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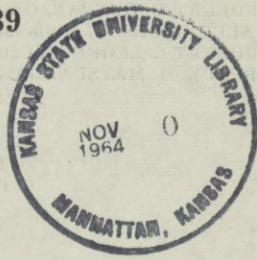
WHEAT CLEARS

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HEARINGS
BEFORE THE
SUBCOMMITTEE ON WHEAT
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
EIGHTY-EIGHTH CONGRESS
SECOND SESSION
ON
H.R. 12018 and H.R. 12139

JULY 30, 1964

Serial ZZ



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WHEAT CLEARS

THURSDAY, JULY 30, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 1310, Longworth House Office Building, Hon. Ralph R. Harding presiding.

Present: Representatives Purcell, Harding, Olson, Matsunaga, Belcher, Short, Latta, and Dole.

Also present: Lydia Vacin, staff; and Hyde H. Murray, assistant clerk.

Mr. HARDING (presiding). The meeting of the subcommittee will be in order to hear testimony on H.R. 12018 introduced by our colleague, Mr. Hagan of Georgia, and H.R. 12129 introduced by our colleague from Michigan, Mr. Harvey.

(H.R. 12018 by Mr. Hagan of Georgia and H.R. 12129 by Mr. Harvey of Michigan follow:)

[H.R. 12018, 88th Cong., 2d sess.]

A BILL To encourage the industrial utilization of wheat products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act of 1938 is amended by adding at the end the following new section:

"In order to encourage and expand domestic industrial consumption of wheat clears (flour having an ash content of 1 per centum or more) produced in the United States and to prevent discrimination against the domestic users of such wheat clears, notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized and directed for any marketing year for which a wheat marketing allocation program is in effect to make payments through the issuance of payment-in-kind certificates to persons who use such wheat clears in the United States for industrial purposes (not including the blending of clears, as such, with other flours, other wheat products or other agricultural products, for food or feed uses). Such payments shall be in such amounts and subject to such terms and conditions as the Secretary determines will eliminate inequities and will approximate the difference between the market price of wheat clears to domestic users and the export price at United States port of such wheat clear; to foreign users."

[H.R. 12129, 88th Cong., 2d sess.]

A BILL To encourage the industrial utilization of wheat products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subtitle D of title III of the Agricultural Adjustment Act of 1938 is amended by adding at the end thereof the following new section:

"PAYMENTS TO DOMESTIC USERS OF WHEAT CLEARS FOR INDUSTRIAL PURPOSES

"SEC. 379k. In order to encourage and expand domestic industrial consumption of wheat clears (flour having an ash content of 1 per centum or more) produced in the United States and to prevent discrimination against the domestic users of such wheat clears, notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized and directed for any marketing year for which a wheat marketing allocation program is in effect to make payments through the issuance of payment-in-kind certificates to persons who use such wheat clears in the United States for industrial purposes (not including the blending of clears, as such, with other flours, other wheat products or other agricultural products, for food or feed uses). Such payments shall be in such amounts and subject to such terms and conditions as the Secretary determines will eliminate inequities and will approximate the difference between the market price of wheat clears to domestic users and the export price at United States port of such wheat clears to foreign users."

Mr. HARDING. The first witness we will hear this morning will be Mr. Wingate Underhill, from the Office of the Secretary, U.S. Department of Agriculture.

STATEMENT OF WINGATE UNDERHILL, OFFICE OF THE SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Mr. UNDERHILL. Mr. Chairman and members of the subcommittee, the Department has not taken a position on this bill. It has been considered very carefully.

We would like to come up with an official statement in the form of a report to the subcommittee. I would hope that we could do that in the early part of next week. We hope that the committee can proceed today to hear the testimony from the other witnesses with the understanding that an official position of the Department will be available at an early date.

Mr. HARDING. Very well. I understand then that the first part of next week we shall have the Department report stating the position of the Department of Agriculture.

Mr. UNDERHILL. I think that will be correct. I will strive to have it by that time.

Mr. HARDING. I can understand the difficulty that the Department is facing in preparing a report, inasmuch as the legislation was not introduced until the 22d of July. However, if the committee is to take action on the bill, it is imperative that we receive the report in the immediate future.

Mr. UNDERHILL. We will certainly keep that in mind.

Mr. HARDING. Thank you, Mr. Underhill.

The next witness we have scheduled this morning is Mr. Carl C. Farrington, vice president of Archer Daniels Midland Co., Minneapolis, Minn., on behalf of the Millers' National Federation.

STATEMENT OF CARL C. FARRINGTON, VICE PRESIDENT, ARCHER DANIELS MIDLAND CO., MINNEAPOLIS, MINN., AND CHAIRMAN OF THE COMMITTEE ON AGRICULTURE OF THE MILLERS' NATIONAL FEDERATION

Mr. FARRINGTON. Mr. Chairman and members of the subcommittee, I had assumed that I would not be the first witness, but if that is your wish I will be glad to proceed.

My statement is very short.

My name is Carl C. Farrington. I am a vice president of Archer Daniels Midland Co., Minneapolis, Minn., and chairman of the committee on agriculture of the Millers' National Federation.

I am appearing here today on behalf of the Millers' National Federation. The membership of the federation includes over 90 percent of the flour milling capacity of the United States.

We appreciate the opportunity to appear before you and to express our views.

We understand that the purpose of H.R. 12018 is to encourage and hopefully expand the domestic consumption of U.S.-produced high ash clear flour by starch-gluten manufacturers for plywood and other adhesives, and for other industrial purposes, by authorizing and directing the Secretary of Agriculture to make payments to such users of high ash clears through the issuance of payment-in-kind certificates in such amounts as the Secretary of Agriculture determines will eliminate inequities, taking into consideration the difference between the domestic market price and world price of such wheat clears.

We believe this legislation will serve several constructive purposes.

Each of these purposes, I might say, could be elaborated on extensively, but I will just state those three purposes.

First, it will enable domestic starch-gluten manufacturers, plywood manufacturers, and other industrial users of high ash clears to compete more effectively and equitably with foreign producers of competing products.

Second, it will provide an opportunity and incentive for industrial users of high ash clears to expand the markets for their present products and possibly new products.

Third, it will enable domestically produced high ash clears to compete effectively and equitably with imported high ash clears in the industrial uses covered by this legislation.

Mr. SHORT. I think that it would be helpful—I know that it would be to me and I am sure that it will be to other members of the subcommittee if we could have an explanation of this term “ash clears.”

You refer in your paper to “high ash clears” or “clears.” I have to admit that I am not quite sure what they are.

Mr. HARDING. Would the gentleman answer Mr. Short's question.

Mr. FARRINGTON. In the production of flour, that is, in the production of patent flour, we take off the low ash streams that go into the patent flour and then there are certain additional streams that have a higher ash content, and those become known as clears.

It is a part of the total flour stream, but it is the high ash end of the total flour product of wheat.

For the purposes of this legislation the proponents have recommended that the flour in excess of 1 percent ash be covered by this legislation.

Mr. SHORT. Excuse me a moment, sir. There are a couple of things that come to my mind.

No. 1, this is a product that is not absorbed into the flour—it is the result of the milling of the wheat, is this right?

Mr. FARRINGTON. It all depends on what kind of flour is being produced. In a straight grade flour, of course, all of the clears as well as the rest of the flour stream are included.

Mr. SHORT. Put it this way, it is something that is left over after the wheat is milled in the making of the flour?

Mr. FARRINGTON. If you are producing a patent flour, a low ash flour, then some part of that total flour product has to be cut off and not become a part of this particular type of flour. The part that is cut off, the clears, may be blended back into another batch of flour or it may be sold as such.

Mr. SHORT. I think there is something that needs a little bit further clarification. Just what are these clears used for industrially? You seem to be referring to it as being used that way. For what purposes are these clears used?

Mr. FARRINGTON. I think that I cover that in my paper later.

Mr. SHORT. I notice that we have testimony here from a powder company and from a plywood company and it seems to those of us who are completely unfamiliar with this subject, perhaps, with this product, that it leaves us without a knowledge of what we are talking about.

Mr. FARRINGTON. I think that I answer that in part in the next paragraph but I will elaborate on it.

Mr. SHORT. If your testimony clarifies it you need not mention it now, because it would be repetitious.

In connection with the second parenthetical expression (which begins on line 5, p. 2) we suggest that it would be well either to reword this expression or include language in the committee report which would define what is intended by the term "industrial purposes."

Perhaps the following language would suffice "(including but not limited to starch-gluten manufacture, adhesives, and dog and pet food manufacture but not including the blending of clears, as such, with other flours or other wheat products)."

I would like to add that in fact with the development of a proper definition of the end uses to be covered, I believe that it would be possible to delete the reference to flour having an ash content of 1 percent or more, and make the payments applicable to any flour going into such uses provided, of course, that a certain liability has been satisfied with respect to such flour. I would assume that any regulations would so provide. And in the interest of expanding the use of wheat and assisting our customers we do support the objectives of this legislation and hope that it may be enacted promptly with appropriate changes in language.

Mr. HARDING. Mr. Farrington, we certainly thank you for your statement, and also for responding to the questions asked by Mr. Short clarifying this subject.

Mr. FARRINGTON. I will say that the best figures that I can put together, of the total production of these clears, having an ash content of

about 1 percent or more, probably runs in the neighborhood of 6 to 6¼ million hundredweights and probably around 2 and 2¼ million hundredweights is exported, as I point out here. And about 4 million is distributed domestically, and of this quantity, this 4 million, a little over one-half is delivered to the starch-gluten manufacturers, and about 16 percent is delivered to the adhesive and other industrial users.

The dog and pet food manufacturers receive about 12 percent.

The remainder went to bakery and miscellaneous users.

If it is your intention to cover dog and pet food manufacturers by this legislation, nearly 80 percent of the customers of our mills for high ash clears would be covered.

If it is not included, then the percentage would be cut down by 12 percent.

There are two language changes of a technical nature that we would like to suggest, which begins on line 5, page 2.

In line 2, second paragraph, we believe the parentheses should enclose only the word "flour" and should read, "of wheat clears (flour) having an ash content of 1 per centum or more pro-" et cetera. The parenthetical expression now implies that the term "wheat clears" means flour having an ash content of 1 percent or more whereas in trade usage the term "clears" includes both so-called first clears which generally have an ash content of less than 1 percent, and so-called second clears some of which have an ash content of less than 1 percent and some of which have an ash content of 1 percent or more.

MR. BELCHER. Does this take the 70-cent-per-bushel certificate?

MR. FARRINGTON. Yes, sir. The 70-cent-per-bushel certificate must be purchased with respect to each bushel of wheat put into the process. That, of course, has been passed on, and, therefore, a certificate cost is incurred with respect to every pound of flour produced and all of these clears are included in the definition of flour under the regulations.

MR. BELCHER. Thank you.

MR. HARDING. Mr. Short, do you have any further questions?

MR. SHORT. No.

MR. HARDING. Mr. Latta?

MR. LATTA. I am not quite as sympathetic to the bill the way it is right now as I thought I'd be. Let me get this straight. The certificates for 70 cents under the present law are necessary. Under this bill you want the Government or the taxpayers to pay for some additional certificates; is that what you are attempting?

MR. FARRINGTON. No. This would be basically in the nature of a refund of the certificate cost that had been incurred with respect to such flour going into the specific uses.

MR. LATTA. Well, the taxpayer paid for the initial certificate; that is, the consumer—the consumer eventually has to pay for it—and then they are going to get a refund, those who buy it?

MR. FARRINGTON. I am speaking for the flour mills. The ultimate user of the flour for the specific purposes would get the refunds.

MR. LATTA. They would get it?

MR. FARRINGTON. Yes.

MR. LATTA. As I understand the problem in the past it has been importation of clears into this country—I do not know about your company—but I know that some companies have been importing clears.

And these companies because of the support, can buy it much cheaper overseas. As a consequence, you have not been using the clears we've had available here in this country; is that not correct?

Mr. FARRINGTON. The first part of your statement is correct. And that is what I was referring to when I said it will enable domestically produced high ash clears to compete effectively and equitably with imported high ash clears in industrial uses covered by this legislation.

There is a substantial quantity of clears with an ash content of more than 1 percent coming in from Canada that does go into domestic uses and no certificate liability is incurred with respect to those. It does come in.

Mr. LATTI. Could you not accomplish what you are trying to accomplish by the simple method of buying these clears without the support price, instead of going all the way around Robin Hood's barn to accomplish your purpose?

Mr. FARRINGTON. This (the proposed system) is probably the most simple way to do it.

Mr. LATTI. Was that given any consideration when this bill was being drafted?

Mr. FARRINGTON. I was not in on the drafting or the development of the original bill. The starch-gluten people could answer that question better than I. It would work just the same as the exports do, that is, that the flour mills incur a certificate cost on all of the flour produced, and then if it goes for export there is an export payment. Under this bill, if it went to one of these users, then that user would collect the payment.

It is simpler to make the payment at the point of export or the point of use, probably, than to try to trace it back to the original processor.

Mr. LATTI. About how many million dollars worth of clears are imported into this country each year?

Mr. FARRINGTON. Well, it has been running around 600,000 hundred-weight and I suppose that the value would be around \$3.50 per hundredweight.

Mr. LATTI. How many bushels of wheat would you have to mill to get that amount of clears?

Mr. FARRINGTON. That is a little difficult to answer. In one way, it is equivalent on a straight conversion factor basis—600,000 hundred-weight would require about 1,500,000 bushels.

It requires about 2.28 bushels of wheat to make a hundredweight of flour.

Mr. LATTI. I would have thought it would be quite a bit more than that.

Mr. FARRINGTON. We were talking only about the imports.

Mr. LATTI. I thought that it was quite a little bit more than that.

Mr. FARRINGTON. Of course, the clears is not the total product. The clears represent only a small percentage of any 1 bushel or any 1 hundredweight of flour produced. So many million bushels are involved, but the exact wheat equivalent of this much flour is 2.28 times the number of hundredweight of flour.

Mr. LATTI. Would it not be cheaper, going back to my original question, to buy these clears direct without the support payment to start with?

Mr. FARRINGTON. The cost should be basically the same—well, it could be administered either way.

Mr. LATTA. It would be simpler to administer, would it not?

Mr. FARRINGTON. The ultimate cost would be about the same, I think.

Mr. LATTA. That is all.

Mr. HARDING. Mr. Olson, do you have any questions?

Mr. OLSON. If wheat clears were competitive previous to the certificate program and they would not be utilized now because of being out of competition—what happened to them?

Mr. FARRINGTON. They were utilized—they have always been utilized.

Mr. OLSON. All of these domestically produced clears have been utilized previous to the certificate program?

Mr. FARRINGTON. They were utilized one way or another, yes.

Mr. OLSON. Well, then, there really is not any difference in the price of clears now available because of the certificate program than there was before without the certificate program?

Mr. FARRINGTON. Somewhat more.

Mr. OLSON. Not a very great difference.

Mr. FARRINGTON. The wheat cost, including the certificate, is presently running about 25 to 30 cents a bushel more than it was a year ago at this point, and that translates into 60 or 70 cents per hundred-weight of flour.

Mr. OLSON. You are not dealing with a situation, though, where our clears are not being used because of the availability of cheaper clears in the form of imports?

Mr. FARRINGTON. There is this difference, Mr. Olson, under the certificate plan the difference between the domestic price level and the world price level is greater than it was last year.

Mr. OLSON. In other words, what you are saying is that the world price level would be lower now?

Mr. FARRINGTON. No, the domestic price level is higher—the world price level is about the same.

Mr. OLSON. I stated it incorrectly. The world price level is the same, we are coming down to that world price level on the export wheat, but that does not change the price of wheat in Canada.

Mr. FARRINGTON. That is correct.

Mr. OLSON. Or Mexico or other suppliers who before were producing clears.

Mr. FARRINGTON. The problem has existed for a long time. It has become more accentuated by the greater difference that exists now between the domestic and the foreign flour prices than has existed sometime in the past. I think more importantly, strictly from the standpoint of the starch-gluten manufacturers, they are feeling more competition from the imported gluten which is coming largely from Canada and Australia where the wheat is available to them at the world price, and it is that competition which threatens a use of the domestic clears which has been going on in the past.

Mr. OLSON. It has been available at that exact same price previous to this time.

Mr. FARRINGTON. Yes, the imports are, and they are increasing.

Mr. OLSON. Have you computed the effect of the price of the certificate on the average as it relates to the clears?

Mr. FARRINGTON. That would vary from mill to mill and flour to flour. I cannot give you a figure on that. Overall, under the regulations, the 70-cent-per-bushel certificate cost is \$1.60 per hundredweight of flour.

Mr. OLSON. For the flour, but not for the wheat clears.

Mr. FARRINGTON. Not for any one type of flour, that is correct.

Mr. OLSON. The clears are not used for producing flours.

Mr. FARRINGTON. Clears—

Mr. OLSON. They may be flour.

Mr. FARRINGTON. Clears is flour. It is a part of the flour stream.

Mr. OLSON. It is a byproduct.

Mr. FARRINGTON. No, it is a joint product under some circumstances.

Mr. OLSON. It is not a flour for use for making bread?

Mr. FARRINGTON. Yes, a lot of clears go into human consumption, but a relatively small amount of the clears of one or more ash go into human consumption in the United States.

Mr. OLSON. A relatively small amount?

Mr. FARRINGTON. About 20 percent.

Mr. OLSON. In other words, we have 20 percent of the 70-cent certificate, that is what it amounts to?

Mr. FARRINGTON. No, no. Of this quantity of high ash clears, this 4 million hundredweight distributed in the United States, about 20 percent of it goes into bakery and other food uses.

Mr. OLSON. What is the amount of clears as the result of milling a bushel of wheat?

Mr. FARRINGTON. It depends entirely on what kind of flour you are producing.

Mr. OLSON. I think that we should be more specific.

Mr. FARRINGTON. The survey that we made recently, and several previous surveys, show that the total production of clears runs about 9.5 percent of the total flour production, and that includes the first clears which go largely into food uses, and the second clears which go largely into nonfood uses.

Mr. OLSON. Has there been the argument that the clears that go into food uses should carry a part of the certificate price?

Mr. FARRINGTON. We are not very favorable to putting the certificate cost in there anyplace.

Mr. OLSON. I grant you that. You are trying to get down to a definition here or the intent, if I understand it.

Mr. FARRINGTON. Yes.

Mr. OLSON. You have 9.5 percent total clears.

Mr. FARRINGTON. Yes.

Mr. OLSON. And even if I gave you the benefit of the whole amount, you would have 9.5 percent of the 70-cent certificate, that is less than 7 cents.

Mr. FARRINGTON. It is still \$1.60 per hundredweight for flour, any way you cut it.

Mr. OLSON. On the total product?

Mr. FARRINGTON. Of the total product.

Mr. OLSON. But you are not going to alleviate or reduce that \$1.60 cost because the relief from the bill would not do that, the bill that we are discussing this morning.

Mr. FARRINGTON. True. This bill would still leave all of the certificate cost on any of these flours going into the bakery and other food uses.

Mr. OLSON. So that we end up with about 9.5 or perhaps less than that.

Mr. FARRINGTON. You are talking about 2 or 3 percent that goes into high ash flour that goes into industrial uses where the competition is particularly acute at this time, and where there is a danger of a substantial loss of market if something is not done.

Mr. OLSON. That is all. Thank you.

Mr. HARDING. Mr. Dole.

Mr. DOLE. What is the attitude of these people as to the certificate plan? Are they objecting to this legislation?

Mr. FARRINGTON. I cannot answer for them.

Mr. DOLE. Do you support the certificate plan?

Mr. FARRINGTON. No, sir. I testified before this committee to that effect, that I did not support it.

Mr. DOLE. We have now had a couple of instances where we have had people trying to avoid the consequences of the so-called voluntary certificate plan. What is the attitude of those who support this bill?

Mr. FARRINGTON. They will have to answer for themselves. I cannot.

Mr. DOLE. Thank you. That is all.

Mr. HARDING. Mr. Farrington, the subcommittee wants to thank you for appearing here today.

Mr. FARRINGTON. Thank you very much.

Mr. HARDING. And for presenting your testimony and answering these questions.

The next witness scheduled to appear is Mr. S. H. Hellekson, assistant general manager of the Cellulose & Protein Products Department of Hercules Powder Co., Inc.

**STATEMENT OF S. H. HELLEKSON, ASSISTANT GENERAL MANAGER,
CELLULOSE & PROTEIN PRODUCTS DEPARTMENT, HERCULES
POWDER CO., INC.**

Mr. HELLEKSON. Mr. Chairman and members of the House Committee on Agriculture, I first want to thank you and the members of this subcommittee for this opportunity to appear before you and testify in support of H.R. 12018 introduced by Congressman Hagan of Georgia. Senators Hart of Michigan and Boggs of Delaware have introduced an identical bill in the Senate (S. 3024).

My name is S. H. Hellekson and I am assistant general manager of the Cellulose & Protein Products Department of Hercules Powder Co., with principal offices in Wilmington, Del.

This statement is presented on behalf of five industrial processors of a wheat product called second clears. These companies are:

National Industrial Products Co., of Columbus, Ohio; Midwest Solvents Co., Inc., of Atchison, Kans.; Wheat Products Co., of Colorado Springs, Colo.; General Mills, Inc., of Minneapolis, Minn.; and Hercules Powder Co., of Wilmington, Del.

These companies make up the starch-gluten industry in the United States.

Copies of telegrams from these companies are attached to the written statement containing my remarks. These telegrams request me to speak on their behalf and express the need for the prompt passage of H.R. 12018.

With your permission, Mr. Chairman, I would like to submit these telegrams for the record.

Mr. HARDING. Without objection the telegrams will be placed in the record.

(The telegrams referred to above follow:)

GENERAL MILLS, INC.,
Minneapolis, Minn., July 28, 1964.

S. H. HELLEKSON,
Hercules Powder Co.,
Wilmington, Del.:

This is to authorize you to present testimony on our behalf as a member of the wheat starch gluten industry before the Wheat Subcommittee of the House of Representatives Committee on Agriculture in support of H.R. 12018. There is urgent need for the legislation provided in the bill.

S. D. ANDREWS, Jr.

MIDWEST SOLVENTS Co., INC.,
Atchison, Kans., July 29, 1964.

S. H. HELLEKSON,
Hercules Powder Co.,
Washington, D.C.:

We have read the preliminary draft of your statement and realize you are entirely familiar with the problems of our company as related to the price and availability of wheat clears. The short notice given makes it impossible for us to attend the hearing in person; therefore, we authorize you to speak in our behalf before the Wheat Subcommittee of the House of Representatives in support of H.R. 12018. There is urgent need for the legislation provided in this bill.

CLOUD L. CRAY, Jr., *President.*

NATIONAL INDUSTRIAL PRODUCTS Co.,
KEEVER STARCH DIVISION,
Columbus, Ohio, July 28, 1964.

S. H. HELLEKSON,
Hercules Powder Co.,
Wilmington, Del.:

This will authorize you to present testimony in our behalf as a member of the wheat starch gluten industry before the wheat subcommittee of the House of Representatives Committee on Agriculture. There is urgent need for the legislation provided in this bill in order to remove serious inequities faced by our industry.

C. J. KURTZ.

WHEAT PRODUCTS Co.,
Colorado Springs, Colo., July 28, 1964.

S. H. HELLEKSON,
Hercules Powder Co.,
Wilmington, Del.:

This is to authorize you to present testimony on our behalf as a member of the wheat starch and gluten industry before the Wheat Subcommittee of the House of Representatives Committee on Agriculture in support of H.R. 12018 (S. 3024). There is urgent need for the legislation provided in the bill for further utilization of U.S. agricultural products.

J. M. WOLF.

Mr. HELLEKSON. This industry is entirely dependent upon the availability of wheat clears, a byproduct of the flour milling industry, as its essential raw material. Last year it consumed an estimated 223

million pounds of wheat clears. Clears are a byproduct of "flour" obtained when wheat is ground and separated to produce patent flour used primarily in the baking industry. These clears are a necessary and normal intermediate byproduct between patent flour and the animal feed portion (shorts, middling, bran).

Second clears are used to only a limited extent for human consumption in this country but to a greater extent abroad.

The starch-gluten industry processes clears for two primary products—wheat gluten and wheat starch. These primary products are then further processed into a variety of other products. Vital wheat gluten is used by bakers to adjust protein level and thereby impart desired baking properties; it is also used in breakfast cereals, dietetic foods, specialty meat products, and in other processed foods. Typical uses of wheat starch include adhesives, paper coating, sizing agents for paper and textiles, laundry starch, and prepared food mixes.

The original source of our problem is the domestic wheat program which maintains U.S. wheat and flour prices at substantially above world prices. This makes it necessary to adopt export subsidy programs to move domestic wheat flour in competition with such products from other countries.

Upon export of second clears, the exporter receives the full flour export subsidy, which usually ranges between \$1.50 and \$2 per hundred pounds. This means that the seller exporting second clears receives not only the price the foreign buyer is willing to pay, but the substantial export subsidy.

The supply of second clears is limited to the quantity taken off during the production of patent flour because no one grinds wheat for the purpose of producing second clears. About 2 to 3 pounds of second clears result from every hundred pounds of flour milled. For a domestic user to buy second clears, he must outbid the export market price, paying not only what the foreign buyer will offer but, in addition, the amount of the flour export subsidy which the seller of clears would receive upon export.

Thus, the flour export subsidy increases the price domestic users of second clears must pay by approximately the difference between the export price to the foreign buyer and the higher amount U.S. users are paying because of the export subsidy.

Another factor adversely affecting this industry is the high rate of imports of vital wheat gluten—the principal product produced by industrial users of clears.

Although only very limited quantities of wheat clears usable by industrial processors can be imported into the United States, the same is not true of vital wheat gluten.

In 1963, over 8 million pounds of gluten were imported from abroad. This represents more than one-fourth of the current U.S. market of approximately 30 million pounds.

More than enough domestic plant capacity exists to supply the U.S. gluten market. Obviously, continued plant operations will depend upon the industry's ability to sell this gluten. Eight million pounds of imported gluten represents 50 million pounds of second clears which could have been processed by the starch-gluten industry in the United States and which, presumably, had to be moved under the export subsidy program.

Foreign gluten producers buy their raw material at world prices; that is, \$1.50 to \$2 per 100 pounds less than domestic users currently have to pay. Consequently, the foreign producers can ship gluten to the United States and still undersell U.S. producers. This has depressed the market price of gluten to an uneconomic level for U.S. producers.

We have exhausted the possibility for administrative relief. For some years, members of our industry have petitioned the Department of Agriculture to exclude clears from the export subsidy program. While recognizing the seriousness of our problem, the Department has not changed its program because of concern that such a change would create more new problems for the milling industry than it would correct for the starch-gluten producers and would be more difficult to administer.

In 1962, we believed that we would obtain price relief by administrative exemption of wheat clears from the wheat marketing certificate requirement contained in the 1962 wheat legislation. The legislative history of this enactment evidenced this intention on the part of Congress and the Department of Agriculture.

Congressman O'Hara, of Michigan, asked Congressman Cooley, of North Carolina, the following question on the floor of the House:

I would like to know if marketing certificates will be required for all of the wheat milled into flour used in such industrial processes in spite of the fact that all or part of such wheat is finally used for nonfood purposes.

Mr. Cooley answered this question as follows:

The Department of Agriculture has assured the chairman of the Committee on Agriculture that in such cases a price adjustment will be arranged either with the millers or the industrial processors of flour in recognition of the fact that not all of the end product is to be used for human food purposes.

A similar colloquy took place in the Senate between Senator Hart, of Michigan, and Senator Ellender, of Louisiana.

(The colloquies referred to above may be found on p. 11377 of the Congressional Record for June 21, 1962, and p. 17228 of the Congressional Record for Aug. 21, 1962.)

Mr. HELLEKSON. The 1962 wheat legislation failed to pass the farmers' referendum. However, in 1963, relief from the effect of the export subsidy program again appeared to be right around the corner because it was not expected that any new legislation would pass. Without wheat legislation, wheat prices were expected to drop to the point that no export subsidy would be needed for wheat or wheat flour. In this case, there would be no export subsidy on clears to escalate the domestic price we pay.

Even when the 1964 wheat legislation passed, we had hopes that the earlier record on the 1962 wheat bill would still control, entitling industrial users of second clears to a marketing certificate exemption covering the clears they buy. However, a change in the 1964 bill made the marketing certificate requirement applicable to "flour," regardless of whether it was used industrially, and second clears, although a by-product of patent flour production, have been ruled to be "flour" by the Department of Agriculture.

Following this interpretation, Congressman O'Hara of Michigan referred to the dashed hopes of the starch-gluten industry and the need for legislative action and Congressmen Cooley, Abbitt, and others indicated support for legislative action.

(The information referred to above may be found on p. 11055 of the Congressional Record for May 20, 1964.)

Mr. HELLEKSON. We have exhausted every avenue of administrative relief without success. We are not here requesting that the Congress change the export subsidy program. We do urge that inequities caused by this program be corrected by the Congress.

If the inequities are not removed, and in this I can only speak for Hercules, we will be forced to shut down the operations at our Harbor Beach, Mich., plant.

If I may detail the problem now existing at this location, Hercules acquired the Huron Milling Co. in December 1956, and with it a large plant which processes second clears. Since the acquisition, Hercules has taken every reasonable step to bring the plant to maximum efficiency. We have invested over \$7 million for plant modernization; we have spent additional millions for research. We have cut operating costs appreciably and developed new products and new markets, such as the market for vital wheat gluten—but we have lost money on the operation ever since it was acquired.

It is not feasible to reduce operating costs further. The only way we can justify continuing the business is to reduce our raw material costs. The proposed legislation should accomplish this.

Without such legislation, our present plans are to continue running the Harbor Beach plant until we exhaust our existing inventory of clears. We're currently using clears purchased in late May and early June, just before the new wheat program went into effect and at a time when second clear prices had dropped to a more favorable level. We purchased as much clears as we could find storage for during this period and have enough to operate for the balance of 1964 at about 30 percent of plant capacity.

Second clear prices today are back to a level where we will continue to lose substantial sums if we stay in the business, so that the future of the Harbor Beach operation is wholly dependent on obtaining a substantially lower priced raw material.

Hercules has built much of its success by taking agricultural by-products and upgrading them into products which are at the same time profitable to Hercules and beneficial to the consumer, the farmer, and to the general public.

Our original purpose in acquiring the Harbor Beach operation was to develop profitable uses for wheat products, as we have done elsewhere with other agricultural raw materials. The existing price level of second clears is not conducive to this.

Naturally, we are deeply concerned about the impact of closing down our operation at Harbor Beach. We're the largest industry in the entire Thumb area of Michigan, with an annual payroll of \$2 million. Employment at the plant has already fallen from about 500 in 1956 to about 325. Last week we were forced to idle an additional 55 men, when we cut back 30 percent of capacity.

Huron County, in which Harbor Beach lies, is designated right now as a distress area.

Other users of wheat second clears also are seriously affected by wheat clears' prices.

In addition to the support of industrial users of clears, H.R. 12018 has the support of various wheatgrowers and members of the milling industry.

We now request your support of this bill to provide payments-in-kind to the starch-gluten industry and to other industrial users of second clears. We ask that you expedite the bill so that it can be voted upon at this session of Congress. Favorable action would: Avoid serious economic distress that otherwise would occur; maintain domestic usage of a wheat product; and encourage industrial users to develop new uses for wheat for the benefit of wheat farmers, the milling industry, and the general public.

Mr. HARDING. Mr. Hellekson, I want to thank you for a very fine presentation.

There is one question that comes to my mind. These second clears result as a byproduct in every bushel of wheat that is milled; is that correct?

Mr. HELLEKSON. No, sir. They are a byproduct when the mill is producing patent flour, which is a very high-grade flour, and it is the accepted flour in the United States.

Mr. HARDING. Do we have any millers who are engaged primarily in producing second clears for the industry?

Mr. HELLEKSON. Millers will not run a mill to produce second clears. This is not their objective.

Mr. HARDING. It is strictly an agricultural byproduct?

Mr. HELLEKSON. They consider it a coproduct. I spoke of it as a byproduct. When they make a patent flour they must take a cut of the flour stream which they designate as first and second clears. We are talking about the second clears here. If they are producing straight flour there are no clears.

Mr. HARDING. Unless this legislation is enacted will your operation at Harbor Beach definitely be closed down?

Mr. HELLEKSON. Unless we get relief on our raw material price we cannot continue in business at Harbor Beach.

Mr. HARDING. Should this legislation be enacted; do you foresee an expansion of your operation in this area in the future?

Mr. HELLEKSON. As I mentioned in my testimony, last year 8 million pounds of gluten were imported into the United States which would represent approximately 50 million pounds of clears. If we had a more favorable raw material price we could be competitive with the Canadian gluten. And, obviously, we would wash more clears and we would expect to employ more people.

Mr. HARDING. Thank you very much for answering my questions, Mr. Hellekson.

Mr. Short.

Mr. SHORT. Thank you, Mr. Chairman.

Why were clears cheaper in May and June?

Mr. HELLEKSON. They are cheaper in May and June in the absence of—well, because wheat was cheaper in May and June.

Mr. SHORT. Are you saying because this was temporarily cheaper during that particular time, during the transition?

Mr. HELLEKSON. Absolutely, during that interim period they were temporarily cheaper. We bought heavily at that time.

Mr. SHORT. Let me put it this way. Wheat is not essentially higher now. It is a little bit higher, but we are dealing here with a basic cost of wheat before July 1 of \$1.82 a bushel across the board, price-support level.

Mr. HELLEKSON. Yes.

Mr. SHORT. I think that we have to recognize that most of the wheat milled in the United States is the higher cost wheat, that there was a tendency to pay a little premium for most of the wheat that is milled. I live in North Dakota where we produce Hard Spring wheat, and this demands a premium most of the time because of the high protein content. Maybe they were paying a little more than \$1.82 basic-price-support level. Now we have a basic cost of \$1.30 plus 70 cents for the certificate which gets our level up to about \$2.

I am a little like Mr. Olson—I cannot quite see why this wheat bill is the complete cause of your problem, because the clears as indicated here is a rather small amount of a bushel of milled wheat. Assuming that the miller has to buy the 70-cent wheat certificate for every bushel of wheat he processes, he has to pass this cost on to the various people to whom he sells his product and clears is one of the products that this miller sells. So it seems that we are talking about a rather small increase in cost which, approximately, has taken place due to this new wheat program.

Is this not true?

Mr. HELLEKSON. This is true. We are not specifically in trouble today because of the wheat certificate program.

Mr. SHORT. Well, this is the point that I think needs clarification here. There may be some justification for your case, but it would seem to me, if I analyze it rightly that your problem is basically one of the export subsidy, previous to July 1, when the new wheat program went into effect.

Mr. HELLEKSON. You are absolutely correct.

Mr. SHORT. What?

Mr. HELLEKSON. You are absolutely correct.

Mr. SHORT. You are able to obtain these wheat clears from Canada cheaper than you can buy them in the United States?

Mr. HELLEKSON. Yes.

Mr. SHORT. Is that not true?

Mr. HELLEKSON. This is true.

Mr. SHORT. Would you explain a little bit further why this situation exists? I can understand why the American miller might try to get a higher price for this small fraction of the result of his milling a bushel of wheat, but if there is a lower price for a similar product available from Canada, I cannot understand how the miller can keep his price up above that level.

Mr. HELLEKSON. We must outbid the export buyer to purchase domestically produced clears. We must pay the world price plus the subsidy in order to be competitive in the marketplace with the export customer.

Mr. SHORT. The Canadian clears are being sold on the world market. This is where I get a little bit lost.

Mr. HELLEKSON. This is correct. And if we are buying a limited amount or have bought, I should say—we are not buying any clears today—we have bought limited amounts of Canadian clears. There

are technical limitations on the quantity of this material that we can use as a raw material. We have processing difficulties which are peculiar to the Canadian material and, therefore, we are limited in the extent that we can blend this with the domestic material.

Mr. SHORT. In other words, you could not produce a product that your company produces entirely from Canadian clears; that is, the process that you use does not lend itself to using these Canadian clears?

Mr. HELLEKSON. This would be a correct statement because, obviously, the Canadians are using their own clears to make products to compete with us.

Mr. SHORT. I do not want to take any more time, Mr. Chairman. I am not quite clear on just exactly what this problem is. Maybe somebody else will go into this.

Mr. HARDING. Mr. Olson.

Mr. OLSON. You stated that on page 3:

The supply of second clears is limited to the quantity taken off during the production of patent flour because no one grinds wheat for the purpose of producing second clears.

When you purchased clears from Canada was that because the clears were not available in the United States?

Mr. HELLEKSON. This has been true but it is not typical. There have been limited periods where what you state is correct, but the normal incentive to buy Canadian clears is because of the lower price.

Mr. OLSON. The clears produced in the United States, basically are utilized?

Mr. HELLEKSON. Not in the United States; no sir. An appreciable quantity is exported.

Mr. OLSON. From the United States?

Mr. HELLEKSON. Yes, sir.

Mr. OLSON. Second clears?

Mr. HELLEKSON. Second clears.

Mr. OLSON. Where does this imported gluten come from?

Mr. HELLEKSON. Canada and Australia.

What we are asking for here would allow us to be competitive with their price on gluten. I cannot forecast what they would do in the future.

Mr. OLSON. Imports depress the market price on gluten to an uneconomic level for the U.S. producer?

Mr. HELLEKSON. Yes, sir.

Mr. OLSON. And the only factor that has made it uneconomic for the U.S. producer is that the raw material is too high in price, right?

Mr. HELLEKSON. That is our statement; yes, sir.

Mr. OLSON. And if 2 or 3 pounds of second clears result from the milling of 100 pounds of wheat into patent flour, this means that the certificate cost on a pound of clears is 1.2 cents and this, in itself, results in making it uneconomic?

Mr. HELLEKSON. I do not think I follow it—

Mr. OLSON. The cost of any final product is, of course, in a large part determined by the cost of raw material. In the case of second clears I am not convinced that the wheat certificate program affected the total price of wheat to the degree that second clears should be greatly affected. Furthermore, second clears result in the process of

milling patent flour and that if this small percent of final product cannot be sold competitively it may be a case of the tail wagging the dog. I cannot understand what kind of a pricing system the miller has that enables him to fix the price of clears so high that you cannot acquire them at a price competitive to clears from a foreign source. It seems the miller is being able to foster something that I have not seen possible in other areas.

Mr. HELLEKSON. Mr. Olson, the first thing that I would like to make clear here is that the second clears 1 percent ash and greater material enjoys the same export subsidy as flour; straight flour or patent flour or any other flour.

The export subsidy a couple of days ago—I do not know what it is today, but it is running in the order of \$1.59 a hundredweight. The miller sells clears abroad. He knows that he is going to get \$1.59-a-hundredweight subsidy on that today or yesterday or whenever the subsidy was in effect—it changes from day to day, as you would know. The world price, that is, on second clears, is worth, roughly, \$2 a hundredweight. Therefore, a miller selling second clears into the export market realizes \$3.59 a hundredweight for these clears.

Mr. OLSON. You are now citing new and perhaps most valid points. I do not find any need for an export subsidy to make it competitive and impossible for you to acquire clears. I, for certain, am willing to check into this.

Mr. HELLEKSON. Again I state that we must meet this price or we cannot get clears.

Mr. OLSON. You could without the export subsidy.

Thank you, Mr. Chairman.

Mr. HARDING. Mr. Dole.

Mr. DOLE. What has been the attitude of the Department on this? Are they sympathetic to you?

Mr. HELLEKSON. They have been sympathetic to our problem, but have not had the tools to benefit us, to do anything.

Mr. DOLE. Is there any administrative activity to correct this?

Mr. HELLEKSON. I cannot answer that, sir.

Mr. DOLE. Have you requested that they do something?

Mr. HELLEKSON. We have repeatedly requested help in the form of administrative action.

Mr. DOLE. And the answer has not been favorable?

Mr. HELLEKSON. And the suggestion is that we go to the legislative branch and that is why we are here today.

Mr. DOLE. I notice that in your statement you state that if this continues it will mean that you will be out of business. It is rather a broad statement to say that if you do not have the legislation you will be forced out of business.

Mr. HELLEKSON. Mr. Dole, I did not infer that the Hercules Powder Co. would be out of business. I meant to say that the Harbor Beach operation would be shut down.

Mr. DOLE. Just this plant, I understand?

Mr. HELLEKSON. Yes.

Mr. DOLE. I heard you make the statement in your presentation that it would close and that is rather a broad statement, based on one piece of legislation.

Mr. HELLEKSON. I recognize that this is a harsh statement but we have lost money since 1956 at this plant. As I explained in my statement we have continued to have hopes to get relief. We have not realized this relief. We cannot feasibly make any more improvements on that plant that would reduce our costs and put us in the black.

Mr. DOLE. Are you in worse condition now than you were prior to the enactment of the so-called voluntary plan?

Mr. HELLEKSON. No, I cannot make that statement. It would be a marginal difference in the clears price.

Mr. DOLE. You have not purchased any clears anyway since July 1.

Mr. HELLEKSON. That is correct. We were benefited by the interim period. I think that is a better statement.

Mr. DOLE. Right. The price has been going down as the record discloses.

Mr. OLSON. Will you yield?

Mr. DOLE. Yes.

Mr. OLSON. In 1956 you invested \$7 million for plant modernization. I know that people do not do that without reason. And you ultimately put \$10 million in that plant.

Mr. HELLEKSON. Since 1956, not in the year 1956.

Mr. OLSON. 1956, 1957, or 1958 or whatever you say. What did you base this on—on what kind of studies and estimates did you substantiate this investment—did anticipation of the lower cost of the raw material enter in?

Mr. HELLEKSON. We are going to get into a very intricate area here. Gluten in 1956 and until approximately a year and a half or 2 years ago was, primarily, utilized to make monosodium glutamate, a taste enhancer, such as Accent, which your wife buys in the grocery store. This was our built-in market for the gluten we produced in the flour wash operation. The technology changed. Monosodium glutamate is today made by a fermentation process which does not involve gluten as a raw material. This outlet for our gluten has disappeared. We did develop, largely by our company, the vital gluten market use by the baker to control the protein level and so forth. During the transition period we spent this investment to bring the plant up to standards for good operation. The plant was not in the physical shape that we would normally keep a plant in. At the same time we endeavored to reduce the operating costs by automation, modernization and so forth.

The prime thing that has destroyed our confidence, let us say, in the success of this plant is the dwindling market for gluten, the prime product which in turn is being directly influenced by the large volume importation of gluten.

Mr. OLSON. Thank you for yielding. I think that maybe this is a place where the Tariff Commission is involved as to the importation of the gluten. And we have a case down there.

Mr. HELLEKSON. There is a tariff on gluten.

Mr. OLSON. Yes.

Mr. HELLEKSON. It is 20 percent.

Mr. DOLE. If this legislation should be enacted substantially in this form that you suggest it be enacted, what would be the difference in the future picture for your plant?

Mr. HELLEKSON. I must answer you with one qualification and that is that we cannot forecast the gluten market price in the United States under this set of conditions. There, again, obviously if we are going to displace this imported gluten we will have to reduce our prices, but the relief factor here is based on the assumption that the bottom does not fall out of the gluten prices, that they stay in a reasonable range which would make this a profitable operation and we would, of course, have to have a goal to keep it running. I cannot give you numbers, obviously, because I cannot forecast what is going to happen to the gluten prices if we get relief on our raw material.

Mr. DOLE. So far as you are concerned there is no difference in the profit or loss as to this plant, at least, as suggested earlier, that it is more or less of a problem because of the export subsidy, that that is the primary problem?

Mr. HELLEKSON. This is a problem that we have had right along, yes.

Mr. DOLE. Thank you. That is all.

Mr. HARDING. The Chair notes at this point in the hearing that we have four more witnesses and we have 35 minutes left. We have consumed an hour and 10 minutes on our first two witnesses. Obviously, this late in the session, if we are going to take any action on this legislation, we are going to have to conclude the hearing of these witnesses prior to the time that we receive the report from the Department of Agriculture. I would like to offer that thought for your consideration.

What is the wish of the committee? Do you want to come back this afternoon to finish up or do you want to attempt to conclude the hearings of these four remaining witnesses in the remaining minutes we have ahead?

Mr. SHORT. I would suggest that we go ahead with the witnesses.

Mr. DOLE. Yes.

Mr. OLSON. Yes.

Mr. HARDING. I think that it might be well to allow the four witnesses to proceed with their testimony and then to question them afterward.

We want to thank you for your testimony. And the Chair will next call on Mr. Clark E. McDonald, representing the Hardwood Plywood Manufacturers Association.

**STATEMENT OF CLARK E. McDONALD, MANAGING DIRECTOR,
HARDWOOD PLYWOOD MANUFACTURERS ASSOCIATION, ARLINGTON,
VA.**

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

My name is Clark E. McDonald. I am managing director of the Hardwood Plywood Manufacturers Association, a national trade association composed of manufacturers of hardwood plywood with headquarters in Arlington, Va.

Hardwood plywood is a laminated panel made of plies of wood of which the face veneer or exposed surface is of hardwood.

The Hardwood Plywood Manufacturers Association, composed of 57 members located in 30 States, is considered the spokesman for the industry with approximately 35,000 employees and an annual payroll of over \$120 million.

The legislation which you are considering today would enable our industry to be relieved of discrimination against us for the use of wheat clears. Substantially, all hardwood plywood manufacturers utilize wheat flour in the adhesives used in bonding plywood in amounts by weight equal or greater than 50 percent of the weight of the adhesives. You can see that our industry uses sizable amounts of wheat clears to produce the 1,459 million square feet surface measure of hardwood plywood produced in 1963.

This legislation would result in a savings to our members of many thousands of dollars per year.

Because of the discrimination presently placed upon domestic users of wheat clears, foreign producers of hardwood plywood are given an additional competitive economic advantage.

Through the years hardwood plywood has steadily lost a portion of its market to imports. Since 1957 imports have in each year accounted for more than 50 percent of the domestic consumption of hardwood plywood.

While our members are being urged to reduce costs in order to compete with imports they are faced with this discrimination in the use of extenders for their glue.

This pressure upon the domestic production of hardwood plywood actually ultimately comes to rest on the farmer for the following reasons:

If the domestic hardwood plywood producer closes his doors and 84 mills have closed their doors since 1953, farmers are precluded from selling their timber to the plywood manufacturer. In the past sales of logs to plywood manufacturers have often meant the difference between a profitable year and a loss year for many of our farmers.

Furthermore, most of the timberlands and hardwood plywood mills are located in areas of substantial and persistent unemployment.

Accordingly, on behalf of the domestic hardwood plywood industry we strongly urge favorable consideration of H.R. 12018.

I thank you.

Mr. HARDING. Thank you, Mr. McDonald. Will you just remain at the witness table until we hear from these other witnesses?

The next witness is Mr. Earl W. Kintner, counsel for the American Plywood Association.

STATEMENT OF EARL W. KINTNER, COUNSEL FOR THE AMERICAN PLYWOOD ASSOCIATION

Mr. KINTNER. Mr. Chairman and members of the subcommittee, my name is Earl W. Kintner.

I am appearing before you today as counsel for the American Plywood Association to express the association's views on H.R. 12018.

The American Plywood Association has its headquarters in Tacoma, Wash., and was formerly known as the Douglas Fir Plywood Association. It is the trade association for the softwood plywood industry of the United States. At the present time the American Plywood Association comprises approximately 90 percent of the Nation's softwood plywood industry.

This industry is centered in the western and southern regions of the country. The great majority of the plywood plants are located in

small communities in the Western States. In almost every case, the economic well-being of the community is closely linked to the economic well-being of the local plywood mill.

The association wishes, respectfully, to bring to the attention of this subcommittee that legislation in the form of H.R. 12018 would be of considerable benefit to the American softwood plywood industry. Such legislation would correct the inequitable situation which has been brought about by the current application of the export subsidy program to sales of wheat clears.

The impact of the present law has been to drive the price of wheat clears to the domestic user to unreasonably high levels and, in fact, to restrict the availability of clears in the domestic market. Legislation along the lines of H.R. 12018 would cure the anomaly in the law which has developed this situation, and at the same time, be consistent with the objectives of the wheat program.

"Clears," which are a waste product in the production of the higher grades of flour, are especially adaptable to certain industrial uses. The wheat clears having a higher ash content are put into an important industrial use in the softwood plywood industry. As you are probably aware, in the making of plywood several plies or pieces of veneer are glued to each other or to a lumber core. The gluing, or bonding process is, accordingly, an essential and central step in plywood production. Since the strength or weakness of any plywood depends upon the bond holding the various plies together, great care and expense goes into the choice and application of the proper adhesive elements. It was discovered, some time ago, that substantial savings can be effected in many instances by "extending" the particular glue used with residual wheat clears.

Today the American softwood plywood industry consumes a heavy volume of wheat clears as extenders for its plywood adhesives. The anticipated production of plywood by this industry in 1964 is 11 billion square feet (three-eighth-inch basis). It is estimated that, of this production, a substantial share will be bonded with phenolic resin adhesives containing wheat clears extension. An additional portion of the over-all production will be bonded with urea resin adhesives which are normally extended with a high concentration of wheat clears.

In summary, it is expected that the consumption of wheat clears by the softwood plywood industry during 1964 will be at least 15 million pounds.

The application of the export subsidy program to wheat clears has seriously affected the price and availability of the commodity in the domestic market. Although the residual clears are largely a byproduct of the flourmaking process, and have apparently never been in surplus, they have been treated as "flour" under the export subsidy program. Accordingly, mills exporting clears have been able to claim both the foreign price offered by the buyer and the full export subsidy on flour, which has approximated \$2 per 100 pounds. In order to obtain the clears which they need, domestic consumers have been forced to at least meet this price, that is by offering a price equivalent to the foreign price plus the Government subsidy.

The softwood plywood industry would welcome a change in the law which would bring down this artificially high price for clears in the domestic market. The industry is waging a difficult struggle with

costs of production which have remained only barely below price levels. The tremendous growth of the industry in the last decade, and the consequent expansion in production, has tended to have a depressing effect on plywood prices and profit margins. Every producer in the industry, with perhaps a few exceptions in the case of companies producing highly specialized products, is operating on a narrow margin of profit.

Plywood products have also been experiencing intense competitive pressure from substitute materials which are constantly seeking to limit and take over the existing plywood markets. This has been a further factor in the maintenance of low prices and small profit margins for plywood producers.

Finally, the industry must also trim its costs from the point of view of increasing its exports. The association has recently launched in Western Europe an export promotion program for plywood which the Secretary of Commerce, Mr. Hodges, has hailed as an important development in the Government drive to build new foreign markets for U.S. products. If the challenge in the oversea markets is to be met by the industry, costs must be whittled down wherever possible.

For these reasons, we favor H.R. 12018 as a measure which would permit the softwood plywood industry to reduce one of its costs of production. As formulated, the legislation would, we think, encourage the industrial usage of wheat in a manner wholly consonant with the wheat program.

We are very grateful to you, Mr. Chairman and members of the subcommittee, for this opportunity to express our views on this problem.

Mr. HARDING. Thank you, Mr. Kintner. If you will, also, remain at the witness table we will call our next witness.

The next witness is Mr. Max Koehnke, representing the Great Plains Wheat Association.

Is Mr. Koehnke present?

(No response.)

Mr. HARDING. The final witness we have scheduled this morning is Mr. Ken Kendrick, representing the National Association of Wheat Growers.

Is Mr. Kendrick present?

(No response.)

Mr. HARDING. Do committee members have questions that they would like to put to Mr. McDonald or Mr. Kintner?

Mr. SHORT. May I say that I sympathize with the problem of the American plywood industry. If my understanding is correct, the problem of the industry is largely one of competing with the low-cost imports, rather than this matter of the cost of wheat clears that we are talking about here this morning. The cost of wheat clears would be a rather minimal factor, would that not be true?

Mr. McDONALD. It is certainly part of our raw material cost. And anything that increases the cost of our product makes it that much more difficult for us to compete with imports.

Mr. SHORT. I understand that. Could you give us some idea of the extent of this cost? It would seem to me in trying to be completely objective, and trying to get it in the proper perspective, that the increase in cost of wheat clears due to the export subsidy, as it extends

on down to the industrial user, in terms of the sheet of plywood there may be pretty minimal. Is that not true? Could you give us some idea in terms of dollars and cents as to how much it means in relation to a sheet of plywood?

Mr. McDONALD. I could not give that to you today, but I will get it for you and include it in a supplemental statement and submit it to the committee.

Mr. SHORT. I think that we could make this whole consideration of this bill—and do not misunderstand me—I have been asking a lot of questions and I intend to be sympathetic with your problem, but I think that in order to present your problem to the full committee and to the Congress of the United States we have got to put this thing in an understandable perspective as to just the extent of the adverse effects that the higher cost of wheat clears is having on the various industries.

Mr. KINTNER. Mr. Short, it would be very difficult to submit a figure showing specific savings per square foot of plywood, because such an estimate would depend upon the type of the plywood, the type of the glue used and the number of plies in the plywood. All that we can offer here is that this is an important factor. It may be relatively minor in terms of the total cost of the plywood, but when you add these various factors together in an industry that is characterized by very low profit margins, it can be an important factor.

Mr. SHORT. I understand that. All I was attempting to do was to get this thing into an attitude of something a little bit more positive than this nebulous fact that there is an increased cost for a product that you use.

That is all I have. Thank you.

Mr. KINTNER. This is why we at least try to show you the dimensions of the problem so far as the American Plywood Association is concerned, by indicating that the figure of 15 million pounds would be the amount of product affected.

Mr. SHORT. Very well. How much per pound do you pay for this and how much per pound would the cost be affected by the elimination of the export subsidy?

This is a specific point I am trying to get to.

Mr. KINTNER. I do not have that figure.

Mr. SHORT. If we take this bill to the floor I would say in all sincerity if someone objects to it and we cannot tell them how much the adverse effect is, to just exactly what degree this means survival or non-survival of this industry in the United States and survival of specific plants in particular areas, we are going to be a little lame.

Mr. KINTNER. I do not want my testimony to indicate to you, Mr. Short, that the survival of the softwood plywood industry depends upon the passage of this legislation. We support the legislation because we think it is a factor which would result in making the plywood industry more competitive. It is only a factor. We will be glad to supply to you the cost of these 15 million pounds of anticipated use by our industry of the wheat clears under the existing program and what the cost might be if the legislation passes.

(The information follows:)

ARENT, FOX, KINTNER, PLOTKIN & KAHN,
Washington, D.C., July 30, 1964.

Hon. GRAHAM PURCELL,
Chairman, Wheat Subcommittee, Committee on Agriculture, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN PURCELL: In the course of the hearing held by your subcommittee this morning on H.R. 12018, Representative Short requested that we supply information as to the dollar amount that the softwood plywood industry could hope to save if this bill is enacted.

The American Plywood Association estimates that passage of this legislation would save the industry approximately \$300,000 a year in cost, at the current rate of plywood production. This estimate is derived by multiplying the quantity of wheat clears consumed annually in softwood plywood production (15 million pounds) by the approximate amount of the export subsidy of \$2 per hundredweight.

Thank you again for considering our views and for your great courtesies during the hearing.

Respectfully yours,

EARL W. KINTNER.

Mr. SHORT. Thank you.

Mr. McDONALD. We also will be glad to do the same for you, Mr. Short.

Mr. SHORT. Thank you.

The particular fact in terms of the pounds that you use.

Mr. HARDING. If there are no further questions, we thank you.

Mr. OLSON. Mr. Chairman, just one question.

It seems that the financial reports as to the result of the first half operations and the second quarter operations are reaching new peaks for every industry. This might be brought up somewhere along the line. What is the report pertaining to the plywood industry? Are they more profitable the second quarter of operations or are they down or what?

Mr. KINTNER. I am not briefed on that. I might just make a horseback guess as to the amount of savings that would be effected as to the cost of the plywood industry, as being a figure on the order of \$324,000. This is only in one segment of the economy.

Mr. OLSON. And under the current legislation this would result in that exact same cost being transferred to the taxpayers so that it becomes a very important question as to the savings that you could show which would be transferred to the taxpayers and, therefore, the profit level of the industry would again come into question.

Mr. KINTNER. If we are going to subsidize exports, I think that some attention should be given to the program.

Mr. OLSON. We should not be subsidizing something which is resulting in economic injury to our own domestic industry. And I again am of the opinion that these export subsidies were only to be utilized in cases where we had surpluses and wanted to sell them.

Mr. KINTNER. If the export subsidy did not exist on wheat clears as a flour then we would not be here with the problem today.

Mr. OLSON. We may have found the real answer to your problem this morning.

Mr. HARDING. If there are no further questions, then, the Chair will thank Mr. McDonald and Mr. Kintner for their testimony.

(A letter dated July 30, 1964, from the Great Plains Wheat, Inc., follows:)

GREAT PLAINS WHEAT, INC.,
Washington, D.C., July 30, 1964.

HON. GRAHAM PURCELL,
Chairman, House Wheat Subcommittee,
House of Representatives,
Washington, D.C.:

Great Plains Wheat, Inc., recognizes the need for some adjustment to make it possible for the gluten industry to secure the necessary supplies to maintain and expand use of wheat products. We believe that provisions of House bill 12018 will tend to improve the competitive position of U.S.-based industries, and assist in balancing our payments deficit.

In addition, our association believes that consideration should be given to modifying regulations or taking such legislative steps as necessary in order to provide greater freedom in utilizing portions of wheat byproducts in the pet food industry.

HOWARD W. HARDY, *President.*

Mr. FARRINGTON. Mr. Chairman, may I make just one statement?

Mr. HARDING. Yes.

Mr. FARRINGTON. There have been statements here made about clears being a waste product, a byproduct, and some other statements which we, of course, in the milling industry do not concur in.

We would like to submit a supplemental statement covering some of these points.

Mr. HARDING. Without objection that may be done. You may submit a supplemental statement.

Mr. FARRINGTON. Thank you.

(The supplemental statement follows:)

MILLERS' NATIONAL FEDERATION,
Washington, D.C., August 4, 1964.

HON. GRAHAM PURCELL,
Chairman, Subcommittee on Wheat, Committee on Agriculture,
House of Representatives,
Washington, D.C.

DEAR MR. PURCELL: In response to the permission granted to me at the close of the hearing on H.R. 12018 on July 30, 1964, the following supplemental statement is submitted for inclusion in the record of that hearing.

First, we take exception to the statements that implied that clears, or second clears, or high-ash clears are waste products or byproducts of flour milling.

Clear flour is a wholesome, useful, and valuable joint product of the flour milling process. The byproduct in the flour milling process is feed and currently averages about 27 percent of the wheat ground.

The principal product of wheat in the milling process is flour which currently averages about 73 percent of the wheat. Clears are a component part of this flour product. They are produced by separating the straight 100-percent flour into a higher quality patent flour and lower quality clear flours.

Actually most of the so-called clears are never separated from the rest of the flour stream. A considerable part of the total flour production is straight grade flour from which no clears are separated. In the production of "patent" flour a portion of the total flour product which originates nearer the outer layers of the wheat berry is separated or drawn off and this is known as clear. The amount of clear removed determines whether the patent is a long patent, medium, short, or extra short patent. "Cut straights" have had only a small part of clears removed. Clears when taken off separately may be sold as such or blended or recombined with other flour. When blended with a straight grade of flour, the product is a "stuffed straight." The chief characteristics of flour clears are that they are not as white as patent flour, have a higher ash content and usually a higher protein content. They tend to be used for those purposes in which the higher ash content and darker color are not serious deterrents, the higher protein is desired and the somewhat lower price make them attractive.

The following tabulation shows approximate or typical ash content as a percentage of total weight for standard flour grades produced from soft, hard, and Durum wheats:

	Soft wheat	Hard wheat	Durum wheat
Short patent flour.....	0.32-0.35	0.38-0.40	0.65-0.70
Straight flour.....	.38-.40	.45-.55	.80-.85
Stuffed straight flour.....	.45-.55	.50-.80	.90-1.00
1st clear.....	.40-.50	.60-.75	.90-.95
2d clear flour.....	.70-.80	1.00-1.50	1.40-1.60

The practices of individual mills, of course, vary widely depending upon the kind and quality of wheat they are grinding, the products they produce, and the equipment available, but the final product must be the product that meets the customers' needs.

Second, we take exception to statements made by some witnesses to the effect that the flour export subsidy is the cause of their high raw material costs, with the implication that if the export subsidy were removed the need for the proposed legislation would disappear.

The case was correctly stated by Mr. Hellekson in his prepared statement when he said, "The original source of our problem is the domestic wheat program which maintains wheat and flour prices at substantially above world prices. This makes it necessary to adopt export subsidy programs to move domestic wheat and wheat flour in competition with such products from other countries."

For a number of years prior to 1964-65, the higher domestic prices for wheat and flour were brought about by wheat loan rates at levels substantially above world price or export value levels. For 1964-65 the wheat loan rate has been reduced to approximately world price levels and the higher domestic flour prices are brought about by requiring millers to purchase certificates at a cost of 70 cents per bushel for each bushel of wheat processed into flour.

The export subsidies on wheat and flour have been strictly and simply a device for bridging the gap between world prices and the higher domestic prices maintained through Government programs. They are the result of the higher domestic prices. They are not the cause of the higher domestic prices. The export subsidy rate on flour applies to all qualities of flour exported in the same manner and for much the same reason that a single rate of export subsidy is paid on exports of wheat irrespective of grade. The uniform rate of export subsidy is also entirely consistent with the uniform 70-cent-per-bushel certificate cost all mills are forced to incur regardless of the quality of wheat put into process or the quality of flour produced. Quality differentials for both the wheat we buy and the flour we sell are established by competition in the marketplace which is the only place they can be properly established.

In recent years the flour export subsidies and Government export programs have made possible an annual exportation of about 100 million bushels of surplus wheat in the form of flour in addition to the hundreds of millions of bushels of surplus wheat moved abroad as wheat. Continuation of flour export subsidies on all qualities of flour will be required in order to move maximum quantities of surplus wheat abroad so long as Government programs maintain wheat costs to flour millers at levels higher than export values and all qualities of flour will continue to be in surplus so long as wheat is in surplus.

Third, we take exception to some of the statements made at the hearing regarding prices for high ash clears and the other kinds of flour. The cost of wheat is by far the most important cost factor in the production of all kinds of flour and mill prices for flour generally rise and fall with changes in the price of wheat. Wheat costs to flour mills are higher this year than a year ago and about the same as they were 2 years ago. USDA's Grain Market News, volume 7, No. 3, July 28, 1964, states with respect to wheat, "Market prices the first 3 weeks of July averaged 44 cents below a year ago and 68 cents below July 1962." With the added 70-cent certificate cost and the reduction of 44 cents in wheat prices the net increase in wheat cost compared to a year ago is 26 cents per bushel which is equivalent to 60 cents per hundredweight of flour. Millfeed prices are lower this year than in either of the past 2 years and this further increases the cost of flour.

With the general level of wheat costs raised above a year ago and about equal to 2 years ago, the prices of each kind of flour tend to be affected correspondingly. However, there are many supply-and-demand factors involved and the prices for individual grades of flour and relationships among the various kinds of flour are continuously changing. Competition precludes any arbitrary allocation of costs or fixed price differentials.

A simple average of the quoted prices at Kansas City as of the beginning and middle of each month during the 1963-64 wheat marketing year shows a price of \$5.25 per hundredweight for 95 percent Hard Winter bakery flour, \$4.11 for 0.65 to 0.70 ash clear flour, \$3.82 for 0.95 to 1 ash clear flour, and \$3.70 for 1.25 to 1.50 ash clear flour. In 1963-64, therefore, the prices of the three grades of clear flour averaged 78, 73, and 70 percent of the price of the 95-percent patent flour. In contrast the prices of byproduct millfeed on the same dates averaged \$1.85 per hundredweight or less than one-half of the price of the highest ash flours. These relationships, however, changed from time to time during the year in response to many supply and demand factors as is usually the case.

The ash content of wheat varies substantially from year to year and from area to area. In producing a given ash content patent flour, the higher the ash content of wheat being ground the greater the amount of clears that will be taken off and vice versa. As a result there are changes from year to year and month to month in the relative supplies of clears and patent flours and in price relationships among these flours. As high ash flours get cheaper in relation to low ash flours, there is pressure among buyers to use more high ash flour or raise the ash specifications of the flour being purchased which tends to absorb the excess supplies and restore prices to a normal relationship.

An increased supply or temporary reduction in use of the higher ash flours does not cause these flours to become waste products. They are still flour and a wholesome useful product. But flour prices fluctuate as a result of the various supply-and-demand factors and these price fluctuations in turn bring about corrective production and consumption changes.

The basic consideration involved in this legislation is that the general level of flour prices is determined largely by the price of wheat and associated costs. Formerly high loan rates and currently the forced purchase of wheat certificates result in wheat costs to U.S. flour millers at levels well above world price levels. The starch-gluten and a number of other industrial users of flour are particularly vulnerable to the competition of foreign producers whose wheat and flour costs are based on world prices. They are seeking relief through the abatement or refund of the amounts by which the cost of their raw material is being raised above world price levels by Government wheat programs. They are faced with possible shutdowns and the wheat producers and flour millers of this country are faced with the loss of valued customers who may, if given relief, become larger users of U.S. wheat.

It was these considerations which led us to support the objectives of the proposed legislation with appropriate changes in language.

In the light of the testimony presented and further study of the language of H.R. 12018, we recommend that the second paragraph of the bill be revised to read as follows:

"In order to encourage and expand domestic industrial consumption of wheat flour produced in the United States and to prevent discrimination against the domestic industrial users of such wheat flour, notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized and directed for any marketing year for which a wheat marketing allocation program is in effect to make payments through the issuance of payment-in-kind certificates to persons who use such wheat flour in the United States for industrial purposes (including but not limited to starch-gluten manufacture, adhesives, dog and pet food manufacture but not including the blending of flours as such, with other flours, other wheat products or other agricultural products, for food for human consumption). Such payments shall be in such amounts and subject to such terms and conditions as the Secretary determines will eliminate inequities taking into consideration the processor marketing certificate cost with respect to flour as determined by the applicable conversion factor established by the Secretary of Agriculture."

In my testimony I referred to a recent survey of flour millers with respect to production and distribution of high ash flours. Enclosed for your information is a copy of the summary statement covering that survey.

Yours very truly,

CARL C. FARRINGTON,
Chairman, Committee on Agriculture.

SUMMARY STATEMENT ABOUT THE THIRD SURVEY ON CLEAR FLOUR IN THE UNITED STATES¹

Beginning with 1955, three special surveys of the clear flour situation in the United States have been made by the Millers' National Federation at the request of the U.S. Department of Agriculture. The first covered a 5-year period—1950-51 through 1954-55; the second included a 2½-year period—1958-59 through 1960; and the current survey applies to the year 1962-63 and 4 months (July-October) of 1963.

The present survey has been the most comprehensive one from the standpoint of number of mills, regional location, total flour production and also information requested, particularly by quality and regional production. Data from 85 mills accounting for over 60 percent of total U.S. flour production have been included. The figures reported by mills have been adjusted to the proportionate share of total U.S. production to give data on an industrywide basis.

Two facts appear noteworthy in each survey; namely, (1) before the survey could be completed (usually 4 to 5 months), the particular supply-demand situation for clears had changed significantly, emphasizing that basic market factors rather than Government programs were the real cause of the special situation; and (2) the facts developed have been consistent and disprove the many charges made about exports being responsible for the particular clears market situation.

As a result of increased U.S. mill grind in recent years, the total quantity of clears produced in the United States has increased. For the 1962-63 season, the production of clears reached the highest level of the postwar years but remained at 9.6 percent of total flour production, the same percentage as in 1959-60.

The amount of clear flours exported during the past year and in early 1963-64 has been less than in 1959-60. This is true for both clear flours and clears added to stuffed straights. The percent of clears exported to all flour exports also shows a decline in comparison with both earlier surveys.

Sales of clear flours in the United States show significant increases in recent years. The gains appear closely related to increased availability from larger mill grind. By far the more important use continues to be the bakery and food trade, with remaining sales divided among starch-gluten processors, the dog and pet trade, and industrial and other users.

It is quite apparent from each survey that while the U.S. starch-gluten trade is a good outlet for a part of the clears, the milling industry produces so much clears in excess of this type of use that they must market a substantial quantity in other channels. Though short-time supply-demand problems have occurred, the surveys consistently prove that more than adequate supplies have been continuously available on a yearly basis. It appears that procurement policies have been primarily responsible for special company supply problems that have arisen. A more orderly and forward buying policy regarding clears from U.S. mills would probably do much to remove the types of procurement problems that have been disturbing to both buyer and seller.

The results of regional data also confirmed the position repeatedly taken by the milling industry that geographical location of production is a very important factor in sales or use and particularly as regards exports. Nearly 60 percent of U.S. production of clears in 1962-63 and the July-October period of the current year covered by the survey was reported to be outside the area accessible to the starch-gluten processors. It is this regional production notably west coast, gulf area, and eastern and southeastern areas, that accounts for most exports of clears. Were any action taken to change subsidies or otherwise restrict exports, it is quite obvious from this survey that the United States would lose important dollar exports of flour without providing additional supplies to the starch-gluten industry.

The following table summarizes data about production, export, and domestic uses from the last two surveys.

¹ Copies of the complete report are available upon request from the Export Department, Washington, D.C.

U.S. estimated total production and deliveries of clear flours by types of use by fiscal years 1959-60, 1962-63, and 1963-64 (July-October)

Item	1959-60		1962-63		1963-64 (July-October)	
	1,000 hundred- weights	Percent	1,000 hundred- weights	Percent	1,000 hundred- weights	Percent
Production.....	24,150	100.0	25,076	100.0	8,783	100.0
Exports:						
Clears.....	5,907	24.5	5,224	20.8	1,654	18.9
Clear portion of stuffed straights.....	1,452	6.0	1,360	5.4	494	5.6
Total exports.....	7,359	30.5	6,584	26.2	2,148	24.5
Domestic uses:						
Starch and gluten.....	1,780	7.4	2,227	8.9	901	10.2
Bakery and food.....	13,164	54.5	14,122	56.3	4,926	56.1
Dog and pet food.....	672	2.8	489	2.0	199	2.3
Industrial.....	974	4.0	878	3.5	293	3.3
Other.....	201	.8	776	3.1	316	3.6
Total domestic uses.....	16,791	69.5	18,492	73.8	6,635	75.5

(The following telegram was also received by the subcommittee:)

NEW YORK, N.Y., August 10, 1964.

HON. HAROLD D. COOLEY,
House of Representatives,
Washington, D.C.:

We note a hearing was held July 30, 1964, before the Wheat Subcommittee of the House Committee on Agriculture regarding bill H.R. 12018.

Our company was not represented so we think it is appropriate to advise you of our position, as National Biscuit Co. is a large user of high-ash flour, second clear, in the production of dogfood.

The bill as introduced excludes dog and pet food manufacturers from participation. It therefore discriminates against an industry which provides a considerable market for this wheat product.

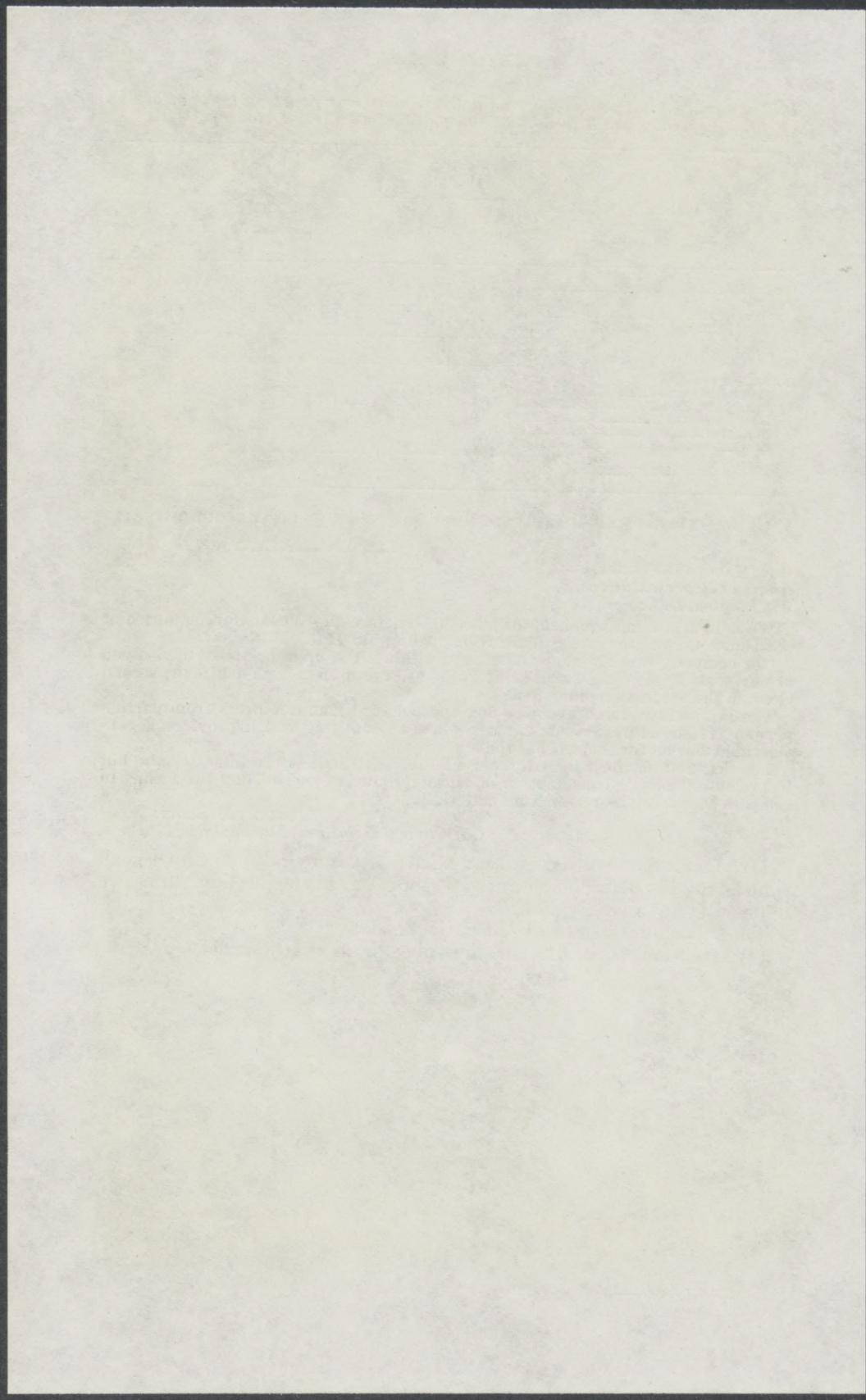
The dog and pet food industry must be included if it is the intent of the bill to promote domestic consumption of wheat products by providing the means to compete with foreign or substitute materials.

DWIGHT H. SCOTT,
Director of Government Relations, National Biscuit Co.

Mr. HARDING. And the subcommittee will now adjourn until such time as the Department submits its report on this legislation which we hope will be at an early date.

The subcommittee now stands adjourned.

(Whereupon, at 12:01 p.m. the subcommittee adjourned.)



WHEAT CLEARS

TUESDAY, SEPTEMBER 15, 1964

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WHEAT OF THE
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 1310, Longworth House Office Building, Hon. Graham Purcell (chairman of the subcommittee) presiding.

Present: Representatives Purcell (presiding), Poage, Jones of Missouri, Stubblefield, Belcher, Short, Findley, and Dole.

Also present: John J. Heimbarger, general counsel; Hyde H. Murray, assistant clerk; Robert C. Bruce, assistant counsel; and Martha Hannah, staff assistant.

MR. PURCELL. Ladies and gentlemen, the Subcommittee on Wheat will be in order, and we will hear from the witnesses.

(Report from the Department of Agriculture dated September 8, 1964, follows:)

U.S. DEPARTMENT OF AGRICULTURE,
Washington, D.C., September 8, 1964.

Hon. HAROLD D. COOLEY,
*Chairman, Committee on Agriculture,
House of Representatives.*

DEAR MR. CHAIRMAN: At a hearing held by the Wheat Subcommittee of the House Committee on Agriculture on July 30, 1964, the acting chairman, the Honorable Ralph R. Harding, asked for a report from the Department of Agriculture on H.R. 12018, to encourage the industrial utilization of wheat products.

The importation of wheat and wheat flour into this country has been limited for many years by a Presidential proclamation. For this reason wheat growers and flour millers have not been faced with serious foreign competition in the domestic market. On the other hand, the importation of some of the industrial products produced from wheat flour and usually from the grade of flour known as second clears is not restricted by quotas. These industrial products include gluten, wheat starch, and monosodium glutamate.

For some years the domestic producers of these products have indicated that they were having difficulty in competing with foreign producers who were able to obtain their raw material at a substantially lower cost than the prevailing price in the United States. This problem was not created by title II of the Agricultural Act of 1964 which established a wheat marketing allocation program for the 1964 and 1965 crops. This legislation did, however, cause the previously existing problem to continue.

As drafted H.R. 12018 is limited to "domestic industrial consumption of wheat clears (flour having an ash content of 1 per centum or more)." This would cover, we believe, in excess of 90 percent of the wheat flour which is utilized for industrial purposes. Some flour with an ash content of less than 1 percent is used for industrial purposes and some of the research being conducted by this Department is directed toward increasing such utilization. If the legislation is to be favorably considered, we would suggest changes along the lines of a draft which is attached that would broaden its scope to cover

any wheat flour used for industrial purposes as determined by the Secretary.

The other change which we have suggested in the attached draft relates to the method of determining the amounts of the payments-in-kind. Ordinarily the difference in cost of wheat clears, or any other wheat flour to a domestic and a foreign user will approximate the current cost of domestic wheat certificates. Therefore, as a method of simplifying operations we recommend that the payments-in-kind be in the amount of the cost of domestic wheat certificates unless the Secretary determines that a lesser payment will be sufficient to achieve the purposes of the bill.

The principal advantage of the legislation would be the assistance in meeting foreign competition which would be given to "starch-gluten" processors, the plywood manufacturers, and to a lesser extent the producers of paper and textiles. The American farmer would be helped to the extent that the market for U.S. wheat and wheat products is increased.

The help to the starch-gluten industry would be quite substantial and would greatly improve its competitive position in relation to imports. Since the cost of the flour used in the plywood, paper, and textile industries is only a very small part of their costs of production the help to these industries would be proportionately much less.

The principal disadvantage of the legislation is its cost. It might also be pointed out that this foreign competition is not a new thing, and there is little reason to believe that it will be more severe in the future than it has been in the past 5 or 10 years.

It is estimated that annually consumers of some 3,500,000 hundredweight of flour would qualify for payments-in-kind. This is the equivalent of 8 million bushels of wheat and the estimated cost of the legislation for 9 months of this fiscal year would be \$4,200,000 and for the fiscal year 1966 it would be \$6 million. Only flour processed from wheat on which millers have purchased certificates would be eligible for payments-in-kind so the legislation is in effect similar to a refund of certificate costs when the flour is used for industrial purposes; however, from the standpoint of administration it is far simpler to make the payments-in-kind to the ultimate industrial user of the flour rather than to attempt to trace the flour back through the channels of trade and make a refund to the flour miller.

The Bureau of the Budget advises that while there is no objection to the presentation of this report from the standpoint of the administration's program, that Bureau believes further consideration should be given to the cost of the measure in relation to the need for it and the subsidy it provides.

Sincerely yours,

CHARLES S. MURPHY,
Acting Secretary.

A BILL To encourage the industrial utilization of wheat products.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Agricultural Adjustment Act of 1938 is amended by adding at the end the following new section:

"In order to encourage and expand domestic industrial consumption of wheat flour produced in the United States and to prevent discrimination against the domestic industrial users of such wheat flour, notwithstanding any other provision of law, the Commodity Credit Corporation, under such rules and regulations as the Secretary may prescribe, is authorized beginning thirty days after enactment of this statute during any marketing year for which a wheat marketing allocation program is in effect to make payments through the issuance of payment-in-kind certificates *redeemable in wheat by the Commodity Credit Corporation* to persons who use such wheat flour in the United States for industrial purposes as determined by the Secretary. Such payments shall be subject to such terms and conditions as the Secretary *may prescribe and shall be in the amount of the current cost of domestic wheat certificates for the estimated number of bushels of wheat used to process such flour except that the Secretary may prescribe a lesser payment if he determines that such lesser payments will be sufficient to achieve the purposes of this section.*"

Mr. PURCELL. We have the privilege of having Congressman James Harvey with us this morning. We will hear from Mr. Harvey first.

Mr. Harvey, I am certainly personally aware of your vital interest

in this matter. We welcome you very much to our subcommittee. I do not have a very big crowd for you to talk to this morning. We want to hear everything you have to say. You may proceed at this time.

STATEMENT OF HON. JAMES HARVEY, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF MICHIGAN

Mr. HARVEY. Thank you very much, Mr. Chairman. I appreciate very much the opportunity to be here and your courtesy in hearing me. There are some real experts who have already testified on this bill and others from the Department, I believe, and from those vitally concerned here who will testify this morning. So I, very frankly, see little reason for me to speak at length on the bill itself. They are better qualified by far to speak on the technical aspects of the bill.

I have a very brief statement here which I have turned over to the clerk and which I will ask be inserted in the record. I would like to take 1 or 2 minutes of the committee's time to stress how this bill affects a single community in my particular district. This is the eighth district of Michigan. The community is the town of Harbor Beach, Mich., having a population of about 2,300 persons in all.

The Hercules Powder Co. is the largest employer not only in that community but in all of Huron County, which is, incidentally, a depressed county as well. It depends upon the second wheat clears as a raw material in manufacturing its industrial products. In recent months it has had considerable difficulty, if at all, in getting these clears. So that the entire community is right now on edge as to whether they are going to retain an industry which has been their sole support over a period of years and years and years or whether they are going to lose that industry and become a ghost town completely.

I say a ghost town, and I say that because the editor of the Harbor Beach paper just wrote an editorial; the question is: Is Harbor Beach to become a ghost town? I also ask that the editorial be inserted in the record. I will not take your time for it now.

The gist of it is this. If this industry is not permitted to secure the raw materials it needs to continue manufacturing, then that town has no other alternative but to become a ghost town. Obviously, the situation they are in is one where people abroad today under our export subsidy program can buy these raw materials cheaper than they can themselves. It is apparent to the ordinary individual who works and lives in Harbor Beach that the industry cannot continue under these circumstances, that they must have some sort of help.

I just received this morning a copy of objections to the particular bills of Congressman Hagan and myself, which bills are identical, incidentally, from the American Corn Millers' Federation. I have not had a chance to read this, other than scan it very carefully. I will leave the answering of these objections to the people who are going to testify after me here this morning.

I would say, just looking at it, I think there is considerable dispute as to whether or not the industrial products that we are talking about, one from wheat and one from corn, are actually competitive. If they are competitive, it would seem to me it is in an extremely

small area, indeed. They can better answer that than I. I will not get into it.

I will just emphasize to you what I have already said, which is that some sort of help is absolutely necessary for this community if this industry is to continue. They are at the point right now where this is the crucial move. As the editorial in the newspaper said, it is going to be decided in Congress in the next 2 weeks whether this industry will be able to continue in this small town or not. We have these 2,300 people who, if the industry is not permitted to continue, if they cannot continue to get their raw materials, are the ones who will suffer.

Believe me, gentlemen, that is a hard thing to see anywhere in the United States, but it is particularly hard when the reasons are reasons that have come about because of Government interference. It is hard to explain this to the people in the district. You can tell them why the export subsidy was passed, why the Wheat-Cotton Act of 1964 was passed, and so on. That is not the problem here. Really, this is the problem that comes about as a result of the subsidy, the export subsidy.

All they know is that the problem comes about because of Government interference with a free market. Their feeling is, very simply, that the Government has created this problem; now certainly the Government ought to be kind enough to remove the source of the problem and to let them have a relatively free market or, at any rate, let them have the benefit of the subsidy so that they can get these raw materials just as cheap as someone living abroad.

I have already talked longer than the 2 minutes I intended to, but I do want to ask your permission, Mr. Chairman, to have my statement inserted in the record and also to have inserted in the record the full text of the editorial from the Harbor Beach newspaper that I referred to.

I would implore you to listen, as I know you will, listen as closely as possible to the representatives of the Hercules Powder Co. here. We have found them in this area to be good citizens. We have found them to tell the truth to us, to level with the citizens up there, so to speak, to make it clear that they want to stay if they can, but to make it clear also they have limitations upon their resources as far as what they can do also.

Whatever the committee does, I point out to you, is tremendously important to this small community. It is a very small one across the United States, but it is the one that will bear the brunt of this particular decision. I thank you very much for your courtesy in hearing me.

Mr. PURCELL. The documents will be received for the record.

(Mr. Harvey's prepared statement and the editorial referred to follows:)

STATEMENT OF HON. JAMES HARVEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman and members of the committee, I appreciate very much this opportunity to appear today in behalf of H.R. 12018 and the companion bill, H.R. 12129, which I introduced in support of the original bill by our colleague, the Honorable G. Elliott Hagan.

In supporting this corrective legislation, one of my principal concerns, or I should say my chief concern, involves the human element—the people of Harbor Beach, Mich.

Hercules Powder Co. is one of the five starch-gluten producers in the United States. About 10 years ago it acquired the assets of the Huron Milling Co., of Harbor Beach, Mich, which was already in the business of isolating starch and gluten from a flour milling industry byproduct known as "wheat clears" or "clear flour." Since the acquisition, Hercules is reported to have invested over \$7 million for plant modernization; additional millions have been spent for research. But, the people have lost money on the operation since it was acquired, despite all reasonable efforts. The only way they can justify continuing the business is by reducing raw material costs. This legislation would allow that. Without such legislation, company spokesmen have said that they will continue running the Harbor Beach plant only until their current inventory of clears is exhausted. That may be only a few more weeks.

This, then, is the human element in which I am so vitally interested and concerned. Harbor Beach could well become a ghost town, as mentioned in a recent editorial in that community's weekly newspaper, the Harbor Beach Times. David Mizener, editor of the paper, wrote, "Will Harbor Beach grow or will it become a ghost town? This question will be answered within the next 2 weeks in the Congress in Washington, D.C."

At the present, Hercules is the largest industry in the entire Thumb area of Michigan, with an annual payroll of \$2 million. Huron County already has been classified as a depressed area by the Department of Labor, with employment of the plant already dropping from about 500 in 1956 to 325. Recently, it was necessary to idle an additional 55 men. The impact of closing down completely the operations of this Harbor Beach plant would be disastrous.

Permit me just to quote from a few of the many letters I have received from Harbor Beach citizens. Here's one:

"Without the passage of this bill the means of a livelihood for some 200 or 300 people may no longer exist. I have been employed at this plant for 25 years, am 49 years old and do not relish the thought of looking for other employment at my age. Besides personal reasons, the survival of the entire town hinges on the passage of this bill."

Here is another citizen's comment:

"Your support of House bill H.R. 12018 is needed to assure the future security of this community. It is one thing to promote good will in foreign markets, but not at the cost of the American citizens."

One worker wrote:

"Hercules may close the plant for good and 80 percent of the men are over the age of 40, so are too old to go elsewhere for jobs. Please save our town."

From a Harbor Beach couple came this message:

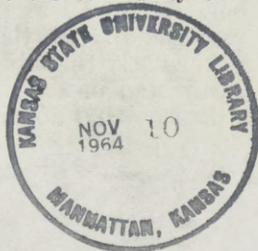
"The Hercules plant is the only industry we have and should it close the town of Harbor Beach would become a ghost town overnight. We do not feel that this bill is unreasonable; it merely will give us an opportunity to meet foreign competition. We are suffering, as we have in the past on some of our other products, from the unfair advantage given to our foreign competitors because of the tremendous price difference now existing on this commodity."

These comments are only excerpts from some of the many letters that I have received, but they express the sincere, deep feelings of people confronted with a most serious situation.

Efforts to resolve this situation on the administrative level have failed. Price relief can only be gained quickly by enactment of H.R. 12018. The inequities caused must be corrected by Congress. This measure would make second clears available to this industry at lower prices, taking into consideration the difference between domestic market prices and world prices of such wheat clears.

Passage of this measure would afford domestic industrial users of wheat clears access to a domestic raw material at about the same price as foreign buyers which, in principle, parallels the relief granted the cotton textile industry. It would encourage continued development of new products and new markets, and it would not conflict with the Agricultural Act of 1964.

It would save jobs—and it would save the community of Harbor Beach. Thank you.



IS HARBOR BEACH TO BE A GHOST TOWN?

(By David S. Mizener)

Will Harbor Beach grow or will it become a ghost town?

This question will be answered within the next 2 weeks in the Congress in Washington, D.C.

Bills have been introduced in the Senate and House of Representatives, which if passed within the next 2 weeks, will permit the local plant of Hercules Powder to buy the raw material it uses to make their principal products at a reduced price. This will make it possible for them to compete with foreign purchasers for the material.

The U.S. Government pays millers of wheat in this country a certain amount of money over the normal cost of production for the raw material, second wheat clears, so that the millers can make money when they sell the material outside the country.

But, the local plant also pays the regular price for clears, plus the extra amount or subsidy, when they buy the material in this country. Foreign buyers of the material pay only the regular price and not the subsidy.

If the bill is passed, the Government will give back to the local plant the subsidy, after the plant buys the material.

If the local plant is to compete successfully in making their products, they need to buy their material at the normal cost, not at the normal plus subsidy cost.

Citizens of the town can help their local plant, their town, their businesses and themselves, by writing to their Congressmen, urging that the bills be adopted.

Write today to Senator Philip A. Hart, Senate Office Building, Washington, D.C.; Representative James G. O'Hara, Representative Office Building, Washington, D.C., and Representative James Harvey, Representative Office Building, Washington, D.C., urging that the bills be adopted.

Mention the number of the bills when writing. They are Senate bill, S. 3024; and House bill, H.R. 12018.

If every adult in Harbor Beach would write a letter favoring the adoption of the bills, it could mean the difference between the growth of Harbor Beach and it becoming a ghost town.

Mr. PURCELL. Let me say for the record no one has worked more diligently than Mr. Harvey in getting these hearings provided for and in keeping up with the matters developed and dedicating his entire energy toward seeing that this matter is brought to proper attention. I appreciate very much your cooperation and work on it.

Mr. HARVEY. Mr. Chairman, I appreciate your compliments. I would simply point out to the committee that this has been for more than 9 months, longer than that, a strictly nonpartisan affair. Congressman Jim O'Hara, a Democrat, presently represents, or until the redistricting in Michigan did represent, the community and county involved in this matter. I, of course, as a Republican, now represent that particular community. We both see eye to eye as to what is necessary.

The same thing is true in the U.S. Senate, where Senator Philip Hart, Democrat from Michigan, has introduced similar legislation, and I think Senator Boggs has introduced it also.

Once again I thank you.

Mr. PURCELL. Are there any questions?

Mr. SHORT. Mr. Chairman, I, too, want to commend our colleague for his diligence in making efforts to preserve a very important industry in Harbor Beach, Mich. As I recall, when we had previous hearings, a representative of the Hercules Powder Co. appeared here and stated rather flatly that their operations in Harbor Beach would have to be terminated in a reasonably short period of time if something was not done. Am I not right on that?

Mr. HARVEY. You are absolutely right. It is our understanding that they will be able to use up the inventory of wheat clears on hand. That is about it. If they cannot get them in the future, there is no point in pretending to carry on an industry when you cannot get the raw materials necessary to manufacture the product.

Mr. SHORT. Has the Senate taken action on this bill?

Mr. HARVEY. I do not believe it has. However, it is my understanding from conferences with Senator Hart that he believes they can be very successful in moving fast if they can get the bill from the House. At any rate, he was very optimistic in my conversation with him. He, of course, serves on the Agriculture Committee in the Senate as well.

Mr. SHORT. Thank you.

Mr. PURCELL. Thank you, Mr. Harvey.

Mr. HARVEY. Thank you, Mr. Chairman.

Mr. PURCELL. At this time we will hear from Mr. Underhill, Assistant Secretary of Agriculture.

STATEMENT OF W. E. UNDERHILL, ASSISTANT TO THE UNDER SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Mr. UNDERHILL. My name is W. E. Underhill. I am assistant to the President of the Commodity Credit Corporation. The President of the Commodity Credit Corporation is the Under Secretary of Agriculture, Mr. Charles Murphy.

The report of the Department of Agriculture on H.R. 12018 speaks for itself. It may be helpful, however, for me to elaborate on some aspects of the problem.

First, although it involves some repetition of matters covered at the earlier hearing on this bill, I would like to try to explain just what flour clears are, and since we are here concerned primarily with so-called second clears I will omit from this explanation first clears which are principally consumed by the bakery trade. In the traditional old-fashioned milling of flour each 100 pounds of wheat produced about 72 pounds of flour and 28 pounds of animal feed. There was no such thing as flour clears produced.

When we began producing a higher grade flour commonly called bakers' patents, a larger quantity of grain was required to produce the same amount of flour. To put it another way, the 100 pounds of wheat which produced 72 pounds of straight-run flour would produce perhaps 69 pounds of bakers' patents, 3 pounds of second clears, and the same 28 pounds of animal feed. Flour clears represent the difference between producing a straight flour and patent flour.

The characteristics of clears are that they are not quite as white and have a higher ash content than other flours. The ash content is the test used to distinguish clears; however, the line is not distinctly drawn between patent flour, first clears, and second clears.

Clears may be exported to dollar markets and this business makes up a substantial part of our dollar exports of flour.

Mr. HEIMBURGER. Mr. Chairman, may I interrupt?

Mr. PURCELL. Mr. Heimburger.

Mr. HEIMBURGER. When you refer to clears from now on, are you referring to second clears?

Mr. UNDERHILL. I am referring to second clears from now on, I believe without exception. If I find otherwise, I will try to so designate.

Mr. HELMBURGER. Thank you.

Mr. JONES of Missouri. In other words, the clears that may be exported in the dollar market are second clears?

Mr. UNDERHILL. I am eliminating from the statement the first clears although, of course, first clears are also exported; but we are not concerned here so much with the second clears because that is not the primary raw product of the industrial user.

Mr. PURCELL. You are not concerned with first clears?

Mr. UNDERHILL. You are correct, I meant to say we are not concerned with first clears.

Mr. JONES of Missouri. I am mixed up. You said under the processing of the wheat now you were getting 69 percent flour and 3 percent of second clears.

Mr. UNDERHILL. Yes, that would all be second clears.

Mr. JONES of Missouri. Where do the first clears come in?

Mr. UNDERHILL. The first clears come in when a still higher grade of flour is made. If we cut back to 65 pounds of the higher grade flour, we have the first clears and second clears both produced.

Mr. JONES of Missouri. In other words, all we are talking about on the top of page 2, clears may be exported, we are talking about 3 percent of the wheat that is processed?

Mr. UNDERHILL. That is correct, except the second clears are not made from all the wheat that is processed. So in total we do not get that much second clears.

Mr. JONES of Missouri. Where you do get clears you are only talking about 3 percent of the wheat?

Mr. UNDERHILL. That is correct.

Mr. JONES of Missouri. I think I can follow you now.

Mr. UNDERHILL. Clears may be used for food domestically, particularly in such specialty products as pancake flour, malted milk, et cetera. Clears have certain nonfood uses such as in the manufacture of adhesives, pet feed, et cetera. Finally, clears may be used by the five "industrial" processors who make gluten and wheat starch. In this case, the products are used in part for food and in part for non-food use. The food products so made do not, however, have the almost absolute protection from foreign competition that is afforded the flour miller by our import quota on wheat and wheat flour.

For at least 10 years certain industrial users of wheat clears have made known to the Department of Agriculture difficulties which faced them in operating with a raw product the cost of which was determined by the domestic support level of wheat rather than the world price.

As was the case with the domestic textile industry prior to the enactment of the Agricultural Adjustment Act of 1964 the gluten industry was faced with the fact that their raw product cost them more than it did their foreign competition even though the commodity from which both were derived may have been grown by the American farmer. There is, of course, an import duty on wheat gluten and some of the products made from wheat flour; however, the industry

has alleged that this is not sufficient protection and that something further should be done if the domestic industry is to be preserved.

The requests made to the Department over the past 10 years have usually had as their objective the reduction of the amount of flour clears exported. A reduction in the amount of exports would make clears available in the domestic market at a lower price.

We had not ignored these requests. We discontinued the use of flour clears under the foreign famine relief programs authorized by title II of Public Law 480. We have restricted the use of high-ash flours under the title I, Public Law 480 programs. This has made it difficult for millers to use stuffed, straight flour to fill Public Law 480 orders. A stuffed, straight flour is a regular straight flour with some additional flour clears blended into it.

Last fall the industrial users of clears were in an unusual price squeeze when the margin between export grade flour and 1-percent-ash flour clears fell to 70 cents per hundredweight, and the price rose to \$4.55 per hundredweight, in bulk at Kansas City. At that time we made a further cut in the maximum permissible ash content of wheat flour shipped under title I, Public Law 480 from 0.50 percent to 0.48 percent ash. This action was either very successful or other unknown market factors entered the picture. The margin between export straight flour and 1-percent-ash flour widened to the unprecedented—in recent years—figure of \$2.25 per hundredweight. Thus, through administrative action it appears that we were able to eliminate the squeeze on industrial uses of clears during the first half of 1964.

By early September of this year the margin between export straight flour and second clears had narrowed to \$1.55 per hundredweight, and the price of second clears in bulk at Kansas City had risen to \$3.80 per hundredweight. This was not unexpected as we have never contended our action of last fall would provide any permanent relief to the industrial users of clears.

An action requested by the industry which the Board of Directors of the Commodity Credit Corporation has been unwilling to take is to eliminate or substantially reduce the export subsidy on second clears. There are several reasons why such action has seemed unwise to us. Since World War II there has been a very large increase in foreign milling capacity. This has had the effect of decreasing our flour exports for dollars at a time when there was a substantial increase in our wheat exports. The principal remaining flour markets are in countries where consumers have low incomes and are either cost conscious or have an actual preference for flour clears.

Flour exporters have contended that in order to retain these dollar markets it is necessary for them to meet competition in lower grades of flour on a price basis and this makes it necessary to have the subsidy on clears and stuffed straights or give up the markets altogether.

Another factor is that we have perhaps one-half of the milling industry of the country so located that it is out of position to sell clears to the industrial users. They regularly depend on the export market and contend that they would be seriously handicapped if they could not obtain the subsidy for clears which makes exports feasible. The west coast mills, those in the Southwest, and those in the East fall into this category. It has been estimated that west coast mills would

have to increase their sales price of patent flour by some 6 cents per hundredweight, in order to make up for the loss in value of second clears if the export subsidy on this product were eliminated.

In the Department report on H.R. 12018 we made certain suggested changes in language. One suggestion was making the legislation applicable to all wheat flour rather than just to flour having an ash content of 1 percent or more. It was our thought that the end use of the flour rather than the type of flour used should be the controlling factor. Price considerations would require that for the vast majority of industrial uses the raw product be flour clears; however, some of the research of the Department is directed toward industrial uses of straight flour, and we would not wish to handicap our activities in this field.

A second change suggested was that the Secretary be given greater flexibility in determining the kind of industrial utilization of flour that would be eligible to receive the relief authorized by the bill. It was thought that the original language might give rise to controversy and perhaps litigation concerning some uses and that this might be avoided by permitting the Secretary to define "industrial uses." It would be expected that few, if any, food uses of flour other than its breakdown to form gluten and wheat starch would be included in the Secretary's regulations as industrial processes entitling the user to qualify for payments-in-kind.

Still a third change recommended was the change in the amounts of the payments-in-kind which we suggest be based on the current cost of domestic wheat certificates unless the Secretary determined that a lesser payment would be sufficient to achieve the purposes of this act.

The Department has estimated the amount of payments-in-kind that would be made under the legislation at about \$500,000 per month or \$6 million per year. If the legislation should enable us to recapture some of the domestic market which has been lost to foreign competition or to expand the industrial uses of wheat flour, the cost will rise. However, it should be pointed out that there are other factors involved. If the utilization of flour clears in industrial processes is reduced that means smaller consumption of wheat, more wheat for CCC to acquire, to store, and ultimately dispose of abroad, perhaps under some of the provisions of Public Law 480. On the other hand, the expansion of industrial uses means that much less wheat for CCC to acquire and lower costs for storage, transportation, and in the ultimate disposition of the commodity. It appears that some part of the estimated costs of payments-in-kind will be offset by reduction in amounts that CCC would otherwise be spending. It is not possible, however, to make any accurate calculations at this time with respect to this reduction in other expenditures as there are too many assumptions that would have to be made.

The Department of Agriculture has not taken a position either for or against this legislation. We have attempted to present its advantages, and we have made an estimate of its cost. If more information is desired we will be glad to give it now if we have it or to supply it as soon as possible if we don't have it with us.

Thank you, Mr. Chairman.

Mr. PURCELL. Are there any questions?

Mr. FINDLEY. Mr. Underhill, can you tell us what the position of the Bureau of the Budget is on this proposed legislation?

Mr. UNDERHILL. The report of the Department of Agriculture quotes the position of the Bureau of the Budget in the last paragraph. It reads:

The Bureau of the Budget advises that while there is no objection to the presentation of this report from the standpoint of the administration's program, the Bureau believes further consideration should be given to the cost of the measure in relation to the need for it and the subsidy it provides.

Mr. FINDLEY. Would you interpret that to mean that they have some doubt as to the wisdom of carrying this out?

Mr. UNDERHILL. I would say that they are concerned about the \$6 million annual cost and think that should be weighted against the advantages of the legislation. It appears that the cost factor is the only thing that bothers them.

Mr. FINDLEY. If the Congress should see fit to broaden this payment-in-kind subsidy, I might say, to include baby food as well as glue, for example—in other words, make it possible for those who process flour or wheat into baby food to have the advantage of this payment-in-kind subsidy, as well as the manufacturing of glue—would the Department probably take the same indifferent or hands-off attitude?

Mr. UNDERHILL. I believe if we expanded into food uses, the Department would probably make an objection.

Mr. FINDLEY. Can you see any justification for discriminating in favor of the manufacturer of glue as against the manufacturer of baby food?

Mr. UNDERHILL. As far as I am aware, the manufacturer of baby foods is not faced with foreign competition as are the industrial users who process the gluten and wheat starch.

Mr. FINDLEY. But would it not make possible lower consumer prices for baby food if we did have a payment-in-kind program like this and if, in fact, we have such widespread poverty, would this not help to meet that problem?

Mr. UNDERHILL. It would probably make some reduction in price of baby food possible. I am not sure how much of it would ever be reflected at the retail level.

Mr. FINDLEY. Mr. Underhill, do you see any similarity between the proposal in this bill and what is being done with cotton?

Mr. UNDERHILL. Yes, I think there is quite a similarity.

Mr. FINDLEY. Do you think that we are establishing a trend here with this proposal?

Mr. UNDERHILL. It would concern us if this were on a very substantial scale. This is limited to the 1 or 2 percent used for the, shall we say, nonprimary uses of wheat and for which there is foreign competition as there was in the case of the textile industry.

Mr. FINDLEY. In a recent Congressional Record, a Senator commented about the manner in which the cotton program has been carried into effect and raised the question as to whether the payment-in-kind subsidy has actually resulted in better prices for the consumer. So would we not have the same uncertainty about improving the retail price of these products if this payment-in-kind is carried out?

Mr. UNDERHILL. I do not believe many items involved in this legislation would show up in lower consumer prices if the legislation should be enacted. In the case of plywood, for example, the cost of the adhesives is such a small fraction of the cost of production that I doubt it would ever be reflected in the cost to the consumer. I mean in measurable terms. Of course, any reduction in cost eventually in theory is reflected in lower costs to the consumer. But as a practical matter I do not think you would find prices cut on such-and-such a day after the legislation became effective.

Mr. FINDLEY. You stated that the Department takes no position either for or against this legislation. May we assume you as the assistant to the President of CCC have no recommendation?

Mr. UNDERHILL. I have no recommendation other than that we have presented.

Mr. FINDLEY. Thank you, Mr. Chairman.

Mr. PURCELL. Are there any other questions?

Mr. JONES of Missouri. There is one thing I want to get clear before we leave, which is this. The gentleman from Illinois brought up the baby food question. You are not suggesting that any change in this law will affect the price of baby food that uses wheat, are you?

Mr. UNDERHILL. We are not.

Mr. JONES of Missouri. Thank you.

Mr. PURCELL. Are there any further questions?

Mr. HEIMBURGER. Mr. Chairman.

Mr. PURCELL. Mr. Heimburger.

Mr. HEIMBURGER. Mr. Underhill, do I understand correctly from your testimony that the Department via administrative action and decision pays an export subsidy on second clears not only when the second clears are part of flour being exported but also on second clears as such?

Mr. UNDERHILL. That is correct.

Mr. HEIMBURGER. Do you pay the same rate of subsidy that you pay on flour?

Mr. UNDERHILL. Same rate.

Mr. HEIMBURGER. You do this, you say, because there are certain flour mills which are out of position as far as a domestic market for second clears is concerned and might have to increase the export price of their flour unless they can also export the clears on a subsidized basis?

Mr. UNDERHILL. That is one of the reasons. We, of course, consider that clears are flour and we pay an export subsidy on 72 percent of the wheat whether it goes out in form of straight flour or in separate shipments of patents and clears.

Mr. HEIMBURGER. I see. Are clears considered as flour when they come into the United States?

Mr. UNDERHILL. I am not familiar with that entirely. I think that there is a different definition of flours in some of the import acts under customs regulations.

Mr. HEIMBURGER. I understand that. As you know, as you so testified, we have rather strict import quotas on wheat and flour. Do these import quotas apply to second clears?

Mr. UNDERHILL. Second clears are not restricted in the same way that other flours are when imported. Some of the U.S. industrial processors use Canadian second clears in their operations.

Mr. HEIMBURGER. So we consider second clears to be flour when we export them but not when we import them?

Mr. UNDERHILL. That is correct.

Mr. HEIMBURGER. I notice on page 4 the action you took in decreasing the ash content, I believe, of exportable flour under the subsidy or under title—

Mr. UNDERHILL. Under title I.

Mr. HEIMBURGER. Under title I—You note there the flour export, that this had the effect of decreasing our flour export for dollars at a time when there was a substantial increase in our wheat exports. Was there a substantial increase in our wheat exports for dollars also?

Mr. UNDERHILL. Over the years we have greatly increased our export market for wheat.

Mr. HEIMBURGER. The dollar market?

Mr. UNDERHILL. It depends on the base period from which you are measuring.

Mr. HEIMBURGER. Actually, our wheat export for dollars, regardless of what base period you use, has declined rather sharply in the last few years, has it not?

Mr. UNDERHILL. That is right.

Mr. HEIMBURGER. That is all, Mr. Chairman.

Mr. FINDLEY. Mr. Chairman.

Mr. PURCELL. Mr. Findley.

Mr. FINDLEY. This program is proposed to eliminate inequities. Is the inequity caused by the requirement that processors of flour have to buy a certificate under the new wheat program?

Mr. UNDERHILL. I would say the inequity is caused by the fact that there is a difference between the cost of the raw materials to the foreign and the domestic processor. This comes about by our domestic price of wheat being supported at a higher level. Whether this is accomplished through certificates, through loans, or some other mechanism the effect is the same.

Mr. FINDLEY. The price support is only around \$1.30 now.

Mr. UNDERHILL. That is correct, but with the certificate cost added, perhaps your question should be answered "Yes."

Mr. FINDLEY. The root problem is the certificate. Were the processor not required to buy the certificate, we would not have this legislation before us today; is that correct?

Mr. UNDERHILL. That is correct.

Mr. FINDLEY. Thank you.

Mr. PURCELL. I believe you have testified that the problem has been the same about the last 10 years; is that right?

Mr. UNDERHILL. It has been a problem for the past 10 years. Whether it has become intensified within the past few years or not, I am not in position to say. We have been hearing about it for at least that period of time.

Mr. FINDLEY. Is the problem more severe this year than it was this time last year?

Mr. UNDERHILL. It is less severe now than it was last year or a little later in the fall of last year. At that time I think the industrial

processors of second clears were faced with the worst price squeeze they had had within the preceding 10 years.

Mr. FINDLEY. Thank you.

Mr. PURCELL. In connection with the answer you gave the gentleman from Illinois, it sounded like you were saying the root of the problem is the certificates. In fact, you have been faced with essentially the same problem for the last 10 years. Therefore, I do not see how you can call the certificate the root of the problem since you had this difficulty before the certificates were put into effect.

Mr. UNDERHILL. That is certainly correct. It is the difference between the effective cost to the miller of wheat in this country as compared to the effective cost to the foreign miller.

Mr. FINDLEY. Would you not agree that as of today if the processor did not have to buy certificates, he would not be faced with this problem?

Mr. UNDERHILL. If we did not have the certificate today, we would not have the problem; if we had not had the price support program, we would not have the problem a few years ago. It is a continuation of the same problem. The certificate did not create the problem. It just continued it.

Mr. PURCELL. Thank you very much.

Mr. UNDERHILL. Thank you, sir.

We will call Mr. Ken Kendrick at this time, please, of the National Wheat Growers Association.

STATEMENT OF KEN KENDRICK, NATIONAL WHEAT GROWERS ASSOCIATION

Mr. KENDRICK. Mr. Chairman, I have a very brief statement I would like to present in behalf of the National Association of Wheat Growers.

I appreciate this opportunity to make a brief statement in support of H.R. 12018, a bill to encourage the industrial utilization of wheat products, with the changes recommended by the U.S. Department of Agriculture. The National Association of Wheat Growers believes this bill, when modified as suggested, will accomplish two purposes:

1. It will make it possible for the gluten industry to secure the necessary supplies to maintain and expand the use of wheat products. We believe this bill will make the domestic producers of wheat starch and gluten fully competitive with foreign producers.

2. The National Association of Wheat Growers believes that H.R. 12018, when modified, will make flour available for industrial purposes at more competitive prices, and result in greater industrial utilization of wheat products.

The National Association of Wheat Growers supports H.R. 12018, as amended.

Mr. PURCELL. Thank you, Mr. Kendrick.

Are there any questions of Mr. Kendrick?

If not, thank you very much.

Mr. Underhill, Mr. Heimburger has another question to ask you, please.

Mr. HEIMBURGER. I apologize. I forgot to ask you when you were up here—does the Department pay an export subsidy on any other wheat products, any other part of the milling process?

Mr. UNDERHILL. It pays an export subsidy on up to 72 percent of the product. If we have whole wheat flour exported we pay subsidy on that but it is at a reduced rate per pound to make it the equivalent of paying an export subsidy on 72 percent of the wheat.

Mr. HEIMBURGER. I am trying to get this subsidy business straight. If you pay a subsidy on the whole grain this is only when it is part of flour; is that correct—only when it is a whole wheat flour?

Mr. UNDERHILL. On whole wheat flour we would pay a subsidy at a reduced rate. The subsidy is based on the wheat required to make the product which is exported.

Mr. HEIMBURGER. Then do you pay a subsidy on the export of bran, shorts, and middlings as such?

Mr. UNDERHILL. We do not.

Mr. FINDLEY. May I ask a question of Mr. Kendrick, please?

Mr. PURCELL. Mr. Kendrick?

Mr. FINDLEY. Mr. Kendrick, this statement would encourage the utilization of wheat products for industrial purposes. If we would broaden this legislation to make payment-in-kind programs available to the processors of baby food, for example, would that not too encourage utilization of wheat for this purpose and therefore be equally desirable?

Mr. KENDRICK. The certificate plan is designed for payments on domestic uses. If we understand the bill correctly there is only this one spot. In the gluten industry it is noncompetitive.

My association is interested in possible use of flour for industrial purposes. Our interests are rather substantial in the use of this for industrial purposes.

Mr. FINDLEY. If we get the consumer price of baby food and other consumer forms of wheat down lower, would that not too encourage utilization of wheat and add to the surplus problem?

Mr. KENDRICK. As you know, Mr. Findley, the price of wheat adds little to the price of bread and the price of food in this country. If you would compare the support price of wheat in 1963 with the support price of wheat now, plus the certificate for domestic purposes, you will find them to be just about the same.

Mr. FINDLEY. The price of bread has risen since the certificate program was placed into effect, so apparently it is one of the factors which causes retailers to set their price levels to consumers.

Mr. KENDRICK. A very small factor, however. There are many other things that enter into it.

Mr. FINDLEY. But it is a factor.

Mr. KENDRICK. A very small factor.

Mr. FINDLEY. And would not a payment-in-kind subsidy program for consumer use of wheat products also encourage the utilization of wheat? That was the initial question.

Mr. KENDRICK. You know as well as I do, if you get into that then you would be opening the gates, so to speak. If we didn't have the certificate program it would mean the wheat farmers of this Nation, their income, would be down \$4 to \$5 million.

Mr. FINDLEY. If the certificate program were eliminated?

Mr. KENDRICK. Yes.

Mr. FINDLEY. I think there is some room for argument there. However, you do not propose to widen this to other uses of wheat?

Mr. KENDRICK. We do not.

Mr. FINDLEY. Did you anticipate this problem when your association supported the wheat certificate program when it was before Congress earlier this year?

Mr. KENDRICK. It is my understanding that this problem in the original bill of 1962 was taken care of. As I understand it, so far as our association is concerned, I understand it was taken care of in the bill of 1963.

Mr. FINDLEY. That is all, Mr. Chairman.

Mr. PURCELL. Thank you very much, Mr. Kendrick.

We will call Mr. S. H. Hellekson from the Hercules Powder Co.

Mr. Hellekson, I believe you have testified before; is that right?

Mr. HELLEKSON. Yes, sir, I have.

Mr. PURCELL. Unfortunately I was not personally present for very much of that testimony. I am wondering if your statement, the statement you intend to make now, duplicates to any great degree the testimony you gave us in your prior appearance here?

Mr. HELLEKSON. To some degree, but I am also submitting a transcript of the previous testimony at this time, so both of these are available.

Mr. PURCELL. You do not intend to read the prior testimony?

Mr. HELLEKSON. No, sir.

Mr. PURCELL. Very well.

Mr. JONES of Missouri. In other words, this statement of July 30, 1964, already has appeared in the hearings; is that correct?

Mr. HELLEKSON. That is right, Mr. Jones.

Mr. JONES of Missouri. There is no point in including that in this hearing this morning. It is a duplication of printing. It is available.

Mr. PURCELL. It will be available for our use, Mr. Hellekson.

Mr. HELLEKSON. Yes, sir.

Mr. PURCELL. Proceed.

STATEMENT OF S. H. HELLEKSON, ASSISTANT GENERAL MANAGER, CELLULOSE & PROTEIN PRODUCTS DEPARTMENT OF THE HERCULES POWDER CO.

Mr. HELLEKSON. My name is S. H. Hellekson. I am assistant general manager of Cellulose & Protein Products Department of the Hercules Powder Co.

I am here in behalf of the starch-gluten industry and I have been authorized to speak not only for Hercules but the other four companies which make up this industry. These are Midwest Solvents, General Mills, Wheat Products Co., and National Industrial Products Co.

Mr. Chairman, and members of the House Committee on Agriculture, I want to thank you for this opportunity to appear before you again and supplement my July 30, 1964, testimony in support of H.R. 12018.

For the convenience of members of the Wheat Subcommittee, I am submitting a copy of my earlier remarks and a copy of my today's statement.

THE STARCH-GLUTEN INDUSTRY

The starch-gluten industry is dependent upon the availability of wheat clears. The starch-gluten industry uses wheat clears as its raw material for two primary products: wheat gluten and wheat starch. These primary products are then further processed into a variety of other products.

PURPOSE OF H.R. 12018

H.R. 12018 is corrective legislation which takes into account the special injuries suffered by the starch-gluten industry. One source of this injury is the large imports of vital gluten which have increased from 1.2 million pounds in 1960 to 8 million pounds in 1963—over one-fourth of the entire domestic market for vital wheat gluten. As imports of this material have increased, the market price for gluten has steadily deteriorated, with a corresponding reduction in the domestic price for second clears.

Hercules developed the vital wheat gluten market out of necessity when monosodium glutamate (MSG) technology changed and it became no longer economically feasible to make MSG from gluten by the extraction process. The imports of vital wheat gluten have undermined and demoralized the domestic market, and the imports show no sign of decreasing. The industry problem is similar to that of cotton textile mills, for which Congress provided equalization payments in the 1964 law.

A second factor—the Government flour export program—drastically affects the starch-gluten industry with an impact faced by no other industry. The export subsidy program is made necessary in the first instance by the higher U.S. prices maintained under the domestic price support program for wheat. Second clears receive the full export subsidy. However, they are only separated from the other flour streams when a miller grinds wheat to make patent flour and are, therefore, in limited supply. Those clears which are exported overseas under the program cannot be replaced in the domestic market. For the domestic starch-gluten industry to buy clears, it must outbid the export market price, paying not only what the foreign buyer will offer but, in addition, the amount of the flour export subsidy which the seller of clears would receive upon export. This substantially increases the domestic price of these clears.

UNAVAILABILITY OF ADMINISTRATIVE REMEDIES

While recognizing these serious problems, the Department of Agriculture has not changed its programs to correct the side effects on the starch-gluten industry. The Department's concern is that such a change would create other new problems for the milling industry and would pose difficult problems of administration. For years, the starch-gluten industry has exhaustively explored avenues of administrative relief and obstacles have arisen to each proposed solution. The industry situation has worsened with the importation of low-cost vital wheat gluten produced from wheat flours purchased at world market prices. Legislative relief is the only practical remedy this industry has available.

Hercules' operation at Harbor Beach, Mich., has used wheat clears to make industrial products since 1903. Use of wheat clears by the starch-gluten industry has decreased. Unless something is done about the problems I have described, this historical industrial use for wheat clears will be seriously eroded.

At the July 30, 1964, hearing, those testifying in support of H.R. 12018, besides the starch gluten industry, included the Millers National Federation, American Plywood Association, Hardwood Plywood Manufacturers Association, and Great Plains Wheat, Inc., and there was no opposing testimony. We understood that the American Corn Millers Federation questioned certain aspects of the proposed legislation. Their reported concern basically was that the legislation would encourage the use of wheat flour in markets served by "corn flour." We have tried to remove this concern, since we believe that the legislation would have no significant effect on the corn millers because clears above 1 percent ash covered by H.R. 12018 are neither available for use, nor usable, in any significant quantity, in markets presently served by corn flour.

A. Limited production of clears above 1 percent ash.—Although clears above 1 percent ash make up only about 2 percent of the wheat-flour streams, they account for over 90 percent of all the industrial use of wheat products.

The clears covered by H.R. 12018 are only taken off when a miller gets an order for bakery—patent—flour. The quantity does not change in response to increased demand for clears. This quantity has, in the past, remained fairly constant because the quantity of patent flour from which these clears are separated has not changed materially. No significant increase in patent flour production is in sight. The quantity of these clears should, in the future, remain much the same.

B. The established markets to which second clears are sold.—Some 3.5 million hundredweight of clears above 1 percent ash go to establish domestic markets per year. We estimate that another 1.5 million hundredweight of clears above 1 percent ash go to establish export markets annually.

Over one-half of the domestic supply of these clears is used by the starch-gluten industry. The domestic uses are approximately as follows:

	<i>Estimated million hundredweight</i>
Gluten-starch.....	2.1
Plywood.....	.5
Dog and pet food.....	.4
Special bakery and miscellaneous uses.....	.5
Total.....	3.5

C. The limited effect H.R. 12018 would have on markets for second clears.—The relief afforded in the proposed bill is needed to maintain existing industrial markets for wheat products.

(1) Vital wheat gluten: Gluten is the principal product.

The domestic vital wheat gluten market has stabilized at approximately 30 million pounds. Foreign produced gluten has captured 8 million pounds of this market. If not handicapped by Government programs, U.S. producers should recover a substantial part of this 8 million pounds by offering gluten at lower prices.

If U.S. industry recaptured all of this gluten market, it would produce an additional 25 million pounds of wheat starch annually. This is insignificant when compared with over 2 billion pounds of corn starch produced per year, plus the imports of tapioca starch.

(2) Plywood: An estimated one-half million hundredweight of the limited supply of second clears goes to the plywood industry.

H.R. 12018 would have only limited effect on this market. Suppliers of flour already have available certificate exemptions under which they can make use of off-grade wheat. In addition, a recent regulation under the 1964 wheat law provides that, if, in the course of flour manufacture, the flour becomes unsuitable for food use, it can be diverted to industrial use without payment of any marketing certificate on such flour.

(3) Dog and pet food: Approximately 0.4 million hundredweight of second clears sold domestically goes to the dog and pet food industry. This industry is not covered by H.R. 12018. Dog and pet food manufacturers already can obtain complete marketing certificate exemption by using hammer mills to grind wheat for their products.

(4) Bakery and miscellaneous uses: Approximately one-half million hundredweight of clears above 1 percent ash are sold for various specialized baking uses. All of these uses are direct food applications. They do not involve industrial processing and, therefore, are not covered by the bill.

D. Performance inadequacy of second clears above 1 percent ash in comparison to corn flour.—Corn flour is distinct from second clears above 1 percent ash in several important respects. Second clears above 1 percent ash are very high in protein, making them unsuitable as a substitute for industrial applications of corn flour.

Furthermore, with the exception of the starch-gluten industry, wheat flour exempt from the certificate requirement is already available for industrial uses under present law. Thus wheat flour for plywood use can be made without certificate cost from damaged wheat, by a hammer mill, or from flour unsuitable for human food. The incentive to use H.R. 12018 to attempt inroads in corn flour markets is missing.

CONCLUSION

Over 90 percent of wheat flour used for industrial processing in the United States is second clears above 1 percent ash to which H.R. 12018 applies.

Second clears above 1 percent ash are available in limited quantities estimated at 3.5 million hundredweight per year. They have historical, industrial uses, principally for processing into gluten and starch and the manufacture of further products from these components. H.R. 12018 would help materially in preserving these historical uses by making 1 percent ash and above clears available to this industry at lower prices to correct a serious inequity.

Support for corrective action for this industry has come from the wheat growers, flour millers, a number of Congressmen and, 2 years ago, from the American Corn Millers Federation itself. The need for this legislation is more pressing than previously. Passage at the current session of Congress is urgently requested.

Mr. PURCELL. Does anyone have questions?

Mr. BELCHER. Just as a matter of information. I see here that several different industrial uses which you outline are now exempt from certificates.

Mr. HELLEKSON. That is our understanding.

Mr. BELCHER. If you made this exempt from certificates would you not serve the same purpose as paying the Government subsidy?

Mr. HELLEKSON. Yes, sir, you would. This has the same net effect. We have not been successful in our efforts in this direction.

Mr. BELCHER. Pardon?

Mr. HELLEKSON. We have tried this and have not received an exemption.

Mr. BELCHER. Do you not think it is just as easy and more logical to get a bill through Congress exempting that industrial use than to get a bill through appropriating Federal funds to pay the subsidy?

Mr. HELLEKSON. Mr. Belcher, if we had thought so we would have tried this, yes. My answer to your question is "No." We obviously did not believe this was the more logical route.

Mr. BELCHER. Perhaps you have not been around Congress as long as I have. When you start paying out Federal taxpayers' funds on subsidies it is much harder than to just exempt an industry when you already have several exempted. So it would appear to me.

Mr. HELLEKSON. If I understand you correctly, Mr. Belcher, the net effect in the cost to the taxpayers is the same.

Mr. HEIMBURGER. May I discuss this a little? I know you answered "Yes" to the question, Would not exemption from the certificate solve your problem? I do not understand that it would. It seems to me that with the limited quantity of second clears available, and you have established this is a product which occurs only in a limited quantity and in a rather fixed quantity, even though the price which you had to pay for this might be exempt from the domestic marketing certificate, if there is still an export subsidy on it and there is an export demand for the commodity wouldn't this leave you in the same situation as you are now?

Mr. HELLEKSON. If I understand you correctly, Mr. Heimburger, it is my opinion that if we had certificate exemption based on the flour we used for industrial purposes it would have the same net effect and we would be able to buy this flour cheaper than we can today.

Mr. HEIMBURGER. It is the cost of the domestic certificate or the fact there is an export subsidy on the commodity which sets your domestic price, or do they both enter into it?

Mr. HELLEKSON. It is the chicken and the egg, is it not? The miller receives a subsidy on the export of his flour to make it competitive in the world market.

Mr. HEIMBURGER. You are assuming that if this product, when used for industrial purposes, were exempted from the marketing certificate, this would also require there would not be an export subsidy paid on it.

Mr. BELCHER. That would make no difference.

Mr. HELLEKSON. I don't think it makes any difference.

Mr. BELCHER. The only reason you have that export subsidy is to make it competitive after you have forced the American miller to put the tax on it. The export subsidy just takes up the gap created by the certificate. If there were no certificate there would be no gap.

Mr. HELMBURGER. Your assumption is, and perhaps it is correct, if it were—

Mr. BELCHER. I am seeking information. I am not trying to argue with anybody.

I am wondering in correcting this if it would not be easier to say that for this industrial use it would not require a miller to purchase the 70-cent bushel certificate. I understand you have three or four other industrial uses exempt.

If you exempted this one right along with the rest of them you already have a precedent for that action, but we have no precedent for paying a subsidy on wheat.

We got into quite a bit of trouble on cotton. In yesterday's Record the chairman of the committee and the ranking member of the Senate committee blasted the cotton program. You will have to put this bill through those two fellows over there, which makes the same kind of program for wheat which you now have for cotton.

If you will read yesterday's Record you will see they are not going to be very sympathetic to your proposition if they maintain the same attitude toward a wheat subsidy which they now maintain toward the cotton subsidy.

However, if you would say that where this is an industrial use of wheat it should not require a certificate to mill this wheat for this purpose, we have a 70-cent certificate for food in this country, and the export subsidy would not affect you because the export subsidy just takes up the gap which you create your certificate—

Mr. HELMBURGER. There would be no need for an export subsidy.

Mr. BELCHER. No need, either, for a domestic subsidy. The 70 cents would not be tied on to the price.

You could buy it in this country at the world price if you did not have a certificate on it. It appears that way to me.

Mr. HELMBURGER. I think you are correct. I think I understand it now.

Mr. PURCELL. To follow up the questions and statements which have just been made dealing with what Hercules does with these wheat clears, what products do you make from these clears which you buy?

Mr. HELLEKSON. We make vital wheat gluten.

Mr. PURCELL. Is that used—

Mr. HELLEKSON. An additive in the baking industry.

Mr. PURCELL. That is used for food products?

Mr. HELLEKSON. Yes, imparting certain characteristics to buns, rolls, and bread.

We make wheat starch, which in turn is converted to various derivatives, and they are marketed in a gamut of industries.

Mr. PURCELL. For food?

Mr. HELLEKSON. A portion of it does go into food.

Mr. PURCELL. What percentage of the clears that your company processes goes into the food as compared with nonfood uses?

Mr. HELLEKSON. For every 100 pounds of clears we market, 15 pounds of gluten to the food industry and another 15 pounds of the total starch package goes into the food industry, so the total is 30 pounds per hundredweight. This is of products which ultimately end up in one form or another in food.

Mr. PURCELL. Could you give us a breakdown on your total usage percentage-wise of your product which you take in?

Mr. HELLEKSON. The gluten itself is 15 percent of the total flour weight made into gluten. Another 8 percent of the total flour weight is made into starch. As I told you, 15 of that 58 ultimately ends up in various industrial uses.

Mr. PURCELL. Can you give us a figure—again I realize they are general figures—not basing it on the Hercules Co. but the users of clears in all U.S. industries, what would be the breakdown on food products and nonfood products in the total use of clears?

Mr. HELLEKSON. Mr. Chairman, I would give you this answer—that I believe we are perhaps typical of the overall industry. Some have more and some have less going into food. Ours perhaps would be close to the industry average.

Mr. PURCELL. Let me be sure I am keeping the figures straight. Would the total use of food products from clears be in the neighborhood of 30 percent or 15?

Mr. HELLEKSON. Thirty percent, broken down half starch, half gluten.

Mr. PURCELL. So whatever use of clears we are making in our country, about 30 percent of the clears go back into food products and the remainder into other areas of the industry?

Mr. HELLEKSON. That is right.

Mr. SHORT. Mr. Underhill in his testimony stated that we were talking in the consideration of this legislation, if I understood him rightly, about second clears which represented about 3 percent, by weight, of 100 pounds of wheat, so these percentages we are talking about, 30 percent of the clears that you use refers to 30 percent of only 3 percent by weight of 100 pounds of wheat?

Am I putting this in the right context?

Mr. HELLEKSON. Yes, except you are neglecting a good portion of this 3 percent which is exported and not used by the domestic starch-gluten industry. It is less than that.

Mr. SHORT. I realize that.

Mr. HELLEKSON. That would be the maximum.

Mr. SHORT. I didn't want anyone to be confused as to whether we were talking about 30 percent of 100 pounds of wheat or 30 percent of 3 percent of 100 pounds.

Mr. HELLEKSON. You are absolutely correct. I was speaking of the 30 percent of second clears which is only 2 or 3 percent of the wheat which is milled.

Mr. PURCELL. Any other questions?

Mr. FINDLEY. Is corn competitive with wheat for these industrial purposes you have been talking about?

Mr. HELLEKSON. Our opinion is no, sir. The primary product of the starch gluten industry, the material we are seeking here is gluten, and it is chemically and physically different, and it has an entirely different end use. It is in an entirely different price structure than ground corn or products of the dry corn milling industry.

It is a material which sells in the range of 25 to 30 cents a pound and not 3, 4, or 5 cents a pound which is typical of the industry in question.

Mr. FINDLEY. Wheat has no competition for this use?

Mr. HELLEKSON. Vital wheat gluten is unique in itself.

Mr. FINDLEY. There is no substitute for it?

Mr. HELLEKSON. I think I can say that, yes.

Mr. FINDLEY. There is no product of corn that is used for plywood uses, for example?

Mr. HELLEKSON. I was talking about gluten, Mr. Findley.

Now we get into the other products, coal products—pardon me?

Mr. FINDLEY. We are not restricted exclusively to gluten, are we?

Mr. HELLEKSON. We have a byproduct, wheat starch.

Mr. FINDLEY. Which would be competitive with the byproducts of corn; is that correct?

Mr. HELLEKSON. It is competitive with, and has been in the past competitive with, a large amount of corn starch made by the wet corn milling industry. I go back again to the figures of 2 billion pounds a year of this material made by that industry compared to this insignificant amount we are making today or the insignificant increase that would be brought about by recapturing the gluten market now being enjoyed by foreign sellers.

Mr. FINDLEY. If we pass this bill and thus make possible a new payment-in-kind program, which would be a financial advantage to firms such as yours who use wheat clears, I realize this would eliminate the disparity which you have with foreign competitors.

Mr. HELLEKSON. Yes.

Mr. FINDLEY. Would it not also create a new domestic disparity from the standpoint of the corn industry, and would they not then have just as legitimate a claim to come to us to get a bill passed to provide a payment-in-kind program for corn to offset the disadvantage which this legislation has created?

Mr. HELLEKSON. I understand the question. Let me emphasize again, Mr. Findley, that our primary products, the thing we are making here, is gluten. Starch is a byproduct to us.

We seek relief on price paid for clears to allow us to be competitive with foreign producers of gluten, not to make us competitive with domestic producers of starch. We are such a small part of the domestic starch industry that we will not be an influence on that.

Mr. FINDLEY. You do not believe this would create a valid claim on the part of the corn industry for a subsidy program?

Mr. HELLEKSON. No, sir; I cannot see the conflict. We are not a significant factor in the corn starch industry. We are a very minor factor.

We do not set prices.

Mr. SHORT. May I bring out another point here? The price of the clears which the milling industry—perhaps is not required but which it feels constrained to extend to the users—is based on the fact that the milling industry pays \$2 a bushel for wheat.

Your foreign competitors, under the export program, pay domestically only in the neighborhood of \$1.55 for the wheat which goes into export.

The proposition you are facing as I see it and where the competition becomes unfair is that the foreign processor of our wheat in his milling process comes up with the clears at lower cost than our domestic milling industry and, therefore, he is able to make clears available to you from foreign sources at a price a little lower than the price you have to pay from the domestic industry. Is that not true?

This then brings up the question I asked when we were having hearings before—why don't you get all your clears from foreign sources?

Mr. HELLEKSON. What you say is true, Mr. Short, with the one exception. You said a little bit cheaper. It is not a little bit cheaper. They are getting them at \$1.60 a hundredweight cheaper than we can buy it. It is a big difference.

Mr. SHORT. Who?

Mr. HELLEKSON. The foreign buyer, the net price he pays for clears is \$1.60 less than what we have to pay here in this country for those same clears.

This is the inequity.

Mr. SHORT. You are referring, then, to when the clears are separated and exported?

Mr. HELLEKSON. Yes.

Mr. SHORT. Rather than when the wheat is exported and the clears come back?

Mr. HELLEKSON. In all of this discussion on exports I am talking about the exportation of second clears which is receiving a full subsidy, the same as any flour.

Mr. SHORT. If I understood Mr. Underhill correctly he said second clears.

I will stand corrected, Mr. Underhill, if I understood you incorrectly.

I thought you said second clears as such were not subject to the same export subsidy as flour.

Mr. UNDERHILL. No. As far as export regulations are concerned as flour.

Mr. SHORT. Thank you. I misunderstood you.

Mr. PURCELL. Mr. Findley?

Mr. FINDLEY. Can you tell us what you are paying for wheat clears today?

Mr. HELLEKSON. We have not bought any wheat clears since last May. I understand the price is around \$3.80 a hundredweight, f.o.b. Kansas City in bulk.

Mr. FINDLEY. How does that compare with the price of a year ago?

Mr. HELLEKSON. I think substantially the same. We have found that the price of clears has come back to a former level, \$3.80 to \$4 a hundredweight.

Mr. FINDLEY. Has it increased substantially over a year ago?

Mr. HELLEKSON. No; I don't think so.

Mr. FINDLEY. Can you tell us what countries export wheat clears into this country?

Mr. HELLEKSON. Wheat clears?

Mr. FINDLEY. Yes.

Mr. HELLEKSON. Canada is the largest exporter of wheat clears to the United States.

Mr. FINDLEY. Canada is the largest exporter?

Mr. HELLEKSON. Of wheat clears. I think they are also the largest exporter of vital wheat gluten.

Mr. FINDLEY. Do you anticipate this legislation might create a problem in our diplomatic relations with Canada?

Mr. HELLEKSON. I fail to see why it should. We are endeavoring to recapture a market for wheat gluten which we enjoyed in the past. All we are endeavoring to do is get back to the former level of being sufficient.

Mr. FINDLEY. When were we self-sufficient? How recently were we self-sufficient?

Mr. HELLEKSON. Imports, as I mentioned in my presentation, in 1960 total gluten imports were \$1.2 million.

In 1961 it increased to \$1.5 million.

In 1962 it jumped to \$6.4 million. Last year it was \$8 million.

This is out of a total domestic market of roughly \$30 million, so we are injured, and injured badly.

Mr. FINDLEY. Do you want to get back to the 1960 level? Was there a year when you had no imports?

Mr. HELLEKSON. My answer to that would be that previous to 1960 imports were small, but I have to elaborate and say the vital gluten market was practically nonexistent at that time compared to the way it exists today. Use for gluten back in that period was as a raw material for making monosodium glutamate. This has been obsoleted by technology. We were forced as an industry to develop new markets for gluten.

Mr. FINDLEY. So far as the wheat clears problem is concerned would your industry be better off today if we had not passed the wheat certificate program?

Mr. HELLEKSON. We would have been better off today if the certificate program had not passed as long as the loan value was not taking the same effect. It makes no difference to our industry whether the wheat was supported artificially with a loan or certificate.

Mr. FINDLEY. If we had no wheat legislation this year would your industry have been better off?

Mr. HELLEKSON. If we had no wheat legislation? That is our opinion, yes.

Mr. BELCHER. I am wondering what caused this to go up from 1.2 to 8 million in the last 3 years.

Mr. HELLEKSON. Mr. Belcher, this market is a new market. The use of vital wheat gluten in the baking industry is a new use. It has had a rapid growth.

I could give you one reason why we had quite a jump there and that was the inability of the domestic producers back 2 or 3 years ago to procure sufficient clears and make enough gluten to satisfy the then current demand.

Then these Canadian and Australian exporters got a foothold in our market and they are staying and enjoying the market we developed at our expense.

We cannot compete with them pricewise.

Mr. BELCHER. You are in about the same competitive position now as you were 3 years ago, are you not?

Mr. HELLEKSON. No, sir.

Mr. BELCHER. Five years ago?

Mr. HELLEKSON. We have less of the domestic market and the foreign producers have driven down the price. We have had no relief.

Mr. BELCHER. So far as export subsidies, wheat programs, and so forth, aren't you in about the same competitive position on world price?

Mr. HELLEKSON. Our problem is that we have had a deterioration of our primary product, market value, and no relief on the raw material.

The thing that has changed which worsened this condition, it has been bad for 10 years, and it is much worse today because of the erosion of the vital wheat gluten market by foreign producers.

Mr. BELCHER. Is that attributable to the price situation? I cannot understand you are worse off in the price situation now than you have been. If not then there are other factors to have caused this problem.

Mr. HELLEKSON. We are worse off on the selling price of the primary product.

Mr. BELCHER. Competitively between the domestic price and the world price of wheat and clears?

Mr. HELLEKSON. I don't think I understand the question.

Mr. BRUCE. The world price of wheat and the domestic supported level of our processing are about the same now as they were 10 years ago.

If this is a true statement then what has caused the erosion of your domestic wheat gluten market?

Mr. HELLEKSON. I have to bring in another aspect of this, Mr. Belcher.

In Australia and Canada, their source of starch, for whatever use it may be, is from wheat, not from corn as it is domestically.

They therefore can command a much higher price for the byproduct starch if you want to call it that than we can in this market.

In Australia their desire in utilizing second clears is to make starch, not gluten, and they will move that gluten at our expense.

Theirs is a starch economy. Ours is a gluten economy.

Mr. BELCHER. Are you not faced with about the same situation that almost all American industry is faced with, that we cannot be competitive with foreign products? Look at all the little automobiles running around here which were not running around here 5 or 6 or 7 years ago, bicycles, watches, and everything else. You are confronted with about the same import situation that almost every industry in the country is confronted with.

Mr. HELLEKSON. I think there is a definite difference between our problem and the illusion you are using, Mr. Belcher. We are asking for a tool whereby we can buy our raw material, second clears, at the same price as a foreign buyer, these same clears.

Mr. BELCHER. Would not the Ford Motor Co. like to buy their steel at the same price that the foreign producer buys it?

Mr. HELLEKSON. I am talking about U.S. material, U.S.-grown wheat, U.S. second clears.

Mr. BELCHER. Is it your contention that we ship this wheat to Canada and they make it into clears and ship it back to us, or do they make it out of their own wheat and ship it over here to start with?

Mr. HELLEKSON. I cannot tell you how much of the gluten coming in here is made from U.S. clears, but I have knowledge that this is being done in the Netherlands and in Switzerland, that they are buying U.S. clears and shipping the gluten back here.

Mr. BELCHER. It seems to me they are in about the same situation. I wish there were some way we could pay all the producers in this country a big price and sell to all consumers at a reduced price, but

the only way you can do that is strictly by Government subsidies and the taxpayers picking up the check. We have the same situation facing almost every industry. I represent an oil district, and that is exactly what is happening to us in the oil industry. We are shipping in too much foreign oil where they can produce the oil over there much cheaper. We are getting beef in this country produced at a very small fraction of what it costs to produce beef in this country. We have a real situation in export-import and world trade. We have to have the world trade, but every time a bicycle comes in here it hurts American workmen. Every time one of these foreign-made automobiles comes in here it hurts. Every time a watch comes in it hurts. Of course, every time clears comes in it hurts, too.

I can see your problem, but we started out to level off the cotton producer and now we are going into the wheat business, and next week we may be in the pork business, and the next week Swiss watches. I do not know where we are to stop.

It is a real problem. I know you have a real problem and I am sympathetic. I am wondering how it can be corrected. I think every member of this committee would like to solve this problem.

Mr. HELLEKSON. Let me make my point again. Your illustrations are not typical of our problem, and we are being hampered by an export subsidy on our raw material.

Mr. BELCHER. Every industry is bothered by the same thing. We are hampered by the wage laws. Shall we make a subsidy to make the manufacturer in this country competitive with labor in some other country?

Mr. HELLEKSON. Mr. Belcher, we would like to buy U.S. second clears at the same price as any foreign buyer could buy them.

Mr. BELCHER. And so would every single solitary person in America who buys anything produced under a price support bill. The millers would like to buy at the same price that the foreign buyer can buy it and make it into flour, biscuits, cornmeal, or anything else.

I have no further questions.

Mr. PURCELL. Mr. Hellekson, just one or two questions to follow up.

You used the year 1960 when, as I understand it, you were in better market condition or some kind of condition. You were better able to make money in 1960 than you are now. Am I correct in that?

Mr. HELLEKSON. This is right, Mr. Chairman.

Mr. PURCELL. I believe in 1960 the price of wheat was in the neighborhood of what it is now. We will call it in the neighborhood of \$2. Do you agree with that statement?

Mr. HELLEKSON. Yes, I do.

Mr. PURCELL. What, then, has happened to your industry between 1960 and this time that has put you in this bind? It appears to me that the price for your finished product has gone down and the price of your raw material has remained about the same.

I am not trying to put words in your mouth, but am I correct in that statement?

Mr. HELLEKSON. Yes. There is one other thing, Mr. Chairman. That is, the 1960 gluten, here again the primary product, was the raw material at that time for making monosodium glutamate. This was a profitable item. We lost that market. The industry lost that market because of changes in technology. Other methods were developed for making monosodium glutamate.

We then went out and developed a market for vital wheat gluten in the baking industry. After substantial growth of this market, the foreign producers of gluten came in with lower prices and captured a portion of our market.

Mr. BELCHER. They did not have the market to start with; did they? I am trying to get this clear in my mind. You say 3 or 4 years ago there was no gluten available in this country. Somebody was supplying the market then; were they not?

Mr. HELLEKSON. If I said that, I misspoke. What I said was that 3 or 4 years ago this particular end use for gluten was not practical.

Mr. BELCHER. Made either in this country or foreign; is that correct?

Mr. HELLEKSON. It was substantially unused; yes.

Mr. BELCHER. Now it is practical, and imports have picked up that market which was not practical 3 or 4 years ago; is that correct?

Mr. HELLEKSON. The imports have captured an increasing percentage of this market in the last 2 or 3 years through price.

Mr. BELCHER. Have they actually captured it, or did you ever have it?

Mr. HELLEKSON. We have lost position. We had it and we have lost position. The domestic producers have lost position in the gluten domestic market.

Mr. BELCHER. Three years ago they were not producing it. Now they can produce, but in the meantime the foreign import has got the market. Is that what we are trying to say?

Mr. HELLEKSON. If I understand you, that is not what I was trying to say. I was trying to say, Mr. Belcher, that 3 or 4 years ago the market did exist, and substantially all of it was supplied by domestic producers. The market has not changed appreciably in total volume, but the importation has increased. Therefore, the domestic producers have lost.

Mr. BELCHER. Now the question comes, why? The price has been the same all the way. Why did they increase their imports during that period of time when the price was stable?

Mr. HELLEKSON. The price was not stable on the gluten. The price was stable on the raw material.

Mr. BELCHER. The product from which gluten was made was not the same then as it is now?

Mr. HELLEKSON. Second clears have not changed substantially in price, you are correct, to the domestic consumer.

Mr. BELCHER. We were paying the same export subsidy on wheat, if not more, at that time, than we are now.

Mr. HELLEKSON. May I remind you again, Mr. Belcher, that the principal exporters of gluten to the United States are marketing their gluten as a byproduct and not as a primary product. Their primary product is the starch fraction. They are after the starch. They do not have foreign competition in Australia nor in Canada. They are after starch. They will move this gluten. One place they elected to move it was into the United States because we had established a market.

Mr. BELCHER. But as far as price is concerned, you had the same difficulty 3 or 4 years ago that you have now, or 10 years ago for that matter; did you not?

Mr. HELLEKSON. As far as the price on the raw material is concerned, it has been a problem for 10 years. It was a marginal thing business-wise when we had a higher price on gluten. Now the price on gluten—

Mr. BELCHER. The export subsidy did not shoot up the price on gluten; did it?

Mr. HELLEKSON. The price on gluten has come down because of importations of foreign-produced gluten. Therefore, we receive less dollars in sales per unit of clears that we buy.

Mr. BELCHER. What I am getting at is this: The problem has not been aggravated in the last 10 years as far as export subsidy is concerned. You are now facing a foreign competitor which is more of a menace than you had during previous years, and you are trying to capture the market back and you want a subsidy so you can compete. Do you not suppose Ford Motor Co. would like to have the same thing? I know oil producers would like to have a subsidy on oil so they do not have to meet this foreign competition, because they are sure getting ruined. We do not get to first base on anything like that. We cannot even get quotas.

Mr. JONES of Missouri. Are these foreign processors able to produce this gluten cheaper than we can produce it?

Mr. HELLEKSON. Yes, sir.

Mr. JONES of Missouri. They can produce it cheaper using their own wheat, say in Canada and Australia, than we can produce it here in America using ours?

Mr. HELLEKSON. They can produce it cheaper because they pay less for their wheat and, in turn, less for their clears, and furthermore, they receive more for their starch than we do.

Mr. JONES of Missouri. I am talking about using the wheat that is produced in Australia and the wheat that is produced in Canada.

Mr. HELLEKSON. Yes, sir. The answer is, "Yes; they can."

Mr. JONES of Missouri. In other words, if they did not use our clears from this country, they could still produce, and produce in sufficient quantity still to provide the competition that you cannot meet; is that right?

Mr. HELLEKSON. That is correct. They are not paying raw material prices that are artificially supported.

Mr. JONES of Missouri. Do they not have a form of price support on their wheat in Canada?

Mr. HELLEKSON. Yes; I should say that is my understanding.

Mr. JONES of Missouri. You are correct. I think the same thing applies in Australia. So, I cannot quite reconcile your position.

You say, "Hercules developed the vital wheat gluten market out of necessity when MSG technology changed and it became no longer economically feasible to make MSG from gluten by the extraction process." Does anybody still make MSG?

Mr. HELLEKSON. From gluten?

Mr. JONES of Missouri. Yes.

Mr. HELLEKSON. It is made from gluten in Canada, Mr. Jones, not in the United States, to my knowledge.

Mr. JONES of Missouri. Can you explain why they make it from gluten in Canada and do not make it from gluten in the United States?

Mr. HELLEKSON. I think the explanation has to go back to the starch economy, Mr. Jones, that wheat starch in Canada is more valuable in Canada than in the United States. Therefore, gluten is less costly.

Mr. JONES of Missouri. You say starch is more valuable there. Would they be affected if we should ship cornstarch into Canada? Would that affect their market?

Mr. HELLEKSON. Absolutely.

Mr. JONES of Missouri. Maybe we are approaching this the wrong way. Maybe we had better help the corn producers get their cornstarch into Canada and maybe this will help you.

Mr. HELLEKSON. I am sure the cornstarch people would agree with you, sir.

Mr. PURCELL. Thank you very much.

(Material submitted follows:)

[Telegram]

MIDWEST SOLVENTS Co., Inc.,
Atchison, Kans., September 14, 1964.

GILBERT B. LESSENCO, NICHOLAS N. KITTRIE, AND WILNER & BERGSON,
Landmark Building, Washington, D.C.:

Midwest Solvents Co., Inc., as an industrial processor of wheat gluten, supports the passage of H.R. 12018. We are in support of the supplemental testimony to be presented by S. H. Hellekson, of Hercules Powder Co. at the hearing to be held by the House Agriculture Committee on September 15, 1964. We request that you file this telegraphic message with that House committee.

CLOUD L. CRAY, Jr., President.

GENERAL MILLS, INC.,
Minneapolis, Minn., September 14, 1964.

GILBERT B. LESSENCO, NICHOLAS N. KITTRIE, AND WILNER & BERGSON,
Washington, D.C.:

Please file this telegraphic authorization with the House Agriculture Committee as evidence of General Mills complete support of H.R. 12018 as it may relate to industrial use of wheat clears and the testimony to be presented by S. H. Hellekson of Hercules Powder Co., on Tuesday, September 15, 1964.

S. D. ANDREWS, Jr.

WHEAT PRODUCTS Co.,
Colorado Springs, Colo., September 14, 1964.

S. H. HELLEKSON,
Hercules Powder Co.,
Wilmington, Del.:

With reference to the subcommittee on wheat to be held Sept. 15, we authorize you to present testimony on our behalf in support of passage of H.R. 12018.

J. M. WOLF.

Mr. PURCELL. At this time I call Mr. Carl Farrington of the Millers' Federation.

Mr. Farrington, it seems that we inadvertently have spent more time on one witness than another. We have very few minutes left, and one witness is to appear after you. We shall be glad to hear you and will be glad to put your statement in the record, or any way you wish to expedite it.

STATEMENT OF CARL C. FARRINGTON, VICE PRESIDENT, ARCHER DANIELS MIDLAND CO., MINNEAPOLIS, MINN., AND CHAIRMAN, COMMITTEE ON AGRICULTURE, MILLERS' NATIONAL FEDERATION

Mr. FARRINGTON. Mr. Chairman, I shall be very brief, 5 minutes or so.

My name is Carl C. Farrington. I am a vice president of Archer Daniels Midland Co., Minneapolis, Minn., and chairman of the Com-

mittee on Agriculture of the Millers' National Foundation. I am appearing here today on behalf of the Millers' National Federation. We appreciate this opportunity of again appearing before you to express our views.

In an appearance before this subcommittee on July 30, 1964, and in a supplemental statement dated August 4, 1964, submitted for the record, we indicated our support of H.R. 12018 with appropriate changes in language which we suggested.

We have now had an opportunity to review the report and suggested language changes submitted by the Secretary of Agriculture. The language changes suggested by the Secretary of Agriculture are acceptable to the Millers' National Federation.

There are two points in the report of the Secretary of Agriculture which we believe merit further elaboration. It is stated in the report that the importation of wheat flour into this country has been limited for many years by a Presidential proclamation. This is true except that the Bureau of Customs uses a very restrictive definition of flour in applying the import quotas with the result that flour with more than 1 percent ash is admitted to this country without quota limitations and with the payment of only a nominal import duty. As brought out in my previous testimony, the quantity of this higher ash flour imported annually outside of the flour import quota averages about 500,000 to 600,000 hundredweight. As I stated on July 30, enactment of H.R. 12018 would enable domestically produced flour to compete effectively and equitably with imported high-ash flour in the industrial uses covered by this legislation.

The Secretary estimates that the cost of the legislation for the fiscal year 1965-66 would be \$6 million. We had estimated that the industrial uses covered by H.R. 12018 presently accounts for 1 to 2 percent of the total domestic use of flour. The total certificate cost for 1965-66 will be approximately \$375 million at the rate of 75 cents per bushel on the \$500 million bushels of wheat used for domestic flour and food purposes. The \$6 million estimate is within the 1- to 2-percent range which we had estimated. We believe, however, that this \$6 million estimate is on the high side. It is based on past usage. In the absence of legislation to permit wheat flour to compete effectively in present and potential industrial uses of flour, much of the estimated certificate revenue from industrial uses of wheat flour will be lost anyway. Part of this will come about through the partial or complete elimination of some industries dependent on wheat flour as raw material. Some of the reduction will come about through the substitution of other cereal products for wheat products. Some of it will come about through avoidance of the certificate liability by means of adulteration or denaturing of flour rendering it unfit for food use but still usable for certain industrial purposes.

In these industrial uses, price levels have a very significant effect on the quantity of flour consumed. We urge the enactment of H.R. 12018 in order that wheat flour may retain its present industrial markets and have an opportunity to develop new uses based on the market price of wheat. This can be accomplished by the removal or offsetting of artificial Government-generated costs which presently are curtailing usage and causing the adoption of subterfuges and uneconomic and undesirable practices.

Mr. Chairman, we are not seeking an advantage. We are requesting removal of a disadvantage.

I want to point out for clarification, the imports of gluten that have been referred to I think come almost entirely from Canada and Australia where wheat and wheat flour are available at basically world price levels. Those countries do have price supports, but they are based on world prices. We do not know of any gluten imports that are produced from exported U.S. flour.

Thank you, Mr. Chairman.

Mr. PURCELL. Are there any questions?

If not, thank you very much, Mr. Farrington.

We shall now hear from Mr. James H. French.

STATEMENT OF JAMES H. FRENCH, WASHINGTON COUNSEL FOR THE CORNSTARCH INDUSTRY COMMITTEE

Mr. FRENCH. Mr. Chairman, my name is James H. French. I am Washington counsel for the Cornstarch Industry Committee, which is comprised of the corn wet millers in the United States.

I have with me today Mr. Robert S. Fisher, who is chairman of the Hubinger Co., of Keokuk, Iowa, which is a corn wet-milling company. I respectfully request permission for Mr. Fisher to read a short statement to the committee on behalf of the corn wet-milling industry in the United States.

Mr. PURCELL. We shall be glad to hear from Mr. Fisher at this time.

STATEMENT OF ROBERT S. FISHER, CHAIRMAN OF THE BOARD, THE HUBINGER CO., KEOKUK, IOWA

Mr. FISHER. My name is Robert S. Fisher. I am chairman of the board and chief executive officer of the Hubinger Co. of Keokuk, Iowa, a miller of corn by what is known as the wet-milling process.

We in the corn wet-milling industry are deeply concerned with the effects of this bill and its possible expansion on our industry, on the economy of the Corn Belt States, and on the taxpayers.

H.R. 12018 would subsidize the use "for industrial purposes" of wheat flour having an ash content of 1 percent or more. The amount of the subsidy would be the difference between the domestic market price of wheat clears and the subsidized export price of wheat clears.

The avowed purpose of the supporters of H.R. 12018 is to place the wheat processors in a better position to compete against imports of foreign-produced wheat gluten. H.R. 12018 undoubtedly will accomplish its purpose. However, the shotgun approach of H.R. 12018 also would be likely to result in a drastic realignment of the domestic industrial usage of grains for starch. This undesirable side effect far outweighs the benefits to be derived from H.R. 12018.

The coproduct of the wheat gluten resulting from the washing of wheat clears is starch. Starch is also the basic product of our corn wet-milling industry, of which my company has been a part for more than 75 years.

There are a multitude of industrial processes and consumer products in which starch is an essential ingredient. In terms of volume, the

primary uses of starch are as sizing, coating, and finishing agent in the manufacture of paper and textiles, and making boxboard, adhesives, pastes, and dextrans. Starch is also used in a wide variety of common food products.

Wheat starch and cornstarch can be used interchangeably for most, if not all, starch uses. Corn has been developed as the dominant source of industrial starch in the United States because it is more economical to produce starch from corn than from any other native source, including wheat.

The corn wet millers have developed most of the markets for starch that exist in the United States today. We have done so over a period that goes back for decades, involving expenditures of enormous sums of money for research and capital investment.

Over the years the corn wet-milling industry has done an outstanding job of developing industrial usage of corn. I might add that we have done so without subsidies of any sort, paying support prices for corn often well above the world market price, and having to compete against duty-free imports of cheap tapioca starch from the tropics.

If H.R. 12018 is enacted, our traditional starch markets will be invaded and decimated by uneconomic, subsidized wheat starch production, and the Corn Belt Farmers will be the ultimate losers. Moreover, we understand that the wheat flour millers have already set their sights on expanding the coverage of the subsidy to include all wheat flour processed for allegedly "industrial purposes." This would create subsidized competition against the corn wet millers, not only from the washers of wheat clears, whose starch product is unquestionably interchangeable with cornstarch, but also from flour millers, whose products do not now offer substantial competition to cornstarch. If extended to flour millers, the subsidy would be a strong incentive to produce flour substitutes for our industry's starch products.

This, we submit, is robbing Peter to pay Paul, or perhaps I should say is robbing Peter, the farmers and the taxpayers to pay Paul, for, according to the USDA estimate of its cost, this would be an expensive program indeed. Moreover, this uneconomic competition could be maintained only so long as the subsidy is maintained, thus creating a vested interest in the indefinite continuation of the subsidy.

We challenge the supporters of H.R. 12018 to show that this bill would create new industrial uses for agricultural products. This bill would simply bring about the substitution of one product for another, of subsidized wheat starch for unsubsidized cornstarch. It would merely penalize the industry which has done a truly outstanding job of creating industrial utilization of our country's agricultural products.

We are equally certain that this bill cannot be justified on the basis of any benefit to wheat farmers. The Department of Agriculture has estimated that the equivalent of approximately 8 million bushels of wheat annually would qualify for subsidy payments-in-kind under the bill. Eight million bushels of wheat constituted 0.7 percent of the 1963 wheat crop and 0.65 percent of the average annual wheat crop 1957-61, hardly a significant amount.

On the other hand, corn wet-milling industry consumes half of the corn produced in the United States which is not fed or exported. If this utilization of corn were substantially reduced as a result of subsi-

dized wheat starch competition, the market price for corn would drop, reducing the income of the corn farmer. There are far more corn farmers who would be injured by the legislation than there are wheat farmers who would be benefited.

In addition, the Department of Agriculture estimates the cost of this special-interest program would be \$4,200,000 for 9 months of the present fiscal year and \$6 million for fiscal year 1966. How much the cost would increase in each succeeding year can only be guessed at. Whatever the cost, it would be too much to pay merely to shift markets from one industry to another with no overriding public interest in view.

The objective of protecting the wheat clears washers against competition from imported gluten is not germane to the present wheat marketing law. The problem was neither created nor aggravated by the wheat certificate law, and the H.R. 12018 solution would, as I have already pointed out, have far-reaching side effects not warranted by the objective.

The wheat processors' problems with gluten imports antedate the wheat certificate law by several years. What is more, the Department of Agriculture has stated that it does not expect the gluten import problem to become any more severe than it now is. It has already been pointed out at this hearing that most of the wheat gluten imports are from Canada and no wheat clears are exported from the United States to Canada.

Finally, the amendment proposed by H.R. 12018 runs directly counter to the Wheat Certificate Act. That law, on which the ink is barely dry, states that all wheat sold for food must be accompanied by certificates. H.R. 12018 states in effect that wheat sold "for industrial purposes" need not be accompanied by certificates. We wonder what the term "for industrial purposes" in H.R. 12018 means.

Gluten is a food. A large proportion of the wheat starch produced by the industrial processors of wheat clears is used for food. Is the wheat flour used to produce these foods being used "for industrial purposes"? We think not.

If this door is opened, how can the pleas of the baby food, macaroni, cereal, and whisky producers for noncertificate wheat be resisted? Certainly the food products of the gluten-starch manufacturers are no more entitled to this subsidy than are the food products of other processors.

We are not willing to suggest an answer to the many problems that are raised by H.R. 12018. We do not believe there is an answer. The problem of the gluten-starch producers is a simple one—protection against imports of gluten. We think a simple solution should be found, and that H.R. 12018 does not constitute that solution.

The corn wet millers have never sought subsidies and have never had subsidies. We do not believe in subsidies for industry. We believe that in the industrial sector of the economy the economic forces governing free competition should be interfered with only where necessary to protect the public interest.

This is not such a case. H.R. 12018 would play havoc with the corn wet-milling industry, an innocent bystander. The bill would merely shift industrial-use grain markets from corn processors to wheat processors. There is no substantial public interest at stake, and the

broad thrust of the bill is far out of proportion to the objective of protecting the gluten-starch producers from foreign gluten competition.

I was interested in what was mentioned about shipping cornstarch to Canada. Our company had a pretty good market for corn sugar in Canada, and one of our competitors built a plant in Canada and reduced the price, and we tried to meet their price. We were told we could not export because of Canada's antidumping laws. So, that solution is out.

Mr. Chairman, we strongly oppose the enactment of H.R. 12018. Thank you.

Mr. PURCELL. Thank you, sir.

Without objection the following letter from the American Corn Millers Federation and a telegram from Great Plains Wheat will be placed in the record at this point.

(The communications referred to follow:)

AMERICAN CORN MILLERS' FEDERATION,
Washington, D.C., September 9, 1964.

In re H.R. 12018.

HON. HAROLD B. COOLEY,
Chairman, Committee on Agriculture,
U.S. House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: This is a followup letter to our letter to you dated August 18, 1964. With your kind permission, may we respectfully renew our opposition to H.R. 12018 for the following additional reasons:

1. H.R. 12018 will undercut and decimate established industrial use markets for corn and other feed grains. American dry corn mills manufacture a tremendous quantity of products for industrial use. They are used as an ingredient in the manufacture of adhesives generally (glues, pastes, mucilages, gums); as a binder in the manufacture of asbestos; in the manufacture of dry batteries; as a binder or binding agent generally; as an ingredient of boiler compound; as a binder in briquets of coal and charcoal; as a binder in the manufacture of ceramics; as an ingredient of chemical compounds; as an adhesive in the manufacture of containers, laminated and corrugated; as a core binder in foundries; as a binder in cork products; as an adhesive in doll heads, moulded toys, etc.; as a dusting agent; as a diluent and binder in the manufacture of explosives; as a binder in the manufacture of felt; as an ingredient of fur cleaner; as a binder in the manufacture of insulating materials (for wallboard, etc.); in leather tanning; as an ingredient of paints (cleaning compounds, cold water and poster paints and sizing); as a binder and adhesive in paper and paper products manufacture; pastes (wallpaper, etc.); as an adhesive in the manufacture of plywood; sizing compounds (for textiles); as artificial snow; as a scouring agent in soaps and cleaners; in the manufacture of cigarettes; as a water retaining agent in oil well-drilling muds; as a flocculant in the purification of waters, particularly in the beneficiation of mineral ores; and for many additional industrial uses.

The American corn milling industry has built up these industrial use markets over a 75-year period. They do not want to see them decimated and destroyed by cheap industrial wheat.

Let us analyze the impact of H.R. 12018 were it to be enacted. As you know the bill asks for a subsidy on second clears (high ash wheat flour) which "will approximate the difference between the market price of wheat clears to domestic users and the export price at U.S. port of such wheat clears to foreign users." [Emphasis supplied].¹ In other words, the bill seeks a subsidy equivalent to the export subsidy on clears.

The current export subsidy on second clears at Kansas City is \$1.35 hundredweight.² (\$1.68 hundredweight lake ports export subsidy less \$0.33 freight differential.)

¹ H.R. 12018 at p. 2, lines 10-12.

² This and succeeding quotes are "sacked f.o.b."

A current edition of the Southwestern Miller quotes second clears at \$3.83 hundredweight Kansas City. Thus, if H.R. 12018 were enacted, subsidized second clears would sell at \$2.48 hundredweight Kansas City.

On the other hand, relatively interchangeable and highly competitive industrial corn flour now sells as \$3.77 a hundredweight Kansas City. The extreme disparity in price—\$1.29—of these relatively interchangeable products, obviously would cause a permanent drying-up of the above listed industrial uses for corn flour.

To see the heavy competitiveness between corn starch and wheat starch for industrial outlets, one need merely compare the listing of industrial corn products set forth on page 1 hereof with the list of industrial wheat products submitted to the House Wheat Subcommittee by the wheat gluten-starch industry.³ That industry noted:

"Typical uses of wheat starch include adhesives, paper coating, sizing agents for paper and textiles, laundry starch * * *"

Corn millers compete continuously with wheat millers for all of these industrial outlets.

While wheat flour does not compete with corn flour for all industrial uses, there is a high degree of interchangeability. With the recent report of USDA chemists at the American Chemical Society meeting in Chicago, that they are finding new industrial uses for wheat, the problem becomes increasingly intensified. In this connection we understand that a major wheat flour processor is now marketing a general use, all-purpose "binder" wheat flour which is directly competitive with our products. These developments, coupled with the subsidization of wheat clears as proposed by H.R. 12018, will have a devastating impact on our industry.

2. H.R. 12018 is a special-interest subsidy bill. Aside from its potentially destructive impact on the American corn milling industry, the fact must be faced that H.R. 12018 is nothing more than a special-interest subsidy bill. It is designed to secure a rebate subsidy of the "processor wheat certificate" cost for wheat gluten-starch processors who process primarily for food products. These processors seek a Federal subsidy of \$1.50 to \$2 per hundredweight on high ash wheat flour.⁴ This flour is a wholesome, useful food.⁵

Wheat gluten, processed from this high ash flour, similarly is all food. One of the principal backers of this legislation, General Mills, Inc., purchases high ash wheat flour solely for the purpose of producing wheat gluten. None of its processed high ash flour is used for purposes other than food. Another backer, Hercules Powder Co., uses about one-half of its high ash flour in the production of food.

At this juncture we might point out that the title of H.R. 12018, "To encourage the Industrial Utilization of Wheat Products," is misleading. By the admission of the gluten-starch processors themselves, the primary product for which they are processing is the food part of second clears—the vital wheat gluten. They are not principally concerned with the "industrial" use of wheat within the commonly accepted, nonfood meaning of that term. Rather, in effect, they wish to get a subsidy (equivalent to the food wheat export subsidy) from the U.S. Government to equalize the cost of the processor wheat marketing certificates so as to permit them to obtain cheaper raw material for their processing plants.

While it is true that baby food manufacturers, macaroni producers, cereal manufacturers, and hundreds of other processors of wheat flour pay more for their flour today than they did a year ago because of the recent enactment of the processor wheat marketing certificate plan, none of them, other than the gluten-starch processors, are seeking a special Federal subsidy. If the subsidy door is to be opened to the gluten-starch processors, then other food processors should be accorded similar treatment.

3. Intent of recently enacted processor wheat marketing certificate plan to cause food and beverage processors to pay certificate cost for benefit of wheat farmers; H.R. 12018 provides method for them to escape payment of this cost. Under H.R. 12018, a food or beverage processor may purchase high ash wheat flour (a wholesome food), submit it to an "industrial" process such as washing, mix the resultant product with other foods, and still qualify for the proposed

³ See statement of S. H. Hellekson, assistant general manager, Cellulose and Protein Products Department, Hercules Powder Co., dated July 30, 1964, at p. 2.

⁴ See Hercules Powder Co. statement for the gluten starch processors referred to in footnote No. 3, at pp. 2 and 3. See also H.R. 12018 at p. 2, lines 10-12.

⁵ See Millers National Federation letter to Congressman Purcell, chairman, House Wheat Subcommittee, dated Aug. 4, 1964, at pp. 1 and 4.

Federal subsidy. Thus the bill permits the use of wheat clears for any purpose—food, whisky, or nonfood—so long as it is subjected to an “industrial” process and so long as the “clear, as such” are not blended with other food products.⁶

What processor, if he has a choice of buying high-price certified flour or low-price subsidized flour, would not choose the latter?

We are advised by the proponents of this legislation that it is their understanding that H.R. 12018, if enacted, would permit them to buy subsidized high-ash flour which, after washing or other industrial processing, may be sold for use as food in food.

If their interpretation is correct, and we have it on high Federal authority that it is, then we can expect this legislation, if enacted, to play havoc with the current Federal processor wheat marketing certificate program.

4. Import competition is insufficient basis for granting of Federal subsidy. The gluten-starch processors make much of the fact that over one-fourth of the wheat gluten used in the United States was imported. They infer that this import competition constitutes a proper basis for the granting of a Federal subsidy. In this connection we understand, however, that (1) the heaviest importation of wheat gluten is from Canada and (2) that as recently as April 30, 1964, the U.S. Tariff Commission held in an antidumping case that “the domestic wheat gluten industry was not being injured by imported Canadian wheat gluten.”

If the import competition is as stringent as they suggest, the gluten-starch processors should pursue their two most obvious administrative remedies before seeking legislative relief. These are—

(1) Tariff adjustment relief pursuant to the Trade Expansion Act; and

(2) Section 22 relief pursuant to the Agricultural Adjustment Act.

To the best of our knowledge, the gluten-starch processors have prosecuted neither of these remedies:

(1) Tariff adjustment under Trade Expansion Act of 1962: Affected gluten-starch manufacturers, and/or their employees (through their certified or recognized union representative) may file a petition for tariff relief under section 351 of the Trade Expansion Act. Upon receipt of such petition, the Tariff Commission would conduct an appropriate investigation. Should the Commission determine that the gluten-starch industry had been seriously injured by imports within the meaning of section 301(b) of the act, the President could proclaim a higher duty on gluten imports or a quota or such other import restrictions as he thinks may be necessary (TEA, sec. 351 (a) (1)).

(2) Section 22 of the Agricultural Adjustment Act: The facts impelling gluten-starch processors to propose the instant legislation (H.R. 12018) suggest strongly that wheat gluten imports are interfering with USDA price-support programs for wheat and its export subsidy program for wheat clears. In these circumstances, the gluten-starch processors would be well advised to pursue a section 22 action.

After the processing of a wheat gluten section 22 case by USDA and the Tariff Commission, the President would have the authority to impose an absolute quota quantitatively limiting the importation of wheat gluten. Also he may impose import fees which are cumulative and apply in addition to those duties which otherwise may be levied. (NOTE.—The current duty on wheat gluten is 20 percent ad valorem.)

USDA regulations provide for the filing of applications by interested parties for a preliminary investigation under section 22. They specify that applications should be filed in duplicate with the Administrator, Foreign Agricultural Service, U.S. Department of Agriculture, Washington, D.C. To the best of our knowledge, no such application has ever been filed with the Administrator on behalf of the gluten-starch industry.

Mr. Chairman, in your consideration of the problem of import competition, may we also point out that H.R. 12018, if enacted, would dry up the importation of gluten into the United States, and in so doing, it might touch off another “chicken” war with the Continental countries of Europe.

5. Hardship to domestic industry not proper basis for granting of Federal subsidy. One of the proponents of this legislation⁷ claims that it will be forced to shut down its plant now employing 325 people if this legislation is not enacted. It says it must have lower priced raw material in order to survive.

⁶ H.R. 12018, at p. 2, lines 4-7.

⁷ Hercules Powder Co.

In this connection, we note that the International Shoe Co. recently was forced to shut down its Hartford, Ill., operation employing in excess of 300 people because of high raw material costs occasioned in part by the exportation of American hides. International Shoe did not demand a legislative subsidy.

Studebaker Corp. recently shut down its plant at South Bend, Ind., because of, among other things, high costs of material. This closing caused a loss of employment for many thousands of employees, yet Studebaker asked no Federal subsidy.

Is a gluten-starch processor any more entitled to a Federal subsidy than International Shoe or Studebaker?

In summary, Mr. Chairman, we object to this special interest subsidy bill because it will permit the sale of second clears at a price far below that of highly competitive and relatively interchangeable industrial corn flour; it will permit food and beverage processors generally to avoid payment of the cost of wheat processor certificates on second clears, even though used in food, whisky, and other beverages; its proponents have not pursued their two obvious administrative remedies; and mere hardship does not warrant granting of Federal subsidization.

We hope the foregoing is helpful to you in your consideration of H.R. 12018. Respectfully submitted.

DONALD M. COUNIHAN,
General Counsel, American Corn Millers' Federation.

[Telegram]

GARDEN CITY, KANS., September 14, 1964.

Congressman GRAHAM PURCELL,
Chairman, House Wheat Subcommittee,
House Office Building,
Washington, D.C.:

H.R. 12018 with modifications suggested by U.S. Department of Agriculture offers new opportunities for utilization of wheat in industrial field. Our association, therefore, supports the bill with the Department's suggested modifications.

HOWARD W. HARDY,
President, Great Plains Wheat, Inc.

Mr. PURCELL. I thank all of you very much.

I ask that the committee remain for a few moments in executive session. We thank all of you.

(The subcommittee adjourned at 12:05 p.m.)

