantations that have closed in the past few years. For example, after the Kohala Sugar Company went out of business in 1975, Hawaii's State Government organized the Kohala Task Force to find substitute economic activities for the Kohala area. The State invested more than $6 million in new enterprises. The largest of these, a feed grain and feedlot operation, has gone bankrupt. The plastics firm has also failed; a hay growing enterprise is running into great difficulties. The State as late as last week became involved in further litigation to untangle the financial tangle it has gotten itself involved in. Little has been achieved in providing employment for the Kohala area.

It is a misconception to think that the world's depressed sugar prices are affecting the economic viability of only Hawaii's large agribusiness corporations. In addition to the major producers, there are about 500 independent producers accounting for about 5 percent of Hawaii's acreage and production. In almost every case economic hardships has been the experience of independent growers and sugar companies that remain in the sugar business. This is particularly true for the small sugarcane farmer. For example, in 1978, a small farmer with 10 acres of land which produced 100 tons of sugar incurred losses in his sugarcane production of $4,000 on the average. The per ton sugar loss in 1978 was $40. In one particular instance an independent grower with the Hilo Coast Processing Company who harvested 200 acres of sugarcane in 1978, or some 1,600 tons of sugar, incurred a staggering loss of $222,200. These independent growers are less capable of surviving extended periods of depressed price than the sugar companies. Hawaii's State Government has already made $1.5 million available for low interest loans in 1977 to independent growers and provided an additional $750,000 in 1978 to help cover previous losses and to supplement new crop financing.

Keeping Hawaii's land in sugarcane have other attractive arguments. For example, bagasses, a by-product of the sugarcane refining process, has become a viable source of electrical energy. On the Island of Hawaii approximately 60 percent of all electrical energy is now generated by the burning of bagasses. Similar situations also exist on other of the Hawaiian Islands. Cane can also be used to produce alcohol for fuel the world's energy situation makes it logical to develop cane as an alternative energy source. While market and economic considera-

tions limit the full use of cane byproducts at the present time, it is not unfeasible that this alternative energy source will become economically viable in the foreseeable future.

Hawaii's sugar industry has been increasingly hampered by a sharply rising cost of production, much of it government induced. Hawaii's sugarcane producers have for many years been paying the highest agricultural labor rates in the world, meeting United States and Hawaii standards for working conditions and benefits, complying with United State's environmental requirements, and shipping incoming supplies and outgoing sugar in American flag ships. Industry costs are expected to increase even further in 1979 due to negotiation of a new labor contract and to continue increases in other categories, especially in energy and capital equipment costs. Depreciation has been inadequate to cover equipment replacement costs and an estimated $55 million in capital investment in the 1973–77 period had been to satisfy Environmental Protection Agency requirements. Thus, while encountering extremely high production costs, Hawaii's sugar producers have been able to remain economically viable due to their efficient production methods. The Hawaiian sugar industry is considered one of the most technologically advanced in the world. Its economies of scales and high yields have enabled it to maintain its competitive position despite the distance to markets and high labor, land and materials cost.

Sugarcane in Hawaii, at the time of harvest, is on the average 24 months old. About one-half of the acreage is harvested in any one year, It, therefore, requires long-term planning and a long-term commitmênt on the part of the government to provide an adequate return. It is extremely unrealistic on the part of the American Government to require the American sugar industry to compete on the open market with foreign sugar producers. Sugar production and marketing is regulated by more governments and to a greater degree than any other commodity.

The governments of the four largest suppliers of U.S. sugar—Australia, Brazil, the Dominican Republic and the Philippines—play key roles in their sugar industries. Each of these countries control the amount of sugar grown and set the domestic sugar wholesale and/or retail price of their sugar. Brazil and the Philippines purchase all sugar for export from their domestic producers. Government corporations in the Philippines and Australia own all sugar produced in their countries. And in the Dominican Republic the government owns the mills producing the majority of the sugar. Consequently, the sugar industry in each country does not operate in a competitive environment. Those who oppose a comprehensive sugar bill seek to force our sugar producers to compete against subsidized producers in a non-competitive system. This is completely unrealistic and unfair.

Approximately 11 million tons of sugar are consumed in the United States each year, however, only 55 percent of this amount is produced by our Nation's farmers. If the expressed goal of the Carter Administration is to improve our declining balance of trade then the domestic sugar industry should be considered as one factor that can help to prevent our balance of trade from declining further, a trade balance which could only worsen if the U.S. Government was to encourage the phase-out its domestic sugar industry.

While the President is authorized to support the price of sugar at 15 cents per pound, it was not until the early part of February that this was actually accomplished. Because the price support level of sugar has been lower than the loan support level, American sugar producers have found it more attractive to store their sugar under the government's loan support program and default on their loans leaving the government with the responsibility of marketing their sugar. With the 1978 sugar crop continuing to pour in, the Treasury's involvement in price support loans is now approaching half a billion dollars, in addition to the $200 million of subsidy payments made by the Government. The Government still has $122 million worth of 1977 domestic sugar on its hands, and it will soon begin paying storage costs while the sugar ages and quality fades at a rate that, experts say, no one can measure or accurately predict It is, therefore, desirable to support the price of sugar at a level above that of the loan support price.

In summary, while Hawaii is a small state with a small population, it carries a responsibility equal to that of the other states of this great nation. Hawaii's taxpayers support projects such as rescuing New York City from bankruptcy. We support the price of agricultural products not grown in Hawaii. The citizens of Hawaii believe that is part of the responsibility of being citizens of the United States. Now the people of Hawaii ask support for an industry that is vital to their livelihood—their sugar industry. I hope the Congress will respond.

STATEMENT OF JAMES H. ELGIN, ON BEHALF OF THE NYSSA-NAMPA BEET GROWERS ASSOCIATION

Mr. Chairman and members of the Committee: I am James H. Elgin, Executive Secretary of the Nyssa-Nampa Beet Growers Association, and this statement is presented on the behalf of our membership of about one thousand members who have traditionally grown almost 60,000 acres of sugarbeets each year. This statement is also on behalf of the workmen, families and many businesses who have an economic stake in the well-being of a domestic sugar industry.

You must each make an important decision regarding sugar legislation and each of you will make that decision on what you believe to be in the best interests of your constituents, and also in the best interests of your States and the nation as a whole. For those of you who have sugar interests in your States or Districts, you have a depth of background information, and your final decision will be easier to make than those without these local interests.

The basic decision you must each make is: do we need a domestic sugar industry in the United States? The following information is presented so that each of you can make your decision on facts relating to this most serious matter.

Sugar is a unique commodity, and throughout history has had special significance and many times has played an important part in the foreign affairs and relationships of most countries; in fact decisions on "sugar" throughout the world are more political than economic. In this country the "foreign relations" aspect of sugar has been a determining factor in the Administration's sugar policies. Our State Department has repeatedly placed the interests of third world and developing countries above the interests of our domestic industry; all in the name of international relations.

Napoleon Bonaparte founded a beet sugar industry in France to insure "sugar" independence; and today, in the face of seemingly large world surpluses, many nations strive for sugar independence. Recently the Arab nations of North Africa and the Middle East announced that they would triple their production of sugar to 3.5 million metric tons, thus eliminating their dependence on imports.

You can see that sugar decisions are frequently political and strategic, rather than economic. The question you must answer is: is it in our best interests to have a domestic sugar industry that will supply half of our needs, and on what basis do we make that decision. Opponents of a domestic program have stated that there is plenty of world sugar, and it is selling at half the domestic price, and that any domestic program would be a "rip-off" of the American public. These charges are false, and should be examined in detail. First, the statement that there is plenty of world sugar and will cont ue to be so, is based on an attitude that a person "can have his cake and eat it too". In other words, these charges assume the continuing production of domestic sugar regardless of our policy decisions. True, there is a current spot surplus of world sugar, but we need to go back to 1977 to examine the premise that there is "plenty of world sugar". At that time Congress and the Administration acknowledged the need for a domestic sugar program, and with the de la Garza amendment to the 1977 Far Act, attempted to "shore-up" the domestic industry for 1977 and 1978. This measure allowed the industry to survive on a temporary basis, but without this program; what would have been the effect on world supplies of sugar.

Most experts (F. O. Licht, the U.S. Foreign Ag. Service, Merrill Lynch, sugar y Azucar and others) place the world surplus at between 14 to 17.5 million metric tonnes. Our combined domestic production for 1977 and 1978 was 11 million metric tonnes, and if we assume a 1979 crop of 5.5 million; then we can see that this total of 16.5 million metric tonnes would have "wiped-out" any world surpluses, had it not been available. On a temporary basis, we could have survived without our domestic production, but on a permanent basis, there is not enough world capacity or potential to make up the loss of U.S. production.

As for the current prices of sugar, U.S. vs. world; it has for over half a century been proven, that because sugar is a controlled commodity in almost every major nation, you cannot make a meaningful comparison to world futures or spot markets. The last report on sugar, to the President from the U.S. International Trade Commission, Publication 881 of April 1978, page A-72; states the case very well and says again what previous research has proven: "world markets.—the price does not represent the price at which a majority of world sugar is traded, but represents only the residual market after producing countries have satisfied their domestic needs and those of preferential markets."

The residual or "dumped sugar" has traditionally been around 15 percent of the world crop. For the 1977-78 crop, F. O. Licht estimates this figure to be around

17.2 percent with almost 12 percent going for long term agreements and with over 65 percent consumed in the country of origin. We can see that residual sugar is limited in nature and has been subject to extreme price fluctuations.

Also long term arrangements have little relationship in prices to the spot market price. It is believed that the USSR pays Cuba in excess of 30 cents per pound, raw basis, for the sugar bought from Cuba; and this is but an indication of the fact that sugar is a controlled commodity throughout the world.

The following table, compiled by the Foreign Agricultural Service of the USDA, showing actual retail prices in 16 selected world capitals; should be of interest. These figures are for July, 1978, and are the last ones that were available to us.

Capital	*Price per pound*
Bonn	$0.35
Brazilia	.18
Brussels	.45
Buenos Aires	.28
Canberra	.20
Copenhagen	.68
London	.23
Mexico City	.12
Ottawa	.19
Paris	.29
Pretoria	.18
Rome	.36
Stockholm	.40
The Hague	.35
Tokyo	.54
Washington, D.C	.30
Average price	.32
Median price	.29

It is interesting to note the extreme spread of prices, from 68 cents to a low of 12 cents; and both in countries with controlled sugar production and marketing. Note also the Canadian price of 19 cents, but there the Growers are guaranteed almost $35 per ton of sugarbeets. The free market has little to do with most sugar prices; and to attempt to have U.S. growers compete against foreign subsidized sugar, would be like having two sets of rules, one for us and one for them.

Perhaps another way of determining if a domestic sugar program would be in the interests of our country, both for producers and for consumers: would be to go back in history to 1930 and examine over 40 years of prices under the old "sugar act" and the prices after the demise of the Act. Actual retail prices are given, as well as "Real" prices based on conversions, using the Consumer price index.

	Retail price (cents)	Real price (cents)
Year:		
1930	6.1	12.2
1931	5.6	12.3
1932	5.0	12.2
1933	5.3	13.7
1934	5.5	13.7
1935	5.7	13.9
1936	5.6	13.5
1937	5.6	13.0
1938	5.3	12.6
1939	5.4	13.4
1940	5.2	12.0
1941	5.7	12.9
1942	6.8	13.9
1943	6.8	13.1
1944	6.7	12.7
1945	6.7	12.4
1946	7.7	13.2
1947	9.7	14.5
1948	9.4	13.0
1949	9.5	13.3
1950	9.7	13.5
1951	10.12	13.0
1952	10.30	13.0

	Retail price (cents)	Real price (cents)
Year—Continued		
1953	10.56	13.2
1954	10.51	13.1
1965	10.42	13.0
1956	10.57	13.0
1957	11.03	13.1
1958	11.26	13.0
1959	11.43	13.1
1960	11.63	13.1
1961	11.77	13.1
1962	11.70	12.9
1963	13.58	14.8
1964	12.81	13.8
1965	11.80	12.5
1966	12.04	12.4
1967	[1] 12.19	[1] 12.19
1968	12.18	11.7
1969	12.40	11.3
1970	12.97	11.2
1971	13.61	11.2
1972	13.91	11.1
1973	15.10	11.3
1974	32.34	21.9
1975	37.24	23.1
1976	23.96	14.1
1977	21.62	11.9
1978	23.80	12.2

[1] Conversions based on Consumer Price Index (1967 equals 100)

From the preceding table, it is evident that the "old" sugar act provided remarkable stability of prices; with adequate supplies of sugar at reasonable prices, and with a steady but modest return to the efficient grower. It is interesting to note that the 40 years from 1930 to 1970 shows an average retail price (adjusted for inflation) of 13.01¢ per pound with a high of 14.8¢ and a low of 11.3¢.

Please note also that increasing inflationary pressures in the late 1960's brought the real sugar prices down into the 11¢ range, and created the "seeds" for the destruction of the act which had provided such market stability. Growers in this period and in the early 1970's were in a badly deteriorating profit situation and refiners and processors were in a like situation; all with insufficient returns from sugar to provide for necessary upkeep and equipment replacements.

The "handwriting" was on the wall, and the demise of the old sugar act resulted in real sugar prices in excess of 20¢ in 1974; reaching a peak of 23.1¢ in 1975. We again find ourselves under De la Garza at the low end of the scale, with grower returns based on only 52½ percent of parity. We are the point of decision. If history teaches us anything, it is that we need sugar legislation that will provide for adequate returns for an efficient producer. The "squeeze" can only be applied so hard before we see the permanent destruction of our domestic sugar industry, and the resulting volatility of supplies and prices.

There are others in Congress who believe that we need a domestic sugar industry. They heed the examples of oil, cocoa, coffee and some essential minerals; and believe that we should not be dependent on foreign sugar for our total requirements. They know that further reliance on foreign sugar, would add to the deficits we now have in foreign trade. They know of the importance of the sugar industry to the local economies and states that would be affected. However some in Congress, while believing in a domestic sugar industry, do not believe in a legislative solution to our problems. They believe that we should "tough" it out, even if it would require laying-out of production for a year or so.

In response to this position, let us admit that the growers of sugarbeets could do so; and our experience is that our growers are cutting back acreage or getting out of beet production. The equipment is there on the farm, and full production could easily be resumed. However sugar production requires a partnership of the growers and processors. History shows that it is most difficult to "mothball" a beet processing plant, because of the complexity of the equipment and rapid deterioration of unused equipment. History shows that once a plant is closed, that it stays closed. Furthermore plants must be located close to the supply of sugarbeets and a closure of processing facilities would end forever the production of a crop that had been of major importance. Trans-shipments of beets and runs of more than 75 miles make the crop economically unfeasible. The Rocky Ford plant in Southern Colorado will close this year because of low prices and high

freight rates and so Southern Colorado and Kansas have lost an important portion of their agricultural economy.

We are also going to lose processing plants in other areas. U & I has announced that they will no longer operate the four plants that they own. The possibility exists that the two plants in Washington will re-open under a cooperative arrangement, but the fate of the other two plants; one in Idaho and the other in Utah, seems destined for permanent closure. How many more plants will close and how many more areas will lose an imporant crop before a decision is reached on the future of this industry?

We believe that there are many valid arguments for legislation that would insure the survival of our domestic sugar industry, and we would respectfully request that you consider some of our specific recommendations for inclusion in any sugar act.

1. INTERNATIONAL SUGAR AGREEMENT

We believe that any legislation should provide for implementation of the International agreement, but that any domestic legislation should be in place before such ratification.

2. PRICE

We believe that a minimum of 17¢ per pound. raw basis, is essential for the 1979 sugarbeet crop. The Church bill in the Senate would provide for this minimum and the Ullman-Foley "International Sugar Stabilization Act of 1979", after adjustments to reflect changes in costs of production would reach this level for 1979.

However the Ullman-Foley measure has a provision that up to ½¢ in direct payments (as does the Administration proposal). We oppose the very concept of a direct payment, and believe that the market should pay the costs of any program.

Also note the attached cost study (pink sheet) done by the Oregon State University Agricultural Extension Service in cooperation with our Association. Our growers are efficient; grow much better than average tonnage, yet with today's costs, to recover the full costs and returns for production, the grower would need to get $29.69 per ton. This return would require a very minimum of 17¢ per pound for the 1979 sugarbeet crop.

(Please note that some believe the land charges in the cost study too high. However to the grower who rents ground, or the younger farmer purchasing property; these are true costs.)

3. LABOR PROVISIONS

We have opposed labor provisions that are aimed at a specific crop. We have traditionally paid much higher than the minimum wage, but in the interests of all concerned we have agreed in the past to a compromise and would accept reasonable provisions.

4. IMPLEMENTATION

We believe that any sugar act should be implemented not only with duties and fees, but also through the use of quotas.

5. SURVEYS AND INVESTIGATIONS

We believe the Section 409 of the old sugar act should be incorporated in any new legislation. The purpose of this section was to "Assure the fair division of the benefits of a sugar program." Since the position of labor is being protected, we believe that provision should also be made to insure equitable benefits of a new law between growers and processors. This paragraph would insure a mechanism for insuring equitability.

Thank you for your consideration.

These data were obtained by County Agents Jim Burr and Gary Schneider and Farm Management Specialists in cooperation with Nyssa—Nampa Beet Growers Association. Additional information was obtained from local suppliers, machinery dealers, lenders and others familiar with the local sugar beet situation.

This sheet has been developed to provide a guide or estimate of the cost of producing potatoes in Treasure Valley. It is not expected that these costs will necessarily reflect the average production costs because of the wide range of production practices that are followed in the valley. Rather, this sheet reflects the concensus among one group of commercial producers for one size and one set of production practices for the valley. Costs and yield are greatly influenced by the size of operation, production practices followed by the overall level of management.

SUGAR BEETS—TREASURE VALLEY

	Inputs per acre				
	Labor				
	Hours	Value	Machinery	Other cost	Total cost
Cultural operations: [1]					
Fertilize (fall), custom [2]				$55.00	$55.00
Disc	0.2	$0.95	$4.70		5.65
Chisel	.5	2.40	11.00		13.40
Fall plow (3-16 in)	.5	2.40	11.70		14.10
Harrow (spring)	.15	.70	1.60		2.30
Float (2 times)	.5	2.40	10.50		12.90
Fertilize, custom				20.00	20.00
Field cultivate	.5	2.40	11.00		13.40
Plant (4 lb No. 2 raw seed)	.5	2.40	17.40	18.00	37.80
Weed spray (2 times), material	.6	2.90	6.60	20.00	29.50
Cultivate (5 times)	2.5	12.00	24.10		36.10
Thinning, custom [3]				27.50	27.50
Hand hoeing (2 times)	10.0	38.00			38.00
Irrigation, water charge [4]	6.0	22.80	4.60	13.15	40.55
Disease control (1½ times), custom, sulfur				11.25	11.25
Insect control, custom				30.00	30.00
Harvest operations:					
Top beets	.8	3.80	30.40		34.20
Harvest beets	1.0	4.80	47.00		51.80
Haul beets	3.5	13.30	39.55		52.85
Other charges:					
Operating capital interest (11 percent)				18.30	18.30
Land charge (rent) [5]				150.00	150.00
Management [6]				20.70	20.70
General Overhead [7]				15.10	15.10
Cash costs		74.10	66.05	378.30	518.45
Noncash costs		37.15	154.10	20.70	211.95
Total cost per acre [8]		111.25	220.15	299.00	730.40
Cost per ton at 26 ton yield				28.09	28.09
Cost per ton at 24.6 ton yield				29.69	29.69
Cost per ton at 23 ton yield				31.76	31.76

[1] Fumigation when necessary will cost about $100 per acre on a custom basis.
[2] Total fertilization applications is 200 lbs N, 150 lbs P_2O_5, and 40 lb K_2O.
[3] Cost is for hand thinning; custom rate for machine thinning is about $25 per acre.
[4] Cost for sprinkler irrigation are estimated to be $45-$55 per acre for labor, equipment and water.
[5] A typical land rental is $130 to $170 per acre.
[6] Estimated at 4 percent of all cash costs.
[7] Include pickup truck, accounting, fee office, shop, tools, general insurance, and other miscellaneous items estimated at 3 percent of all cash costs excluding general overhead.
[8] Estimated costs for 1979 crop.

Note: Based on: (1) 50 acres of sugar beets; (2) Normal yield of 24.6 tons per acre; (3) 70 DBHP tractor at $8.80/hr; (4) 105 HP tractor at $16.80/hr; (5) 1979 machinery prices; (6) 400 hr use each tractor; (7) Operator labor at $4.80/hr; (8) Hired labor at $3.80/hr.

This sheet takes into account only the production costs and does not include any type of returns to the grower. Also, this data was developed with the assumption that the land is rented and not owned. Growers owning their own land should consider an investment charge against the land to depict the opportunity foregone of investing their capital elsewhere. Also, land appreciation should be taken into account to more accurately depict the landowner's actual financial condition.

Machinery charges were made based on 1979 costs. These costs were averaged over the estimated lives of the machines. Cost for each machine include depreciation, interest, insurance, housing, repairs, fuel and lubrication.

Hired labor was charged at current wage rates. The rate includes social security, workmen's compensation plus other benefits. The operators labor is an estimate of what it would cost to replace that quality of worker. A separate charge was made for the managerial input of the operator.

March, 1979.

Testimony by W.I.F.E. Women Involved in Farm Economics

We belong to a national organization called W.I.F.E., Women Involved in Farm Economics. We are extremely concerned over the future of the Sugar Beet Industry.

In our area it is the main crop. The growing season here is very short and we are limited in alternate crops. The only other crops grown here are feed grains, malting barley, alfalfa and dry beans, none of which are making a profit at this time.

Our valley is very dependent on the Sugar Beet industry. The Lovell Factory employs 52 year round and 300 part-time workers with a payroll of $1½ million.

The farmer employs hundreds of migrant workers in the fields. These people are not trained to do any other work. There are day-care centers and school facilities available with meals for their children, and access to vocational training for the youth. To suddenly cease raising Sugar Beets would drastically affect their way of life.

Sugar Beets require specialized equipment, the price of which has doubled the last few years. The implement dealers have certainly had much less business in recent years due to depressed prices. However, as there is excessive wear on Sugar harvesting equipment, it does have to be replaced. We should have at least 17¢ per pound for our Sugar.

Below are some of our increased expenditures.

1. Fertilizer has increased 19 percent since last fall.
2. Interest on agriculture loans has gone up 1 percent raising it to 10½ percent.
3. Labor costs have and will continue to rise each year.
4. Land taxes in our area are rising from 200 percent to 300 percent over the next four years.
5. Fuel is rising astronomically.

We strongly feel that land costs must be considered when figuring the cost of production. Whether the farmer buys or leases land it can only be paid for by earnings from the land.

We are now surviving only by borrowing against the equity of our land. This does not make a healthy economy for us or our country. We hope that legislation will be enacted that will be beneficial to the consumer, the producer and the processor, a price which will bring stability to the market. It is vital that our country protect itself as well as the grower from becoming further dependent on foreign nations and build strength from within.

Testimony of Carl L. King

Mr. Chairman and members of this committee: I am Carl King from Dimmitt, Texas, president of Texas Corn Growers Association, and a member of the Board of National Corn Growers Association. I am a farmer.

In May, 1978, I testified before the Senate Subcommittee on Tourism and Sugar in regard to SB 2990, and before the House Agriculture Committee, on behalf of National Corn Growers Association; and today I appreciate the opportunity to present this testimony on behalf of Texas Corn Growers Association.

The corn sweetener industry in this country offers the American consumer a high degree of efficiency and economy in their sweetener supply, and I believe this is one of the long term goals of the sweetener act. The sugar industry has suffered serious injury since the old sugar act expired in 1974. In one rash action, forty years of price stability were thrown out in favor of a 'boom or bust' approach. Farmers and consumers both would be better off with a program that provides stability of supplies and prices.

Too long the American farmer has been forced to subsidize low corn and sugar prices to the American people and the world, dipping into his equity because he has farmed at a loss, especially in 1976, 1977 and 1978; and in that connection he has been in direct competition with heavily subsidized sugar dumped in the U.S. market, resulting in low sweetener prices. It is inconceivable to me that the cheap foreign subsidized sugar is imported into this country—between 40 percent and 50 percent of what this country actually consumes—and yet we hear that these foreign crops are sprayed with DDT and 2-4-D and other chemicals; and environmentalists in this country would not tolerate domestic producers using certain chemicals, yet we are hamstrung by loss, by prohibiting the use of certain types of insecticides by the U.S. producer of corn, sugar beets, and cane. Certainly we do not want to use anything that would be hazardous for human consumption, but we feel that this is another example of unfair competition in relation to imported foreign sugar.

Some members of the Corn Refiners Association have closed their doors permanently during the last two years due to low sweetener prices, and others were unable to open newly constructed plants. Many have had to reduce their production levels, resulting in the loss of jobs and decrease of dollar turn-over, not only in the local economy where corn sweeteners are refined, but in the entire economy of the U.S.

We certainly need to protect the American grower, because it appears that the Administration seems to leave the grower last in many segments of agriculture. We do believe that the ISA can bring a more realistic stability to the

world sugar market. We share the view that a domestic program is necessary to assure the objectives of the ISA. I think I speak for the majority of the American farmers, especially the corn farmer, when I state that we are not for direct federal subsidies, but we do believe we need a guaranteed floor price for domestic sugar producers to insure receiving our cost of production plus a reasonable profit. This is no more than the advocation of the President when he was running for office. Today's cost of production of one acre of corn on the High Plains of West Texas is $491.80. (See attached exhibit.)

We certainly hope that corn growers haven't got to the point they are in competition with cane and sugarbeet growers. The American producer feels like he is in competition with foreign imports rather than the other segments of the domestic industry. We are concerned with the idea that a fixed level of these foreign imports must be protected, and that the domestic sweetener industry be limited to dividing up the growth in demand instead of displacing foreign imports. If the growth would occur in the corn sector of the sweetener industry, it could lessen our country's dependence upon costly imports.

If a bigger percentage of our sugar sweetener industry in the US could rely on domestic producers for most of the sugar consumed in this country, then perhaps we could live with approximately 16¢ sugar, provided we had an escalator clause for cost of production attached to this legislation. Administration spokesmen have said they will accept a measure that authorizes payments of up to ½¢ per pound, but it has passed the buck to Congress once again to make these decisions. Although the chances of getting a sweetener act passed through the Congress if payments to producers and processors are eliminated entirely, we do not think the President will sign into law this legislation.

We don't believe the President will veto a price of 16.8¢, which includes one-half cent (.5¢) which he wants to be a loan, instead of obtaining the price objective by limiting the imports.

It would seem prudent to provide much of our domestic requirements with domestic production and lessen our dependence on foreign imports, causing a drain on our foreign exchange and weakening our balance of trade. I say again that Texas Corn Growers favors the tariff approach; however, beet and cane farmers are also at a disadvantage because they have been producing for the last three years in most areas below the cost of production. If we have to accept a token of relief to at least break even until we have a change of administration policy, then we may have to accept this as a last resort.

By having a Sugar Stabilization Act, it would help in many ways. Unemployment compensation for US workers in the corn refining business certainly would not be as great, because we feel like more and more people will lose their jobs to foreign competitors if this legislation isn't enacted.

You can recall that sugar prices jumped considerably during 1974 and 1975, and consumers were forced to pay exhorbitant prices at the grocery store for sugar. Now, since sugar has dropped to 7 and 8 cents, the producers of beets, cane, and corn are in dire financial straits, and the consumer certainly is not protected from this wild gyration of high prices at one time, and we realize that the consumer still has to pay more for his sugar in comparison to what the producer and refiner is being paid, because the consumer is usually the last to realize any decrease. Every sugar producer in the US would be completely bankrupt if sugar hung at 8 to 10 cents level. We feel like foreign governments, in order to move this commodity, have created an artificial market, unrelated to world production costs.

The corn industry absorbed some 10 percent of corn output which has become significant in reducing our surplus of corn, but we see this trend declining, since sweetner prices have also declined, and this is another reason that corn growers are vitally interested in this stabilization act to protect them, as well as the beet and cane producers of this nation.

I am a sugar beet producer and a corn producer, and I am attaching our last cost of production figure. As you can readily see, the corn price today is far below the cost of production.

The International Trade Commission, as you know, has recommended to the administration that quotas be placed on importation of sugar in this country. The administration and Department of Agriculture have not, in the past, followed these recommendations, and we feel like this is a serious mistake.

If the administration really wants to help the consumer as well as the producer and the domestic sugar industry as a whole, it will pass legislation that will keep the industry alive. It has been dying since 1975 because the producers of corn, cane, and sugar beets, and the processors, have not received their cost of growing and processing.

Mr. Chairman, I respectfully request that this testimony be made a part of the records.

Thank you very much.

TEXAS CORN GROWERS ASSOCIATION,
Dimmit, Tex., January 1979.

Cost of production

Per acre of corn on the High Plains of Texas:

Item	Cost
Ground preparation	$62.50
Fertilizer	39.25
Seed	18.00
Herbicide	22.00
Insecticide and application	23.25
Irrigation	143.78
Harvesting	31.36
Drying	18.66
Management	30.00
Interest	19.00
Land cost-rent	84.00
Total	491.80

Ground Preparation:

Item	Cost
Shred stalks	2.50
Disc	3.00
Disc	3.00
Molboard	6.00
Disc	4.00
Apply dry fertilizer	1.00
Chisel-ammonia	3.00
Incorp herbicide	3.50
Disc for incorp	3.00
Float	3.00
List	3.50
Shape beds	2.50
Rolling cultivator	3.00
Rod-weed	3.50
Plant	4.00
Rotary hoe	2.50
Cultivate	3.00
Sidedress	3.00
Water furrow	3.00
Lay by spray	2.50
Total	62.50

Fertilizer:

Item	Cost
300 lbs NH_3 @ $145/ton	21.75
175 lbs 18-46-0 @ $200/ton	17.50
Total	39.25

Seed:

Item	Cost
80,000 kls @ 30,000/ac/48.00/sack	18.00

Irrigation (Based on 269 gals/lb of corn, 600 gal/min irrigation well, $1.75 mcf irrigation fuel, 140 bu corn/ac):

Includes:

Item	Cost
Fuel	102.70
Oil	6.00
Equipment	10.52
Labor and pickup	24.56
Total	143.78

GLENN ODOM, *Chairman,*
FLOYD LIGHT
DANNY BRUTON
BARRY LOVE
TED ROBB

STATEMENT OF THE TEXAS-NEW MEXICO SUGAR BEET GROWERS ASSOCIATION, INC., PRESENTED AND FILED BY BILL J. CLEAVINGER, PRESIDENT, AND JAMES W. WITHERSPOON, EXECUTIVE SECRETARY, OF THE TEXAS-NEW MEXICO SUGAR BEET GROWERS ASSOCIATION, INC., FOR AND ON BEHALF OF THE SUGAR BEET GROWERS AND PRODUCERS WHO ARE MEMBERS OF THE ASSOCIATION, AND THEY PRESENT THEMSELVES FOR ORAL STATEMENTS BEFORE THIS HONORABLE COMMITTEE

Mr. Chairman and Members of the Committee:

Without unduly encumbering the record, we propose to point out the most salient facts pertaining to the sugar legislation now pending before this Congress. In order to save the domestic sugar industry, immediate legislation is imperative.

The sugar beet factories and the cane refineries cannot exist without sugar beet and sugar cane growers. The two together produce the domestic sugar produced in this country. Neither can the growers produce either beet or cane for sugar processing and refining without the factories and refiners. If one is put out of business due to economic stresses which they cannot withstand, the other is automatically out of business.

THE EFFECT OF LOW PRICE OF SUGAR SINCE 1975

We have seen the sugar beet acreage dwindle since 1975, and growers forced out of business. We have seen 16 factories and refineries close their doors recently. In 1978, we had 6 sugar processing plants closed which will not open in 1979. The growers in the areas of these plants are out of business, as well as the factories. We have never heard of a factory closing in the past and again being able to reopen.

THE EFFECT ON THE REMAINING GROWERS AND FACTORY AND REFINERY OWNERS

Each and every grower who has lost money since 1975, and every processing company and refining company which has constantly lost money since such date, amounting to millions of dollars, according to their financial statements and reports to the Security and Exchange Commission, would make every grower and every plant operator question the wisdom of continuing such operation when losing money. This can only continue so long, and the time seems to be about up before the domestic sugar industry becomes a thing of the past. No one can question the judgment of Utah-Idaho Sugar Company going out of business under these circumstances, and the same reasoning of its Board of Directors is bound to be under consideration by the Board of Directors of all other companies, as well as the growers of all other areas.

THE RESULTS IN THE SUGAR INDUSTRY ARE PARALLELING WHAT HAS TAKEN PLACE IN THE MEAT AND BEEF INDUSTRY

The policy of the Agricultural Department of the Administration, in maintaining what it refers to as a low price to the consumer for meat and beef by permitting high imports from Australia and South America, kept the price to the consumer, cow-calf operator, so low that it was not profitable to raise cattle or grow meat, and the mother cows throughout the country were slaughtered and were not replaced and the herds dwindled to the point now that the numbers are so low that there is no way to supply the consumer demand for meat. This results in the high price the consumer now pays for beef at the retail level. If the beef producer and the cow-calf operator could have been kept alive by a reasonable profit, there would not be this shortage, and the consumer would not be paying the high prices he is paying today. The consumer is the one who is always hurt when you disrupt an industry by destroying the source. The government policy of open and high imports of beef into this country is the direct and proximate result of the present high prices. Looking back, who would dare say now that this policy was correct? If an honest answer is to be given to the consumer, a great mistake was made.

Paralleling this policy is the present policy of the government to permit high imports of cheap sugar into this country, which is in a similar way destroying the producer of sugar and the factories and refineries which process it into the consumer product. When this destruction of the industry has been accomplished, there is no way to regulate or control the high prices which will be demanded by international traders, whether from Russia, South America or any other sugar exporting country and no way to keep them from controlling world surplus and

demanding extremely high prices for the sugar which the consumer will continue to demand as a necessity of life.

THE IN-BETWEEN HANDLERS, INCLUDING BOTTLERS OF SOFT DRINKS, MANUFACTURERS OF CANDY, ETC. WILL NOT BE AFFECTED

The end user is the consumer. All inflationary expenses and all expenses, whether inflationary or not, will be passed on to the consumer, including the high prices paid to foreign importers, when the foreign importer is the only supply.

THE POLICY OF AFFORDING CHEAP PRICES FOR FOOD TO THE CONSUMER DOES NOT WORK WHERE THE PRODUCER IS DESTROYED IN THE EFFORT

When sugar rose to an all time high, immediately following the termination of the forty-year Sugar Act of this country, in 1975, the end products which used sugar were increased and the consumer paid the price. Has Coca-Cola or a bar of candy or any other end product, which the consumer buys, been reduced in price to the consumer since 1975? The obvious answer is no. The bar of candy is smaller in size and the price is higher. The day of a 5¢ or even a 10¢ Coke or Dr. Pepper has gone forever. At the same time, sugar has dropped from a high of 75¢ in 1975 to 16¢, but the soft drinks and the candy prices have not dropped. If the domestic sugar industry is destroyed and international traders, from whatever citizenship they may be, again raise the price of sugar, and the prices to the consumer are again raised, the consumer will again be stuck with an unreasonable cost.

ERRATIC AND UNREASONABLY HIGH AND LOW PRICES CANNOT BE CONSIDERED BENEFICIAL AND CAN ONLY BE AVOIDED BY LEGISLATION

Debates in the United States Congress, following the experiencing of unreasonably high sugar prices and scarcity of sugar at times, which brought about and resulted in the Jones-Costigan Sugar Act, which worked well for forty years and resulted in only a fair return to the producer, the factories and refineries; a stable and sure supply of sugar; and, a reasonable cost to the consumer. When the Sugar Act ended December 31, 1974, we again experienced the extremes that existed before the Sugar Act. That is, in 1975, extreme high prices and thereafter, until this date, extreme low prices of sugar at the funnel end or at the processed or manufactured end, but insofar as the consumer is concerned, his price has remained constantly high. This parallels the price of beef to the consumer, when the packers paid 60¢ a pound for fat cattle in 1973, but 30¢ following the price fix on September 12, 1973. However, the consumer continued to pay the same price, regardless of the cost of the raw product.

There have been in the past and will be now and in the future, world traders who can and will control the small amount of world sugar that may be from time to time available.

We have had in the past and will have in the future a short supply of sugar, as well as controlled marketings of sugar by world traders.

World catastrophes have happened and will happen in the future, which will wipe out large areas of both sugar cane and sugar beet production around the world. Droughts and storms have happened and will continue to happen. Sugar cane production may be more susceptible than sugar beet production, due to the fact that it is grown chiefly in tropical areas where hurricanes and typhoons have and can wipe out whole areas. Some sections, as in Louisiana, Florida, Europe and Russia, can suffer damages over large areas from cold weather and freezes. These catastrophes cannot be predicted. The world supply is thus affected.

WASTE AND EFFECT OF CLOSING FACTORIES

The huge investments in processing factories and in refineries and in the machinery of the growers will necessarily have to be discarded. This will result in great losses financially to a great many people. Such properties will have to go off the tax rolls, be sold for junk, resulting in the whole community, state and nation suffering.

The economy of the various areas in the various states would likewise be very materially affected. Large numbers of workers will be without jobs. They

will have to relocate. Their houses will be for sale and families will be uprooted and will be forced to find other employment.

Manufacturers of parts, machinery and equipment will suffer, and their employees will be without work. The transportation industry will lose business. The manufacturers of herbicides, insecticides, fertilizers and chemicals will likewise be affected. When the domestic sugar industry is forced to do the same thing that Utah-Idaho Sugar Company and the growers in Moses Lake and the areas in the Northwest have been forced to do, this disastrous condition will be felt throughout the country.

THIS IS NOT A TEMPORARY MATTER

Holly Plant at Hereford, Texas, was completed in 1964, at an approximate cost of 24 million dollars. It has been well maintained and is among the newer plants in the sugar beet industry. The newest plant, we are informed, costs approximately 90 million dollars, and figures given us today indicate that to replace the plant, it would cost in excess of 100 million dollars. It would be economically unsound to make an investment of this nature at this time. If a plant is closed, history has proved that it will never reopen. It deteriorates fast. It could not be used for other purposes.

This same thing is true with reference to most of the special sugar beet equipment used by growers.

LAWS AND REGULATIONS RESULT IN HIGH COST OF PRODUCTION

A large number of approved pesticides are available in foreign countries, including Mexico, the common market area, and world sugar beet areas. These countries have used azodrin, toxaphine, endrin and D.D.T. for years. These chemicals are not permitted or allowed by our Federal Drug Administration. Our Government has barred these and many chemicals as being environmentally unsafe and dangerous to human health, while the same are used throughout the world, and at the same time, sugar from these countries where such chemicals are used, is permitted to enter our country, without investigation and without determination how the foreign countries run their business in this respect.

We have had severe infestation of the beet army worm in this area. The only approved pesticide available was lanate at a cost of $10.80 per application per acre, for a total of $54.00 per acre, since up to five applications per acre were required to control the problem. Foreign growers in foreign countries can control the beet army worm, with one application of those chemicals which are not approved by our Government. Our Government does not recognize this extra cost, in some instances, of ten times as much as growers have in foreign countries.

The consumer of sugar grown in the United States either has not been made aware of or does not appreciate the difference in the cost of growing in foreign countries and in our own country.

Although D.D.T. was used as in insecticide in the 40's, it has since then been banned in the United States as a hazard, but it is still used throughout the world. Vegetables from Mexico have been tested and traces of D.D.T. verified. The list of glaring inconsistencies in our laws and regulations in which we have to abide, and in which foreign growers do not have to abide is very long. The E.P.A. and O.S.H.A. regulations have added to the cost of production. It is estimated that five million dollars was required by these bureaus to be spent on our own single plant here in Hereford, Texas.

Wage requirements, both in the processing plants and for field work must be met. This is not true in many foreign countries.

It has cost the chemical companies approximately 14 to 15 million dollars, as well as years of time, to satisfy the Federal bureaus before a new chemical could be labeled, although it is in use and has been for many years in foreign countries.

At the same time, our Government does not require foreign sugar to be labeled, "This product is grown and processed without regard to sanitation, human rights, or health of the consumer".

We have never seen a soft drink bottle labeled, "Ingredients grown with exploited labor and under conditions hazardous to human health".

We do not object to the protection afforded our citizens, even though it has not been established that the use of chemicals in foreign countries has caused suffering in human lives, and even though the proof seems so speculative and so infinitesimal that we can hardly believe the danger exists, nevertheless, we do

urge that legislation should take into consideration and recognize the value of our farmers and sugar beet and sugar cane growers to the consumer, with respect to this food.

IMPORTANCE OF THE DOMESTIC SUGAR INDUSTRY

The growing of sugar beets in our area has become a way of life for our people, in the rotation of crops and in the overall farming procedures which have been developed over a long period of time.

We know this same thing is true throughout the West and the South and the many States which produce sugar beets and sugarcane.

Our Federal and State experimental stations have established that the growing of sugar beets is one of the best suited crops to the growing areas of New Mexico and Texas. It is one which labor depends upon. It is one which the machinery industry, the trucking and transportation industries depend upon. The schools, the county and city governments depend upon the industry, together with those people in the allied associated industry with it.

Unlike corn and grain crops, the growing of sugar beets is more flexible insofar as rainfall and irrigation water are concerned. It is comparable to the dry land crop of cotton. If energy costs should be such that the grain crops could not be irrigated, then sugar beets can still be profitable, with very little irrigation. This crop is now one of the essential and most desired crops in the area. However, the price the farmer gets for his tons of beets, just like the cane grower for his cane, must be such that his costs are covered and he can make a profit to educate his children and maintain a decent living.

INFLATION

The farmer does not believe that he has brought about inflation which plagues this nation. The farmer and sugar producer feels that politics, wars, give-a-way programs to foreign countries, and foreign investments in foreign countries, and government spending for government programs in connection with the welfare of minorities and different groups have all resulted in inflation. The farmer/grower has suffered the bad results.

While the farmer generally is receiving for most products what he would have received in 1948, he is, at the same time, paying several times this amount for what he has to use to produce his crops. The present price under the present law for sugar does not bring the producer a sufficient amount to pay his cost of production.

WE SHOULD NOT DEPEND UPON FOREIGN COUNTRIES FOR OUR SUPPLY

We believe that we have found that when we are required to depend upon foreign countries for oil and for coffee and other articles which we do not produce in this country, the price can be dictated to us. Even the scarcity cannot be made up or substitutes provided.

CONSUMERS

We believe the consumers, those who are in fact true consumers, including labor throughout this great nation, honestly and seriously desire that this Congress preserve this industry as a proper congressional act in protecting the consumers of this country, and in so doing, are making America great, as contrasted to making America weak.

TIMING

The present objective of the de la Garza Act has never yet been met, insofar as the price objective is concerned for sugar. The Administration was given and has had the power to restrict imports sufficiently to raise the price to protect the sugar industry. It has not done so. Such extreme and large amounts of sugar have entered into the country that it makes it impossible for the price objective, as intended by Congress, to be met. A new Sugar Act passed by this Congress should take effect immediately, and not at some future date. There is already an excess of foreign sugar stored up, that it would take 6 months or a year for such an Act to become effective in the market place. If the Act did not take effect at once, but at some future date, then foreign sugar will continue to enter this country until its effective date, and there will still be a large supply of foreign sugar on hand and, thus, the price objective cannot and will not be met until all of the excess sugar which has been dumped into this country can be disposed of.

We urge that the law take effect at once.

We also urge that the law be written so as to require the Administration in the United States Department of Agriculture to carry out the intent of the law and the intent of Congress which enacts the law. To permit otherwise would be to continue the catastrophies which now exist. The producers and the factories and the refineries cannot withstand this deplorable situation much longer. They have been living in hopes that this Congress will do something for too long a time already. Continuing losses are piling up day by day on the growers, the processors and the refiners.

If there be a small amount of increase to the consumer by this legislation, it nevertheless, in the long run, will be to the consumers and users advantage.

We feel that those who handle the sugar, from the time it is manufactured to the time it reaches the consumer, can absorb this small increase.

INTERNATIONAL TRADE COMMISSION

Every report which the International Trade Commission has made to the Administration, has recommended that the domestic sugar industry is being harmed by the dumping of foreign sugar in this country, and that it should be remedied. These recommendations have followed long and tedious hearings. The individuals holding the hearings and making the reports are those in whom the Administration has placed confidence. These reports and these findings have been ignored. The producers of sugar and the factories and refineries, which are going broke day by day, have been ignored. Their pleas have gone unanswered. It seems that the results of these studies should not be ignored. If they are to be so completely ignored, why should the taxpayers pay the large amount expended in this procedure.

Statisticians and experts in the bureaus who are not engaged in the business of operating a farm, nor in the business of processing or refining sugar beets or sugar cane, do not know the costs that those who write the checks to pay the expenses know. They ignore the financial losses as reported by the companies on their financial statements to the Security and Exchange Commission, and as related to them by the growers. It has been stated that the farm income is a certain percentage better in 1978 than in 1977, but this can only take into consideration a few producers who may be in the cattle business, and not applied to those who are solely producers of grain and sugar. This is wrongfully applying the figures. It is misleading and false. It is politics, and bad politics, when the farmer is used as a whipping post. The consumer himself does not appreciate mistreatment of the underdog.

SUMMARY STATEMENT OF DON SCHLITCHE, ASSISTANT EXECUTIVE VICE PRESIDENT, THE NATIONAL CORN GROWERS ASSOCIATION, BEFORE SUBCOMMITTEE ON SUGAR AND TOURISM, SENATE FINANCE COMMITTEE

Mr. Chairman, I am Donald Schlitche, assistant executive Vice President of the National Corn Growers Association. We are an organization of farmers producing corn, with members in 47 states. We have sixteen affiliated state associations of corn growers, and are organizing in more states. Our national headquarters is in Des Moines, Iowa.

We appreciate this opportunity to express our viewpoint, as any sugar legislation enacted by the Congress should take into account the implications for 800,000 corn growers in the United States in view of the growing role of corn-based sweeteners.

The market for corn sweeteners—which is an important market for us—is directly related to prices of domestic or imported sugar.

Mr. Chairman, I would like to ask that the corn growers statement be placed in the hearing record in its entirety, so I can just summarize it very briefly.

The NCGA position is simple, and quite clear: the corn growers support efforts of beet and cane growers to obtain fair prices based on production costs—but only if they are obtained in the market place.

To do otherwise, in our opinion, would be just unnecessary discrimination.

As a result corn growers are opposed to direct payments to some segments of the sweetener producers, but discriminating against corn.

We sympathize with our fellow farmers producing sugar beets and sugar cane. We have consistently supported past legislative efforts to help them obtain fair prices reflecting at least the cost of production, and hopefully an opportunity of making some return on their investment and labor. We still do, if it is done in the right way, without discrimination against corn.

Corn growers do not feel they are in competition with cane and beet growers. They feel they are in competition with foreign imports, and that any growth in the corn sector of the sweetener industry could lessen our country's costly dependence upon heavy sugar imports—not penalize other domestic producers of beets or cane.

We are bothered by the concept that somehow a fixed level of these foreign imports must be protected at all costs, and that the domestic sweetener industry be limited to dividing up the growth in demand, but not allowed to displace more foreign imports.

At a time when our balance of trade deficit is contributing to weakening of the dollar, it would seem only prudent to provide as much of our domestic requirements by domestic production as we can, and lessen our dependence on foreign imports causing a drain on our foreign exchange.

Rather than authorizing payments distorting the normal economic relationship between different segments of the domestic sweetener industry, corn growers believe an import management program designed to reach fair and reasonable prices in the market place could protect and benefit equally all segments of agriculture producing for the sweetener market—cane growers, beet growers, and corn growers.

We see no justification for authorizing the government to send several hundred million dollars to sugar processors on the condition that they provide sugar to big industrial users at far below the cost of production.

We see nothing inconsistent in our opposition to discriminatory sugar payments in the fact that there are other payment programs in agriculture. Most other payment programs are geared to participation in production management programs aimed at bringing supply into better relationship with demand, so we can achieve fair prices in the market place, and eliminated deficiency payments. Besides, corn and wheat are export crops where our selling prices are dominated by the world market, regardless of our rising production costs, and our country needs the export sales to help our worsening balance of trade.

Sugar payments are entirely different; they are intended to hold down market prices and permanently perpetuate themslves. They are not a subsidy to agriculture; they are a subsidy to big industrial users to assure them of supplies below cost of production. We don't think that makes economic sense.

Corn growers are taxpayers too. They are not selfish; they want fair prices for their fellow farmers, but see no reason to pay increased taxes just to discriminate against themselves, when the same objectives could be achieved at savings to the Government instead of unjustified increased costs requiring additional Government borrowing.

Thank you, Mr. Chairman. Again, I ask that the remainder of my statement be placed in your hearing record.

STATEMENT ON BEHALF OF THE NATIONAL CORN GROWERS ASSOCIATION, BEFORE SUBCOMMITTEE ON SUGAR AND TOURISM, SENATE COMMITTEE ON FINANCE

Any sugar legislation enacted by the Congress must take into account the implications for 800,000 corn growers in the United States, in view of the growing role of corn-based sweeteners, for which the market is directly related to prices of domestic or imported sugar.

In the past year approximately 10 percent of the cash corn sales by corn growers were to corn refiners for processing into such corn-based sweeteners. While this percentage may appear small, the quantity is significant enough to have a decided impact on the prices of all corn sold.

Our economists estimate that the level of disappearance of corn into the refinery market has a price impact of at least 25 cents per bushel, meaning an increase of between $1.6 billion and $2 billion per year for total corn sales above what would be the case if growers didn't have the refinery market as an added outlet to the normal feed use of corn.

Corn growers ask the Congress to recognize this important pocketbook stake they have in any government policies or programs on sweeteners. Regretably it has been more or less ignored both by USDA and the press; they like to talk about corn refiners, but neglect to even consider the economic implications for hundreds of thousands of corn growers in virtually every state in the union.

Any increase in corn demand by refiners contributes to stabilizing corn prices at higher levels. Any curtailment of corn used by refiners has just the opposite effect, a downward pressure on corn prices.

Whether or not that needed corn market can expand or retract will probably hinge upon decisions of Congress on sweetener policy, particularly in regard to curbing foreign sugar imports.

The National Corn Growers Association, with members in 47 states, and its affiliated state corn growers associations, have consistently supported efforts of their fellow farmers producing sugar cane or sugar beets to obtain fair prices reflecting at least the cost of production, and hopefully an opportunity of making some return on their investment and labor. Our córn growers still support such efforts once more in this Congress—but insist that fair prices be achieved in the market place, not by direct payments to some segments of the sweetener producers but discriminating against corn.

Corn growers do not feel they are in competition with cane and beet growers. They feel they are in competition with foreign imports, and that any growth in the corn sector of the sweetener industry could lessen our country's costly dependence upon heavy sugar imports, not penalize other domestic producers of beets or cane.

Rather than authorizing payments distorting the normal economic relationship between different segments of the domestic sweetener industry, corn growers believe an import management program designed to reach fair and reasonable prices in the market place could protect and benefit equally all segments of agriculture producing for the sweetener market—cane growers, beet growers and corn growers.

We see no justification for authorizing the government to send several hundred million dollars to sugar processors on the condition that they provide sugar to big industrial users at far below the cost of production.

At a time when we are supposedly trying to curtail the federal budget, we can't see any sense in authorizing the federal government to borrow more money, paying approximately 10 percent on that debt, perhaps forever, so that our children and grandchildren would be forever burdened with paying part of the cost of the sugar which is consumed every day by such industrial users. In our opinion such unnecessary abuse of the treasury is a prime example of an outrageously inflationary scheme, diminishing the value of the dollar by increasing the national debt.

Corn growers are not alone in opposing such treasury payments requiring more borrowed money. The sugar committee of the American Farm Bureau Federation has taken the same position, insisting on fair prices in the market place instead of payments to processors.

As we understand the Administration's latest postition, it is not advocating or recommending payments. Its spokesman says the Administration will accept a measure that authorizes payments of up to one-half cent a pound, but it has passed the buck to Congress to make any such decision.

We can understand the desire of an Administration that talks about a tight budget to pass that buck to you, when it has made no provision in its budget for such payments. We seriously doubt it will be very popular with the Congress to call for increasing the national debt by sugar payments, at a time when you may have to face cuts in social security benefits and drastic cuts in other programs. We don't think it is necessary, and we think there is a better chance of getting improved sweetener legislation through the Congress if payments are eliminated entirely.

We share the concern of beet and cane growers over the limits the Administration says it will accept on prices in the market place, but also seriously question how the Administration could arrive at its magic figure of 15.8 cents a pound when its chief spokesman testified before this committee the USDA doesn't really know the cost of producing sugar.

The Administration has accepted the market price objective of 15¢ for the 1978 crop. Raising the market place price to 16 cents for 1979 crops would still be within its own anti-inflation guidelines, if it is going to treat agriculture equitably with industry and labor.

We welcome the Administration's apparent change of attitudes about the critical plight of the domestic sweetener industry, but cannot help observe it comes as a rather late conversion to what producers and the Congress have been trying to tell them for two years. We agree with Mr. Hjort that the sugar situation is now a mess, but most also point out that it is primarily a mess of the Administration's own creation—of its own reluctance to do what Congress has asked it to do repeatedly: invoke an import management program that would eliminate any necessity for the government to take over stocks of domestic sugar while foreign imports produced by cheap substandard labor are dumped in our markets.

We are bothered by the concept that somehow a fixed level of these foreign imports must be protected at all costs, and that the domestic sweetener industry be limited to dividing up the growth in demand, but not allowed to displace more foreign imports.

At a time when our balance of trade deficit is contributing to weakening of the dollar, it would seem only prudent to provide as much of our domestic requirements by domestic production as we can, and lessen our dependence on foreign imports causing a drain on our foreign exchange.

We are against using borrowed treasury money for payments to assure below-cost-of-production sugar supplies to industrial users because it doesn't make economic sense. We are also against such payments on general principles as a dangerous precedent in food and agricultural policy. What will be the eventual cost if this idea of raiding the treasury to keep prices artificially low is applied to the rest of our food products?

Sugar is a commodity for which we rely on imports to the extent of about 45 percent of our requirements. Therefore it should not be difficult to support a reasonable level of domestic prices through duties and import fees, or if necessary some other forms of import management.

A half-cent per pound increase in import fees would reduce the budget deficit by $50 million; a half-cent per pound payment would increase the budget deficit by $50 million. Thus, the difference in the two approaches is about $100 million in the net immediate effect on the budget deficit. Moreover, with current interest rates, the cost to the Treasury will double in 7 years. It just makes economic and fiscal sense for farmers to get their returns in the market-place.

To do otherwise would be turning our backs on our market economy, and taking a page out of food policies of the Peoples Republic of China. The New York Times recently quoted a food communique issued by the Central Committee of the Chinese Communist Party, which said, in part:

"After the purchase price of farm produce is raised, the urban workers must be guaranteed against a fall in their living standards. The market place of all food grain will remain unchanged, and the selling price of all other farm products needed for daily life must also be kept suitable; if some prices have to be raised, appropriate subsidies will be given to the consumer".

Mr. Chairman, when this same issue was before the House of Representatives last fall, Congressman Fithian of this Committee placed in the Congressional Record (Sept. 20, 1978, page E 5147) an exchange of correspondence with Business Economist Elliot Janeway which still seems pertinent.

Economist Janeway made these points:

1. "The Administration's policy of direct payments to processors would admittedly be financed by more government borrowing; and would, therefore, fuel inflation. Q.E.D. . . .

2. "The House (Agricultural Committee's) measure for which you voted would finance the relief the domestic sugar industry admittedly needs by means of tariff; that is, it would tax foreign producers and thus relieve the treasury of the need to borrow the money. . . .

3. "Therefore, as an alternative to more government borrowing, a new tariff is not only not inflationary; it is positively anti-inflationary. The tariff approach guarantees that the United States will begin to get back the advantages we have given to our foreign competitors.

Mr. Chairman, the corn growers came to the same conclusions, and suggest Committee members review Mr. Janeway's thoughtful analysis. Mr. Janeway also recognized the vital stake of corn growers in sugar legislation, and emphasized the Treasury's stake in prosperity of the corn industry.

It has always bothered us that USDA has shown such little interest in the stake of corn growers in corn sweeteners.

Mr. Chairman, in view of this Committee's heavy fiscal responsibilities the corn growers feel you should know that encouragement of corn sweeteners—rather than discriminating against them—can help save the government money it would otherwise cost under the price support program.

The fact that there is a 400-million bushel demand from the corn refining industry will reduce the government's outlays for target price payments on corn by at least $150 million.

The five-month average price upon which the target price is based has just been announced by USDA at $2.06 a bushel. Without the refining disappearance the price would have averaged less than $2. But taking just the six cents as a con-

servative figure, times the 2.5 billion bushels on participating farms qualifying under the price support program, gives us the $150 million saving.

If another million tons of corn sweetener had been produced domestically, it would have eliminated the need for *any* target price payments. The five-month average price would have been at least $2.10 per bushel—the target price. This would have saved the government an additional $100 million.

In addition, there would have been a savings of $160 million in the balance of payments deficit as a result of reducing imports by that amount.

Corn growers cannot help wondering why the USDA has never told either the Agriculture Committee nor your Committee about any of these price implications for corn, and potential savings to the Government.

Corn growers are taxpayers, too. They are not selfish; they want fair prices for their fellow farmers, but see no reason to pay increased taxes just to discriminate against themselves when the same objectives could be achieved at savings to the Government instead of unjustified increased costs requiring additional Government borrowing.

The National Corn Growers Association will support legislation aimed at improving prices for cane and beet growers, but only if it is achieved in the market place. If authority for payments is proposed on legislation coming to the Senate floor, corn growers will oppose any such payments as discriminating against them—and as not making economic sense. They would welcome support from fiscally responsible members of this Committee.

Statement by David J. Steinberg, President, U.S. Council for an Open World Economy

Once again an American industry seeks import-control protection against legitimate foreign competition without a coherent strategy to adapt that industry to the realities of a rapid changing world economy and the imperatives of the total national interest. Once again it is the sugar cane and sugar beet industry, this time aided by a major domestic competitor, the corn sweetener industry.

I do not dispute the need for some form of government assistance to the domestic sugar-growing industry to help it cope with new market realities. But the framework for such assistance should be a coherent adjustment strategy that is the subject of a public commitment and involves the reassessment and updating of all policies materially affecting the industry's capacity for viability (including correction of any inexcusable inequities found to exist). Whatever import controls are necessary should be limited to protecting the U.S. Treasury against the unreasonable escalation of outlays designed to support sugar-industry incomes at levels that are equitably responsive to producer needs in the context of a coherent adjustment strategy. A sugar policy limited to price supports, and to import controls aimed at supporting these prices, is properly identifiable as "protectionism" for both raw-sugar and corn sweetener producers.

The sugar-growing industry's current efforts to get government to establish a 17-cents-a-pound floor for raw-sugar prices fit this description. As do bills to set the floor price at about 16 cents for this year's crop. As does the Administration's proposal to boost the market price to 15.8 cents a pound (excluding a possible half-cent a pound to be paid to growers as a direct subsidy).

Aside from their inflationary and trade-restricting implications, what is basically objectionable about such proposals (the higher the support price, the more objectionable the proposal) is that once again, as during the 40 years of discredited sugar protectionism that ended in 1974 (but was later revived on an interim basis), there would be no sugar adjustment strategy addressing the real problems and needs of the domestic sugar-growing industry, developing the most efficient sugar industry that is economically feasible, and seeking alternative employment (more lucrative employment) for those individuals who are no longer viable in sugar production. To the extent it is needed, government assistance should be for the purpose of buying adjustment time for the orderly restructuring of this industry and for the equitable adjustment of the affected workers, investors and communities to this contingency. At long last, we need a coherent, constructive sugar policy that serves the total national interest (including the need for freer world trade and the most efficent use of our resources), not a policy that perfects government controls aimed at sustaining the sugar industry as we now know it.

44-979—79——10

U.S. sugar policy should not provide a hothouse for virtually every American who wants to keep producing sugar cane or sugar beets. Nor should it be conceived even in part as a prop for the corn sweetener industry, whose high fructose corn syrup (a sugar substitute) would benefit substantially from high sugar prices. Nor should it be a vehicle for special import restrictions on sugar-containing end products such as candy.

I support U.S. participation in the sugar stabilization agreement. But a sugar adjustment strategy along the lines recommended above should be the framework for such participation.

Whatever program is adopted in this policy area, the government should tell the American people every year (the legislation should so require) what its sugar program costs the consumer and the nation and how it serves the public interest. The American people have a right to know for what public purpose the direct and indirect subsidies provided the sugar-growing industry at public expense are being used.

(The U.S. Council for an Open World Economy is a private, nonprofit organization engaged in research and public education on the merits and problems of achieving an open international economic system in the overall public interest. Its only standard and commitment is the total national interest.)

Testimony of Scott C. Whitney Concerning S. 463 on Behalf of the Government of Thailand

Mr. Chairman, Members of the Senate Finance Committee:

My name is Scott C. Whitney. I am Professor of Law at the College of William and Mary and also act as counsel to the Washington law firm of Bechhoefor, Sharlitt and Lyman, whose offices are located at 1747 Pennsylvania Avenue, N.W. I am counsel for the Royal Thai Government and accordingly, I am registered with the Department of Justice in accordance with the Foreign Agents Registration Act of 1938, as amended. I want to take this opportunity to express my appreciation and that of the Government of Thailand for this opportunity to present these views on an issue that is vitally important to the welfare of the country of Thailand.

I recognize that the primary purpose of the proposed Sugar Stabilization Act of 1979, apart from the ratification of the International Sugar Agreement, is to fashion a backup program to protect domestic United States sugar producers and refiners in the event that the International Sugar Agreement for any reason fails to achieve its purposes. Mr. Chairman, I emphasize that the Government of Thailand is fully in accord with these objectives. We believe that these objectives are in no way inconsistent with the proposed amendment that we are respectfully recommending to this Committee and the Congress.

We fully appreciate the importance of protecting the domestic sugar producing industry in the United States from the unstable economic conditions that have prevailed since 1974 when Congress voted not to continue the quota system that had prevailed for some forty years, during which period sugar prices and the sugar market were remarkably stable. Since 1974 there has developed a powerful protectionist movement in this country which is by no means confined to sugar. Three years ago a prominent organization representing extensive domestic farming interests petitioned the Office of the Special Representative for Trade Negotiations to recommend to the President that he discontinue as to agricultural products the Generalized System of Preferences (GSP) that was established by Title V of the Trade Act of 1974. Although this petition was not granted, formal and informal efforts continue to try to disestablish or reduce the scope of the GSP program. While we understand the strong economic and social motivations for protecting American agricultural producers, we earnestly urge this committee and the Congress that it can achieve this purpose without inflicting economic harm on staunch friends such as Thailand.

I am sure this committee is well aware that one of the stated purposes of the Trade Act of 1974 was "to authorize the President to extend preferential tariff treatment to the exports of less-developed countries to encourage economic diversification and export development within the developing world."

This is not only sound economic policy but it is sound foreign policy. President Carter clearly supports this Congressional policy. In his address before the Permanent Council of the Organization of American States on April 14, 1977, the President stated, "We are committed to minimize trade restrictions, and to take

into account the specific trade problems of developing countries and to provide special and more favorable treatment where feasible and appropriate." (Presidential Documents, Vol. 13—No. 16, p. 525). He went on to note that, "One of the most significant political trends of our time is the relationship between the developing nations of the world and the industrialized countries," and that one of the three basic elements of this country's policy is ". . . our desire to press forward on the great issues which affect the relations between the developed and the developing nations." (Idem)

Quite apart from the humanitarian aspects of this policy, there is an overriding element of enlightened self interest on the part of the United States that is involved. This country has a powerful vested interest in the economic and the politicial stability of developing countries. There is today an alarming trend—the Communist takeover of one after another of the developing countries. Recent developments in Southeast Asia dramatize the importance of maintaining the stability and independence of Thailand. Developing countries can resist the encroachment of Communist takeover only if they possess economic and political stability. As the President stated to Congress last year, "The future of the United States will be affected by the ability of developing nations to overcome poverty, achieve healthy growth, and provide more secure lives for their people. We wish to join with other nations in combining our efforts, knowledge, and resources to help poorer countries overcome the problems of hunger, disease, and illiteracy." (Presidential Documents, Vol. 13—No. 12, p. 405.)

This is precisely what the Congress intended to accomplish with Title V of the Trade Act of 1974, the GSP program. Today industrialized nations such as Japan, the nine Common Market member countries, Canada, the United States and others provide preferential tariff treatment to goods from an agreed-upon list of developing countries of which Thailand is one.

Briefly, Mr. Chairman, the case of Thailand is, I believe illustrative of the great importance of the GSP program for agricultural commodities such as sugar.

Income from sugar is of vital significance to Thailand. More than one out of every ten Thai citizens depend for their livelihood on the production of sugar. Thailand's sugar revenue is very important to the continued economic and social progress of the people of Thailand. GSP should be viewed as a kind of substitute for assistance by the U.S. Government to the attainment of these economic and social goals for the people of Thailand. It has been established on a number of occasions in testimony before the House Agriculture Committee that Thai sugar is produced and sold by independent farmers and their cooperatives as distinguished from the large foreign-owned cartels that operate in some countries. Thus the economic benefits that flow from GSP eligibility flow to the people of Thailand who grow, produce and ship the product.

Thailand is not a developed country. It depends on the United States and other developed countries for its technical, mechanical, and industrial equipment and relies primarily on its agricultural income as a means of paying for the manufactured articles it buys from the United States and other developed countries. In 1977 Thailand had an adverse balance of trade of $1,148,900,000, of which over $230 million arose from the unfavorable balance with the United States.

Significantly the Government of Thailand does not receive any substantial volume of aid from the U.S. Foreign Assistance Program other than modest amounts related to suppression of opium. Thailand seeks to achieve its goals by trade, not aid.

GSP is particularly important to Thailand because of the great distance its sugar imports must be shipped—far greater than most other foreign sugar importers. GSP contributes significantly to offsetting the additional incremental transport cost that handicaps Thai sugar imports to the United States. This factor is especially critical at this time in view of the level of world sugar prices, and the increased level of the U.S. tariffs on sugar and the level of import fees.

Mr. Chairman, I respectfully submit that Congress *need* not, and Congress *should* not impair GSP in order to protect the domestic United States sugar industry. Protection of the domestic sugar industry is not iincompatible or inconsistent with continuing GSP.

Historically, since at least the early 1930s, the United States production of sugar has not kept pace with United States demand. I am unaware of any credible forecast that this situation will change. The United States will continue to import substantial amounts of sugar for the foreseeable future. S 463 will establish a

means, pursuant to Section 202, by which price objectives and payments to achieve assured return will be achieved despite these substantial imports. Moreover, Section 205 provides a special regulatory method of imposing further quantitative restrictions on imported sugar by the Secretary of Agriculture in the event that at any time during any sugar supply year, the Secretary determines that the price objective for that year may not otherwise be achieved.

Therefore, if, as the distinguished sponsors of this legislation believe, this act in fact will achieve sugar stabilization and succeeds in protecting our domestic sugar industry, there is absolutely no reason to abridge or delete GSP treatment for sugar.

Accordingly, Mr. Chairman and Members of this Committee, I respectfully urge that you adopt the following policy as a part of S 463.

It is the policy of the United States to assure that Generalized System of Preferences treatment as to sugar shall be accorded all nations that are presently in compliance with Title V of the Trade Act of 1974.

I defer to the expertise of your legislative draftsmen as to the section of the act in which this provision would be most appropriate.

Once again I want to express my appreciation and that of the Government of Thailand for this opportunity to be heard.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., March 21, 1979.

Hon. RUSSELL LONG,
Chairman, Committee on Finance, United States Senate, Washington, D.C. 20510

DEAR MR. CHAIRMAN: This is in response to your request of March 5 for our comments and recommendation on S. 463, the proposed "International Sugar Stabilization Act of 1979."

The Department of Agriculture supports the general purposes of this bill, however, we recommend amendments to a number of sections.

S. 463 would authorize U.S. participation in the International Sugar Agreement (ISA), once the ISA is fully ratified. We fully support that objective. However, we suggest that the Specific requirement for an annual report be deleted.

The bill would authorize a price support program beginning with the 1978 crop, for domestic producers and processors of sugarcane and sugar beets. For the 1978 sugar supply year (the curent crop), a price objective of 17 cents per pound would be provided. For the 1979 and subsequent sugar supply years, the price objective would be increased by an index based on two moving averages of cost of production. The price objective would be achieved by a price support loan program with loan levels between 52.5 and 65 percent of parity and by special import duties and by quantitative restrictions if necessary.

The provisions regarding 1978 pose a particular problem. The Administration believes sugar legislation should become effective for the 1979 crop, not for the 1978 crop as this bill proposes. When proposed sugar legislation failed to win final approval in the last Congress, the Administration, in consultation with leaders in Congress, established a market price objective of 15 cents per pound for the 1978 crop in order to protect the price support loan program. Subsequently, the President proclaimed a system of import fees—to be adjusted quarterly, and within quarters, as necessary—to realize this objective.

Because the legislation would be effective 30 days after passage, and because it would require special duties that would lead to a 17 cent average price for the 1978 sugar supply year, a price as high as 23 cents would be required for the last quarter in order to average 17 cents for the year. That assumes that the legislation passed by June 1 and went into effect July 1 for the 1978 crop. In addition, the anticipation of an increase of that dimension would be a major market disruption. The Administration will not support an additional increase in the market price objective for 1978 above the current 15 cent level.

For the 1979 sugar supply year, we propose a market price objective of 15.8 cents per pound, raw value. In addition, the Administration will accept a provision authorizing a small direct payment of up to one-half cent per pound if the Congress authorizes such support.

Based on current estimates, the provisions of S. 463 would lead to a 1979 market price objective of 18.3 cents and price objectives in 1980 and 1981 of 19.8 cents and 21.4 cents. The Administration will not support a market price objective for 1979 above 15.8 cents per pound.

The Administration will not support provisions that determine prices for 1980 and 1981 by formula based on changes in costs including land costs but without any flexibility for the Secretary to adjust total support levels in the event sugar policy objectives are not being met.

There are four main reasons for this position. We do not have adequate information now on cost of production, and the Secretary must have flexibility to adjust prices in later years if the 1979 estimates turn out to be too high or too low. Second, both the very high level of the prices in S. 463 and the inclusion of land costs in the basis for later price adjustments make S. 463 an inflationary bill. Third, it would lead to domestic sugar prices that are, on the national average, well above the national average cost of producing sugar. And, fourth, the domestic sugar prices in S. 463 would lead to rapid increases in the production of both domestic sugar and high fructose corn sirup (HFCS) and would lead to at least commensurate increases in land prices and prices of other production inputs. Rapidly declining imports and instability in U.S. sugar markets would result, affecting the world sugar market.

With respect to the formula for determining increases in the market price objective for 1980 and 1981, we believe that the approach in S. 463 does not allow sufficient flexibility to permit the Secretary to deal with future circumstances that cannot be foreseen now. We recommend that the bill be amended to include a directive to the Secretary to, first, assure the economic viability of the domestic sugar industry, and second, stabilize sugar imports at recent historic levels.

The Secretary would achieve these objectives by determining a total level of support which would be based on cost of production, and on other factors as well, such as:

Domestic sugar and HFCS production.

The relationship between sweetener supply and demands.

The importance of sweeteners to agriculture and the national economy.

His determination of total support would be required to be between the weighted national average cost of producing sugar and the weighted national average cost of producing sugar and HFCS.

Consistent with the level of total support, the Secretary would determine a market price objective. He would also determine a payment level which would not exceed one-half cent in any year if such a payment were authorized by the Congress.

S. 463 would have a major inflationary impact. Compared to the Administration proposal, it would cost consumers $570 million more for sweeteners in the 1978 sugar supply year if S. 463 were in effect half of the year. In 1979, 1980 and 1981, it would cost consumers, on the average an additional $860 million above the Administration proposal. These estimates consider only direct costs of sweeteners. The total inflationary impact would be much greater by the time all appropriate price impacts were accounted for.

The Administration proposal would link total supports to the national average cost of production for sugar. S. 463, on the other hand, would lead to sugar prices well above the national average cost of production, and would result in returns to sugar producers in excess of costs of around $311 million per year, on the average for the years 1979 through 1981. Much of the increase in consumer expense for sweeteners would not go to sugar producers. About a fifth would go to the government in the form of increases in special duties on imported sugars. A substantial part would go to the producers of other sweeteners—HFCS and other caloric sweeteners. And, as a result, these sweeteners would have a strong incentive to cut even deeper into the sugar market.

The very high domestic sugar prices would result in not only sharp increases in domestic sugar production and domestic production of other caloric sweeteners, but also in curtailment of sugar imports which would be expected to decline from their historic levels of 4.8 to 5.2 million short tons annually, (exclusive of imports from Puerto Rico which are covered by the domestic sugar program) to around 3.5 million tons by 1981.

The international implication of developments would be difficult to appraise. Under S. 463, by 1981 domestic price levels would be expected to exceed 21 cents

and trigger the release of ISA stocks—almost certainly leading to the imposition of U.S. quotas to protect our international price. Moreover, the drastic reduction in U.S. sugar imports from historic levels implied by the high domestic supports would seriously jeopardize the ISA in any event. Our sugar trading partners would certainly regard such a curtailment of imports as a serious matter, and would be expected to pursue appropriate remedies under the ISA. If no relief were expected the future of the ISA would be expected to be in serious question.

We agree generally with the mechanism that is provided to determine adjustments in special duties. The Secretary would recommend duties on sugar as necessary to achieve the market price objective on a sugar year basis. And, he would review the weighted average daily market prices quarterly and within quarters and adjust the special duties on the basis of differences between average daily prices for far sugar imports and the market price objective.

This system of adjustments, together with the relatively narrow one-cent range used to trigger within quarter adjustments should effectively maintain the domestic market price at the objective level.

Moreover, we believe the President should have the authority to auction the right to import sugar under any quantitative restriction that may be established pursuant to the bill.

Sugar legislation has historically contained farm labor provisions, and we recommend that it be amended to include such provision. The Administration believes that the rights and earnings of sugar industry workers should be protected, and we propose a base rate for workers in sugar supply year 1979 of $3.20 if total support is increased.

We recommend that the wage provisions be the responsibility of the Secretary of Labor. He now has administrative apparatus and expertise to supervice such a program consistent with national labor policy. It would be wasteful duplication for this Department to administer this provision.

S. 463 would mandate a sugar price support loan program for the years 1979, 1980, and 1981 at between 52.5 and 65 percent of parity. The Administration will support a provision that directs the Secreary to operate a loan program to assist in achieving the total levels of support for sugar, provided that the loan level is not above 89 percent of the market price objective. The Administration will not support a mandatory loan program with loan levels between 52.5 and 65 percent of parity.

We recommend that sugar legislation expire at the end of the 1981 sugar supply year, coincidental with the termination of the Food and Agriculture Act of 1977.

The Office of Management and Budget advises that there is no objection to the submission of this report and that enactment of S. 463, if amended as recommended by this Department, would be in accordance with the program of the President.

Sincerely,

BOB BERGLAND, *Secretary.*

TESTIMONY OF ROBERT C. LIEBENOW, PRESIDENT, CORN REFINERS ASSOCIATION, INC.

Mr. Chairman and distinguished members of the committee. We are pleased to appear before you on behalf of the Corn Refiners Association, Inc., and to express our views on the issue of sugar legislation.

On December 14, 1978, the Board of Directors of our Association reiterated its stand on the matter of sugar policy. There are four significant points to this position which we believe are pertinent to this hearing today.

First, the Association supports the efforts of the domestic sugar producers in obtaining legislative relief from the injurious impact of heavily subsidized imported sugar.

Second, we support the principles and objectives of the International Sugar Agreement (ISA).

Third, we take no stance on the level of price support to be contained in any sugar legislation.

Fourth, the Association opposes any plan of subsidy payments to sugar processors.

With your permission, Mr. Chairman, we will elaborate briefly on each of these points.

Regarding the first point: For many years, our industry has been associated with the sugar industry as a supplier, customer and competitor. We sympathize with their plight. We, too, have suffered during the past few years because of depressed sweetener prices. During that time, one member of our industry was forced to close its doors permanently. Others were unable to open newly-built plants, and many of us have had to reduce our production levels—at a cost of many hundreds of American jobs.

Point two: We believe an effective ISA can bring stability to the world sugar market, benefiting both the consumer and producers. We continue to hold the view, however, that a domestic sugar support program is necessary to assure that the ISA goals are met.

Point three: The price support level to be included in sugar legislation is not an appropriate area of comment for us, but should be left to those expert on the subject of domestic sugar production costs.

We would take this occasion, however, to remind the committee that the so-called "free market" price for world sugar is a misnomer. The world price is manipulated by foreign governments in order to move burdensome supplies. It has little, if any, relation to world sugar production costs. Most exporting countries today sell their sugar at less than production cost and aid their producers through massive government subsidies. For example, the EEC alone has budgeted more than $1 billion in sugar export subsidies for 1978/79.

Point four: The Corn Refiners Association opposes any program that relies upon such payments.

There is a fundamental principle of equity which cannot be met by such a concept. The net effect is the removal of a substantial degree of competition between domestic sweetener producers, while sugar imports continue to flood this nation.

In addition, a raid on the U.S. Treasury for such subsidy payments is clearly beyond the public's desire to reduce government expenditures and burdensome taxes. It makes no sense to pay out millions of dollars in direct payments to a few corporate conglomerates at a time when budget cuts are under serious consideration in a range of social and agricultural programs.

Mr. Chairman, our industry's concern has always been that once the door is open to payments, they will quickly escalate to such a level that our industry will be irreparably harmed.

At the end of last year's arduous efforts to obtain sugar legislation, the Corn Refiners—in a spirit of compromise—did not oppose the inclusion of a ½-cent payment.

Within a matter of hours, the ½-cent payment was increased to ¾-of-a-cent. Our fears concerning payments became a reality.

Fortunately, the House recognized the inherent unfairness of last year's conference committee bill and rejected direct payments which would have created anticompetitive conditions among domestic sweetener producers.

Mr. Chairman, the Corn Refiners Association stands firm against any payment program that penalizes our industry instead of addressing the cause of the sugar industry's difficulties.

We are not alone in opposition to processor payments. They have been denounced by corn farmers and sugar growers alike, resented by taxpayers, and rejected by Congress. The Administration, last year's leading advocate of payments, has presented a plan to you which does not rely on processor subsidies, but would include them only if voted by the Congress. We believe this to be an unlikely outcome.

Many of the objectives of the Corn Refiners Association are met in the major proposal facing your committee—S. 463.

This bill relies upon a substantial degree of border protection to assure that foreign governments do not take advantage of U.S. sweetener producers. It recognizes that changes in production costs for U.S. sugar growers should be accounted for in the marketplace. And, S. 463 does not rely on any program of discriminatory payments to sugar processors.

In conclusion, the Corn Refiners Association pledges its continued cooperation on, and support of, any sugar program that is workable and equitable.

In your committee's deliberations, we urge you to keep two objectives in mind: one, protection of *all* segments of the domestic sweetener industry from the inroads of heavily-subsidized foreign sugar; and two, the opportunity for *all* U.S. sweetener producers to compete equally in our own marketplace.

INTERNATIONAL PUBLIC AFFAIRS, LIMITED,
Washington, D.C., March 16, 1979.

SUGAR LEGISLATION FACT SHEET

MAJOR PROVISIONS OF PROPOSED SUGAR STABILIZATION LEGISLATION SUPPORTED BY DOMESTIC SUGAR INDUSTRY

1. Would authorize U.S. participation in the International Sugar Agreement.
2. Would support the domestic price of raw sugar near the cost-of-production level for crop-years 1978–82.
3. The price would be supported primarily through the use of import fees, with back-up import quotas. A maximum ½ cent per pound direct payment would be made to producers to assure a return tied to cost-of-production increases.
4. Field workers would be guaranteed wages set at levels above Fair Labor Standards Act minimum.

Why the legislation is needed

Why are sugar growers asking Congress to help them?

Critics, of course, would argue that it's *greed*—that the sugar growers are simply asking for "protectionism" for their inefficient and outdated industry, and that we'd all be better off, as a *New York Times* editorial writer suggested in that paper, if we just stop producing sugar domestically. After all, the Times writer suggested, we don't grow bananas or cocoa, why sugar?

Yet, a *New York Times* feature writer, in a three-part series analyzing the sugar legislation controversy, reports quite clearly that all parties—friend and foe of the legislation—agree that it's in our interest to maintain a domestic sugar industry and that the industry, today, is in very serious trouble.

In all fairness, we should add that domestic sugar growers are not inefficient. Their inability to produce sugar as cheaply as their foreign competitors stems largely from (1) the low wages paid foreign workers; (2) the high cost of meeting environmental and other U.S. regulations; (3) the skyrocketing cost of agrichemicals and farm machinery in the U.S.; and (4) the fact that some foreign nations encourage the dumping of their sugar on U.S. markets, allowing their growers to ship at government-subsidized rates, and actually promote the sale of cheap sugar in various two-way trade agreements.

P.J. De Gravelles, President of the American Sugar Cane League, puts it like this: "Unregulated competition from foreign sugar producers is unfair to U.S. producers, because foreigners don't play by the same rules as we do. We pay wages ten times as high as those paid by many foreign sugar producers. We have to spend much more money meeting the strict water and air pollution criteria of federal and state agencies, and to comply with the Occupational Safety and Health Act. Regardless of any benefit to society, these expenditutres produce no monetary return to our industry. Also, many foreign governments subsidize and determine the size of their sugar industries without regard to usual economic factors. U.S. taxpayers even provide aid to our competitors through low-cost loans from the Export-Import Bank of the United States and the World Bank."

Jobs, and More, at Stake

The basic question, then, is whether or not the U.S. sugar industry is worth keeping afloat.

Here are a number of very sound reasons for saying, "yes."

The domestic sugar industry presently supplies 50–55 percent of the sugar consumed in the U.S. This helps assure U.S. consumers a dependable supply at a fair and stable price. Creating a new international sugar "cartel" would leave U.S. consumers at the mercy of others—who could exercise their new monopoly power with restraint, or eventually demand exorbitant prices, and so forth. Even with no sugar cartel in operation, imports from major U.S. suppliers, in recent years, have been erratic because of unforeseen weather, as well as political and social conditions within the producing countries. The most obvious example is that of Cuba. Before 1960, Cuba supplied one-third of all sugar consumed in the U.S., but with the break in diplomatic relations after 1960, we were forced to suddenly replace these sizeable Cuban imports with sugar from other producing countries. ". . . We do not think it is wise to be completely dependent upon an imported commodity which can be produced economically in the United States and which provides jobs, pays taxes and helps lower our trade deficit,"

argues Horace D. Godfrey, Vice President of the Florida Sugar Cane League. If the U.S. purchases all of its sugar from the world market our trade deficit will increase $1 billion. Furthermore, if low prices force U.S. sugar producers to stop producing, world supplies will not fill the void and sugar prices will increase as they did in 1974 and as is currently the case for oil due to the shortfall caused by the cutoff of Iranian oil.

Sugar, whether all of us like it or not, is very basic to the food chain. It is used in baking, processing, canning, in most everything we buy at the grocery store, to one degree or another. "The . . . sugar industry provides a basic commodity vital to the entire American food chain," notes David C. Carter, President of the U.S. Beet Sugar Association. "To allow it to be destroyed or significantly reduced in its capacity through failure to enact needed legislation could subject American consumers to foreign sugar cartels and/or widely fluctuating world prices and supplies.

Destruction of the domestic sugar industry would result in widespread unemployment among the approximately 100,000 workers employed in the industry in the sugar states. According to Kish Otsuka, President of the American Sugarbeet Growers Assiciation, "Since hearings . . . last year, five sugarbeet factories have either been closed or have been placed up for sale. There as at least one more factory that is in serious jeopardy." No part of the country would be more seriously affected, adds Robert H. Hughes, representing the Hawaiian Sugar Planters' Association, than the State of Hawaii. "Sugarcane is grown on about 220,000 acres on four islands, comprising about 75 percent of the crop acreage. Despite years of effort and millions of dollars in research . . . no reasonable alternative use for this land has been found." Quoting a recent study, Hughes said collapse of the sugar industry in Hawaii would result in doubling of the unemployment rate to 15 percent. "Some islands would be harder hit . . . on Kauai . . . the unemployment rate would be 56 percent; on Hawaii, 35 percent; on Maui, 36 percent."

Replacing domestic sugar with larger imports would increase our balance of payments deficit up to $1 billion and further weaken the dollar.

As energy becomes more scarce and more expensive, the sugar industry could become an important energy source through the production of alcohol for fuel. A good example of what could happen is the current situation in Brazil involving molasses. This country, formerly a large exporter of molasses, is now using it to make alcohol. As a result, the price of the molasses used in livestock feed has increased dramatically.

Sugar is an important strategic material. It was the first thing rationed during World War II and the last removed from rationing following the war. If the U.S. did not have a domestic sugar industry, as a protection to consumers, we would have to stockpile sugar imported from foreign countries, as we are now beginning to do with oil.

Import fees provided by H.R. 2172 would result in a substantial bonanza for the U.S. Treasury.

Cost to Consumers

Economists estimate that implementation of the proposed legislation would add about $1.00 per year to the average American's food bill. But, industry spokesmen stress, it will stabilize prices and prevent the U.S. from becoming dependent on foreign producers who might force prices sky-high, as the oil producing nations have done.

It is also important to understand too that the price objective (15.8¢ in the Foley-Ullman Bill, H.R. 2172) is not inflationary. In calendar year 1972, the average duty paid price for raw sugar landed in New York was 10.29¢ per pound. The Consumer Price Index for food that year was 141.4. Adjusting that 1973 price by the change in the CPI as of December, 1978 results in a New York raw price of 15.96¢. And, of course, the price being discussed is for the year starting October 1, 1979—not last December.

Statement of the National Association of Farmworkers Organizations

Mr. Chairman and Members of the Committee: The National Association of Farmworker Organizations is a national coalition of farmworker-governed, community-based organizations. We wish to thank this Committee for the opportunity to submit written testimony on behalf of the critical needs of our Nation's sugarbeet and sugarcane workers. It is our position that any legislation proposing to provide billions of federal dollars to protect the income of the sugar

industry must also contain significant labor protections for the field workers who continue to be exploited by that same industry.

Domestic sugarcane and sugarbeet workers are among the neediest of our country's working poor. In many instances sugar workers are employed and living on plantations, not unlike the plantation "employment system" of 100 years ago. Many work under the control of a farm labor contractor or crew leader. And, many workers live in dilapidated housing on the plantation, also being "captive consumers" to a company store or labor contractor who overcharge for food, clothing, and other necessities. In fact, often at the end of a work season—after deductions are made for food, clothing, housing, and transportation—the workers discover that they owe money to the grower or contractor!

Because of the agricultural exemptions in most labor protective laws, sugar workers are not entitled to unemployment insurance, workers' compensation, or minimum wage coverage. Migrant workers often travel hundreds of miles to find work, only to discover that promised wages and housing are unavailable or that bad weather has delayed the season and that they will be without means of support for weeks. During this time the migrant family is most often denied Medicaid and other public assistance benefits because of residency and other state eligibility requirements.

Under the Sugar Act of 1948 and subsequent sugar support legislation, sugar workers were provided with certain minimum protections as part of the federal commitment to the sugar industry. In fact, the intent of the Sugar Act was to see that profits made to the sugar industry as the result of federal aid and protection were shared with the fieldworkers. However, this has not always been the case. The wages presently under effect, set by the Food and Agriculture Act of 1977, do not accurately reflect profit increases. And, these minimum wages only applied to producers who received price support loans. Information has not been available showing which growers received loans, so even those who were required to pay the 1977 minimum wage were rarely subject to enforcement.

Congress is now contemplating making an additional $1 billion in aid to the sugar producers. It is our position that any increased aid to the growers must include reasonable improvements in the wages and working conditions of sugar fieldworkers. Specifically, these improvements must include:

Wages.—An equitable and reasonable wage rate which reflects a *true* increase in wages and which is not dependent upon grower/employer participation in the price support loan system. We believe an equitable minimum wage rate base to be $4/hour—the current proportionate rate to the FLSA minimum wage rate as was the sugar wage rate in 1974 to the FLSA minimum wage. Skilled workers operating machinery should receive a higher wage base; and, the determined minimum wage should act as the wage floor for sugarbeet workers who generally are paid on a piece rate basis.

Wage Dispute Mechanism.—Disputes between workers and growers regarding wages and other labor conditions must be resolved by the federal government. If there is no method of resolving disputes, workers will be unable to take advantage of the labor protections provided. At the request of the worker, information concerning such disputes should be forwarded to the nearest farmworker or legal services organization in order to provide assistance to the worker and improve monitoring of local conditions.

Protection Against Retaliation.—Employers must be prohibited from firing or in other ways retaliating against employees who file complaints.

Protection Against Unreasonable Prices.—Employers must be prohibited from charging more than the reasonable cost of goods and services provided to workers.

Enforcement and Remedies.—Labor provisions must include adequate enforcement procedures, including monitoring and investigation. They must provide for compensation to aggrieved workers as well as sanctions against employers found to be in violation of the Act. As does the Administration, we believe the monitoring and enforcement responsibilities should be transferred from USDA to the Department of Labor.

The Administration recently released a Sugar Bill of 1979 which contains labor provisions similar to those introduced by Rep. Nolan of Minnesota in the 95th Congress. These labor provisions should serve as a basis for this Committee's considerations. However, there are significant changes which must be included if even these modest protections are to be effective. Specifically:

Wages

1. The wage levels set in the Administration's bill are wholly inadequate. In 1974 when the FLSA minimum wage was $1.65 an hour, sugar workers received $2.30 an hour. Under the Administration's bill, sugar workers will receive $3.20

an hour when the minimum wage is $2.90. The proposed increase is unreasonably low and does not even reflect a real increase in wages after rises in the cost of living are taken into consideration.

2. The proposed wage increases will actually decrease from approximately 6.6% the first year to 5.7% the last year. A percentage increase at least equal to the cost of living should be adopted.

3. The proposed hourly wages may act to depress wages in those areas where a piece rate is customarily paid. The minimum wage in sugarbeets should be the higher of the minimum hourly or minimum piece rate.

Remedies

While the Administration's bill provides for fines against employers who are found to have retaliated against complaining employees, or to have charged unreasonable prices for services and goods, it does not provide any remedy to the aggrieved employee. If an employee is fired in violation of these provisions, he/she should be reinstated with back pay. In the case of unreasonable charges, aggrieved employees should be able to recover overcharged amounts.

Workers' Compensation

The Administration bill provides that the Secretary shall issue regulations as he deems necessary to assure adequate insurance for sugar workers, but then goes on to state that the coverage shall be deemed adequate if it meets the requirements of that State. Over half of the sugar producing States have lesser insurance standards for agricultural workers than for other workers. At a minimum, the insurance provisions should be upgraded to provide sugar workers with the same standard coverage as other workers in the various States.

Mr. Chairman, these recommendations represent the most modest and reasonable changes necessary to implement the minimal labor provisions which must be considered as part of the proposed sugar price support legislation. It should be remembered that they would not even bring many of these workers up to poverty level incomes, nor would they guarantee a decent standard of living to sugar workers. But they would be a beginning, and as such they deserve your serious consideration.

Thank you.

Statement of the Mauritius Sugar Syndicate and the Mauritius Chamber of Agriculture

This material is prepared, edited, issued or circulated by John H. Sharon, who is registered under the Foreign Agent Regisration Act of 1938, as amended, as an agent of the Mauritius Chamber of Agriculture and the Mauritius Sugar Syndicate. This material is filed with the Department of Justice where the required registered statement is available for public inspection. Registration does not indicate approval of this material by the United States Government.

MAURITIUS

Mauritius is an island in the middle of the Indian Ocean, half of the size of Rhode Island, inhabited by over 900,000 people. Its economy, because of climatic and ecological reasons, is almost totally dependent upon sugar. Of the total land under cultivation, 95% is in sugar cane production. Mauritius, a developing African nation with a superior record in Human Rights, in dependent upon sugar exports for more than 85% of its foreign exchange. It is the world's ninth largest sugar exporter.

COMMERCIAL RELATIONS WITH THE UNITED STATES

Mauritius has a long and friendly history of commercial trade with the United States which it desires to expand. Since 1965 Mauritius has been a continuous and dependable supplier of U.S. sugar needs.[1] Only the limitations of a statutory quota prior to 1975 and a devastating cyclone which restricted 1975–76 shipments, prevented Mauritius from selling more sugar to the U.S.

Six years ago when Mauritius became an associate member of the European Economic Community through the Yaounde Convention, it extended to the U.S. special tariff preferences on U.S. exports to Mauritius. It was the first ECC associate member to take such an initiative. The United States, recognizing

[1] In 1972–73, Mauritius sold sugar to the U.S. at prices below the world market.

Mauritius as a developing African nation, by Executive order permittted duty free imports of Mauritian sugar under the Generalized System of Preferences. In 1977, Mauritius exported 55 thousand short tons to the U.S. under the GSP at a value of $9,474,000. In 1978, it delivered 66,000 tons to the U.S. at a value of $11,700,000. Mauritius would like to continue to sell sugar to the U.S. so it can continue to expand its purchase of U.S. goods, but it cannot do so if it continues to be faced with restrictive U.S. trade practices.

RESTRICTIVE U.S. TRADE PRACTICES AND THE QUESTION OF ADEQUATE NOTICE

Attached to this Statement as Appendix "A" is a brief summary of recent restrictive and inconsistent trade practices pursued by the U.S. Government resulting in economic injury to developing nations like Mauritius. Nations such as Mauritius gave the U.S. more than adequate notice of its sale of sugar to the U.S. and specifically requested that the U.S. take no restrictive action against these shipments. In return, the U.S. gave no notice whatsoever of the unilateral restrictive actions it did take—nor was there any opportunity to be heard or review of the Proclamations possible. One cannot help but wonder why the basic elements of due process are violated by a country that champions the cause of human rights in other nations! Congress, therefore, should adopt an amendment to pending sugar legislation that would (a) redress the economic injury to nations such as Mauritius resulting from Presidential Proclamations 4547 and 4631, and (b) assure that adequate notice be given in the future to the parties affected by additional restrictive action against U.S. sugar imports.

Since the Congress is considering granting retroactive relief to domestic producers for the year 1978, equity would require that *all* U.S. suppliers be afforded retroactive relief where the circumstances so warrant, if such relief is granted to the domestic industry.

THE UNITED STATES, MAURITIUS, AND THE GSP

Since the enactment of the Trade Act of 1974, Mauritius has been one of several developing nations receiving favorable treatment under the Generalized System of Preferences. This GSP status has provided Mauritius with a concrete incentive to sell sugar in the United States.

Recently the President removed a long list of products from the Generalized System of Preferences but left sugar on this product list.

To assure a continued supply of sugar to meet U.S. requirements, Congress should preserve the Generalized System of Preferences to enable developing countries such as Mauritius to continue to export sugar to the U.S. Such action by the Congress would be consistent with the goals and objectives of the International Sugar Agreement "to achieve worldwide sugar supplies and prices to every party's mutual interest."

THE UNITED STATES, MAURITIUS, AND THE I.S.A.

Officials of the United States, Mauritius and other sugar importing and exporting countries worked for over a year to write an International Sugar Agreement. This Agreement represents an international cooperative effort "to achieve worldwide sugar prices and supplies to every party's mutual interest." While not perfect, it is designed to avoid the problems created by excess supplies of sugar, while providing assurances of adequate supplies at reasonable prices. It does so by stabilizing world prices between 11 and 21 cents per pound, the 11 cent minimum being defended by a worldwide system of export quotas. Mauritius was one of the earliest signatories to this Agreement. The United States signed the Agreement on December 9, 1977—subject to Senate ratification. President Carter, in asking the Senate to ratify this Agreement last January, said:

"This Agreement is consistent with our broad foreign policy objectives and with our intent to balance the interests of producing and consuming countries through international cooperation. Once in full operation, it should eliminate the need for the tariff and fee measures recently imposed to defend our domestic price support program. Such unilateral measures adversely affect the earning capacity of many developing countries and undermine our commitment to an open international trading system. Instead, the Agreement represents a cooperative effort among sugar exporting and importing countries to achieve their mutual interests in equitable and stabilized sugar prices and supplies." [3]

[3] Presidential message to the Senate of the United States, Jan. 25, 1978.

The Mauritius sugar industry supports and applauds this statement by the President of the United States and urges the United States Senate to ratify promptly the International Sugar Agreement.

RATIFICATION: TIME IS OF THE ESSENCE

There are many reasons why the world price of sugar is presently below the cost of production. One important reason is the cloud that continues to hang over the world market resulting from the failure of the United States to ratify the International Sugar Agreement. Of all the signatories to the Agreement, the United States has the largest stake in the world sugar market since it accounts for over 20 percent of world imports. It is, therefore, very much in the interests of the United States to assure that world supplies are available over the long-term in adequate amounts at reasonable prices. This is precisely what the International Sugar Agreement seeks to achieve, but meaningful U.S. participation in the Agreement is critical to its success. Continued failure of the U.S. Senate to ratify the Agreement could render the Agreement ineffective and deal a severe economic blow to developing countries like Mauritius which are so heavily dependent upon sugar exports for its foreign exchange.

SUMMARY

In enacting sugar legislation in 1979, Congress should:

1. Adopt an amendment which would redress the economic injury to developing nations resulting from Presidential Proclamations 4547 and 4631.
2. Adopt an amendment that would require adequate notice and an opportunity to be heard with respect to any additional unilateral actions restricting U.S. sugar imports.
3. Preserve the Generalized System of Preferences for developing nations whose economies are sugar dependent.
4. Ratify promptly the International Sugar Agreement.

APPENDIX "A"

THE INCONSISTENCY OF U.S. SUGAR POLICY

Recent actions by the United States Government regarding its sugar policy are so inconsistent and so confusing as to leave a developing and exporting nation like Mauritius in a state of bewilderment. Witness these facts:

1. In August 1977, the Mauritius Sugar Syndicate sold two cargos of raw sugar to the U.S. (one cargo's port of entry was New Orleans, the other's was Philadelphia). In September 1977, the U.S. Government was notified of this sale with the specific request that the U.S. take no restrictive action regarding the importation of these two cargos.
2. In January 1978, despite the request from Mauritius, the President issued Proclamation 4547 imposing unilaterally fees on sugar exported to the U.S. regardless of when sold or shipped to the U.S. The two Mauritian cargos were, therefore, assessed additional fees totaling $1,700,000.
3. Later in January 1978, the President of the United States sent a message to the Senate requesting prompt ratification of the International Sugar Agreement, proclaiming that the Agreement "*should eliminate the need for the tariff and fee measures recently imposed to defend our domestic price support program. Such unilateral measures adversely affect the earning capacity of many developing countries and undermine our commitment to an open international trading system.*" (Emphasis added) [1]
4. Citing this Presidential statement and other pertinent facts, the Mauritius Sugar Syndicate in February, 1978 petitioned the U.S. Government for an exception to Presidential Proclamation 4547 and asked that the increased duties imposed thereon be returned to Mauritius.
5. In July 1978, the Mauritius Sugar Syndicate sold another cargo to the U.S. and in August so informed the U.S. Once again the Mauritius Sugar Syndicate requested that no additional restrictions be placed on this cargo.
6. In December 1978, despite the request from Mauritius the President issued Presidential Proclamation 4631 imposing *additional* restrictive duties on sugar imports.

---

[1] See footnote No. 2 hereinabove.

7. In January 1979, the U.S. Government, on the basis of equity, returned to Mauritius the additional import fee of over $830,000 imposed on the cargo entering New Orleans.

8. In February 1979, the Mauritius Sugar Syndicate was informed that the fees imposed on the Philadelphia cargo will *not* be returned, and the Syndicate has appealed this decision as being unjust and inconsistent with the Government's decision on the New Orleans cargo

9. In February 1979, the Mauritius Sugar Syndicate, again citing President Carter's public pronouncements and other pertinent facts including the U.S. Government's decision on the New Orleans cargo, petitioned the U.S. for exception to Presidential Proclamation 4631 citing the inequity of imposing additional fees on the cargo sold to the U.S. in July 1978. Whereas Mauritius gave the U.S. adequate notice of its July 1978 sale, the U.S. provided no notice whatsoever to the Syndicate (or any other exporting country that had in good faith executed contracts for sale to the U.S.) of Presidential Proclamation 4631.

10. The imposition of increased duties on all the cargos cited above and the failure to return the fees on all three cargos of sugar from Mauritius, would be inconsistent with the President's public pronouncements and the Administration's own actions pursuant to Presidential Proclamations 4547 and 4631.

11. All exporting nations—especially developing countries like Mauritius—should have the economic injury resulting from Presidential Proclamations 4547 and 4631 promptly redressed. Inasmuch as legislation pending before the Congress (H.R. 2172) provides support of retroactive relief for domestic sugar producers covering the 1978 production year, equity requires similar treatment for all U.S. suppliers—particularly those developing countries like Mauritius who executed in good faith contracts for sale prior to the restrictive unilateral action taken by the U.S. Government.