

PROHIBIT TRADING IN IRISH POTATO FUTURES ON
COMMODITY EXCHANGES

HEARINGS

BEFORE THE

SUBCOMMITTEE ON DOMESTIC MARKETING

OF THE

COMMITTEE ON AGRICULTURE

HOUSE OF REPRESENTATIVES

EIGHTY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 904

APRIL 8, 9, AND 10, 1963

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PROHIBIT TRADING IN IRISH POTATO FUTURES ON COMMODITY EXCHANGES

MONDAY, APRIL 8, 1963

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

The subcommittee met, at 10:20 a.m., pursuant to notice, in room 1310, Longworth House Office Building, Washington, D.C., Hon. George Grant (chairman of the subcommittee) presiding.

Present: Representatives Grant, Matthews, Harding, Teague of California, Findley, Beermann, and Hutchinson.

Also present: Representatives Duncan, McIntire, and Short. Christine S. Gallagher, clerk; John J. Heimbürger, counsel; and Robert Bruce, assistant counsel.

Mr. GRANT (presiding). The subcommittee will come to order.

We are here, today, on H.R. 904, which is a bill concerning futures trading in Irish potatoes.

(H.R. 904 and the report from the U.S. Department of Agriculture follow:)

[H.R. 904, 88th Cong., 1st sess.]

A BILL To prohibit trading in Irish potato futures on commodity exchanges

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) no contract for the sale of Irish potatoes for future delivery shall be made on or subject to the rules of any board of trade in the United States. The terms used in this Act shall have the same meaning as when used in the Commodity Exchange Act.

(b) Any person who shall violate the provisions of this section shall be deemed guilty of a misdemeanor and upon conviction thereof be fined not more than \$5,000.

APRIL 8, 1963.

HON. HAROLD D. COOLEY,
*Chairman, Committee on Agriculture,
House of Representatives,
Washington, D.C.*

DEAR MR. CHAIRMAN: This is in answer to your request for a report on bill H.R. 904, which proposes to prohibit trading in Irish potato futures on commodity exchanges in the United States.

Activity in potato contracts on the Chicago Mercantile Exchange is of negligible proportions. Trading in potato futures on the New York Mercantile Exchange, practically all of it in Maine potatoes, has expanded and is of considerable volume.

The potato futures on the New York Exchange appears to be sufficiently large and broad-based to constitute a representative market. Value of potato contracts traded in futures markets in 1960-61 and 1961-62 was six to seven times the sales value of Maine potatoes. During the same seasons, value of futures trading averaged more than 10 times the value of actual sales for soybeans, 4 to 5 times for soybean oil and for oats, and 2 to 3 times for wheat, corn and cottonseed oil.

Available data indicate that persons engaged in the financing, growing, and handling of the Maine potato crop make considerable use of the futures market. The bulk of use by growers and handlers appears to be hedging, but there also appears to be, at times, quite a volume of speculation.

The Department of Agriculture, several years ago, conducted a study of the economic importance of futures trading in potatoes. The study was coordinated with research done on potato futures trading at the Maine Agricultural Experiment Station. In a sample survey in Aroostook County, Maine, it was found that during the 1954-55 season, 19 percent of the growers negotiated contracts on the exchange. But 60 percent of the growers with 80 or more acres used the exchange. Of all growers reporting the purpose of futures transactions, about 57 percent used the exchange for hedging, 28 percent to obtain short-term credit, and 14 percent for speculation. The particular season for which data were obtained followed a season of very low prices and may not be in all respects representative of uses in other seasons. However, growth in volume of trading and subsequent, less complete, surveys of trader positions indicate that the exchange is being used increasingly by those in the industry.

A survey by the Commodity Exchange Authority as of the end of October 1962 showed that there were 1,563 traders in the potato futures market. Of this total 436 traders were identified with the potato industry; 288 of these were classified as hedgers and held 2,010 carlots long and 5,077 carlots short, compared with 1,835 carlots long and 801 carlots short held by the 148 speculators. Traders identified as potato growers were more numerous than in any other occupational classification in the potato industry. There was a total of 188 potato growers, of whom 40 were speculators and 148 were hedgers.

The exchange generally appears to perform satisfactorily in crystalizing market information and in disseminating futures price quotations which furnish a basis for cash trading. Expressions of many persons familiar with the Maine potato industry indicate that this might be done as well at country shipping points in spot bargaining between buyers and sellers. On the question of price, it is not clear that either long-run price changes or short-run changes would be greatly altered if there were no trading in potato futures. But many of those engaged in growing and handling Maine potatoes feel that the Exchange disrupts orderly marketing by encouraging growers to hold potatoes until late in the season, thus abandoning early season markets to other producing areas.

Last year the Maine Potato Council surveyed 3,200 potato growers and received replies from about 55 percent. Of those replying about 90 percent were opposed to futures trading in potatoes. It might be expected that many growers having financial problems and not using and often not fully understanding the operations and functions of the futures market would be opposed. But the opposition vote indicates substantial objection among the growers, and the growers in Maine retain ownership of the bulk of potatoes until they are sold into distribution channels and consequently assume most of the price risk involved.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

ORVILLE L. FREEMAN, *Secretary.*

Mr. GRANT. Our first witness to be heard this morning is our colleague, the Honorable Clifford McIntire. We will be glad to hear from you at this time. Mr. McIntire is, of course, a member of the full committee.

STATEMENT OF HON. CLIFFORD G. MCINTIRE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. MCINTIRE. Mr. Chairman and members of the subcommittee, I first want to express my appreciation to you for scheduling a hearing on a bill which I introduced, H.R. 904, which has for its purpose the elimination of futures trading on Irish potatoes. This bill has a very interesting precedent in that in 1958, by the enactment of Public Law 85-839, futures trading on onions in mercantile exchanges of this country was eliminated.

There also is an interesting subsequent development to the enactment of that legislation, in that this law was tested in the U.S. District Court for the Northern District of Illinois, Eastern Division, and the constitutionality of the law was upheld by the district court.

So as we proceed into consideration of this bill, I would point out to you that consideration has been given and legislation enacted in relation to onions. And the potato industry, primarily as it is reflected in the State of Maine, is very much interested that similar legislation be enacted to eliminate futures trading on Irish potatoes.

Mr. Chairman, I ask permission to file my statement in the record. There are witnesses in support of this bill who are here and their statements are prepared. And I do this in the interest of conserving the committee's time.

Might I point out that the proponents of this legislation have not made any attempt to fill up the committee list by numbers, simply wanting to consolidate the testimony in the matter of presentation in order that the committee might be completely and fully informed of their views. May I say, too, Mr. Chairman, that in the presentation an attempt has been made to keep the statements as brief as is consistent with the points; that the statements of each witness are coordinated in order that the total presentation may give the subcommittee a broad picture of the views as presented by the proponents.

Mr. Chairman, along with my statement I would appreciate an opportunity to file a memorandum which I have prepared relative to the court case simply by citation, and I feel that it also should be a part of the record.

Mr. Chairman, with that I would appreciate also permission to insert into the record various communications which I have received which have been directed to me personally signed by, in one instance, 63 farmers in central Aroostook County, Maine, and in another by the Aroostook-Penobscot Pamona Grange; also, some personal letters, that is, letters from individuals that have been forwarded to me.

I would also appreciate the opportunity to put into the record other communications which I may receive during the time of this hearing.

Mr. GRANT. Without objection, they will be inserted and accepted for the record.

(The documents referred to follow :)

STATEMENT OF HON. CLIFFORD G. MCINTIRE, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF MAINE

Mr. Chairman, my legislation, H.R. 904, is designed to accomplish for Irish potatoes the same thing that was obtained for onions on August 28, 1958, through Public Law 85-839—the elimination of futures trading.

I would like to point out that the factors which convinced the Congress that futures trading was detrimental to the best interests of the onion industry are essentially the same as those that are present in futures trading on Irish potatoes.

In order to conserve the time of these proceedings, I will make reference to a few principal points which will, I hope, bring the problem involved in futures trading of potatoes into proper perspective.

First, however, I want to say that there are some who honestly believe that futures trading in Irish potatoes serves a truly constructive purpose. The views of these individuals must and will be made known to this committee, thereby permitting a fair and thoroughgoing examination of the instant issue.

Those who hold to this view contend that futures trading supplies a valuable service for potato growers who, through hedging, can protect their price position

on the sale of their potatoes; that it aids potato processors by assuring them a future supply of potatoes at a predetermined price.

But I want to stress the point that this is only a small part of the picture. The other larger—and most important part, as far as potato growers are concerned—is that this trading activity has a magnetic attraction for speculators. For instance, a check made on one phase of futures trading revealed that out of 1,470 traders only 444 of these showed any relationship with producing, marketing, or processing potatoes. And it is these speculators that cause problems for the potato industry, just as they did for the growers of onions.

In trading activity, it is the practice of speculators to effect swift changeovers in their buying and selling positions, hoping thereby to gain a market advantage. These trading dynamics result in abrupt price changes which, in turn have an unstabilizing effect on the price of potatoes in the marketplace.

Potato brokers and other sellers of potatoes find it convenient to use the "board price" as a base for their trade transaction, rather than the buying and selling of potatoes intended for actual use.

The perishable nature of potatoes—just as was the case with onions—does not permit an easy adjustment to the downward drift of prices resulting from speculative activity in futures trading. Potatoes cannot, as can grains and other such durable agricultural commodities, be stored for any great length of time in an effort to await the arrival of better conditions. This prompts the potato grower to accelerate his sales of potatoes, thereby hoping to keep ahead of the falling price. The direct result of this is that potatoes pile up at various marketplaces, and this glut condition has the effect of depressing potato prices throughout the Nation.

Mr. Chairman, the potato producer has, over an extended period of time, been concerned over the degree of influence which Mercantile Exchange activities have exerted on the market price of the commodity he produces. And this influence is not in his best interests.

And it is not that the potato grower does not already have enough problems of his own for, as one with some experience in potato farming, I have some familiarity with the hazards of the field and the marketplace.

Many of the problems confronting the potato farmer are beyond his control, for he has no way of coping with the quirks of nature. However, the problem implicit to futures trading is one that he can solve, providing he has the help of the Congress.

In a large sense this issue resolves itself as being one of the interests of the potato grower as opposed to those of the speculator in futures trading. There is little question in my mind as to the truly deserving party.

In 1958, the Congress saw fit to enact legislation prohibiting futures trading in onions. In so doing it gave tacit approval to an elimination of futures trading in potatoes for, from the standpoint of futures trading, onions and potatoes are, in effect, companion commodities.

And I would like to emphasize that there is no question on the constitutionality of the legislation that is before us, for on December 2, 1959, the law eliminating futures trading in onions successfully met this test in proceedings before the U.S. District Court, Northern District of Illinois, Eastern Division.

Mr. Chairman, it is quite obvious, then, that there is ample precedent for enactment of H.R. 904, my bill designed to eliminate futures trading in Irish potatoes.

Growers are sincerely petitioning the Congress to remove from them the yoke a futures board, thereby permitting their crop to go to market with a price established in the marketplace and not on a ticker tape.

MEMO ON CONSTITUTIONALITY OF PUBLIC LAW 85-839, A BILL DESIGNED TO PROHIBIT FUTURES TRADING IN ONIONS

The constitutionality of Public Law 85-839 (an act designed to prohibit futures trading in onions) was judged by the U.S. District Court, Northern District of Illinois, Eastern Division.

In effect, this district court was made up of three Federal judges, one from a circuit court and two from district courts.

There were two decisions rendered by the Federal Court. The first one, rendered September 30, 1959, acted as a motion to strike the allegations against the Federal Government contained in the complaint. The second decision, rendered December 2, 1959, dismissed the complaint and, in effect, determined that the law concerned was constitutional.

References: The Federal Supplement Reporter.

First decision: 177 Federal Supplement No. 660.

Second decision: 178 Federal Supplement No. 779.

NOTE.—Prior to the above finding, the Federal Court had issued an injunction which, in effect, prevented Public Law 85-839 from going into effect until the issue of constitutionality of the law was passed on by the Federal Court.

CARIBOU, MAINE, *March 30, 1963.*

HON. CLIFFORD G. MCINTIRE,
House of Representatives,
Washington, D.C.

DEAR FRIENDS CLIFFORD AND HERSCHEL: Got your report on the progress in the fight. Yes, I want to make some complaint against the Mercantile Exchange. I am living on a piece of land that my grandfather bought about 100 years ago. And I have seen the clearing of forest and the making of potato farms in Aroostook County. I have been called a fool by 200-acre growers because I did not plant heavy, sell, and buy back from the board and make some money. I have been hauling potatoes into Caribou for the last 60 years and most of us prospered and kept going ahead. But for the last 12 years, when you called to find out about the market, the buyer had to call the board to see what the price was. This is the biggest racket that ever hit the county. It has kept the acreage up, and the small grower down, as he had neither the money to gamble nor the facilities to ship. The large growers who have played with the gamblers have done quite well, but most have lost. There is no wonder that they are fighting so hard to stay in because its the goose that lays the golden egg for them. Hard working growers money.

My son was saying this week, it's no more a deal of supply and demand, but a gambler's deal. Unless this deal is done away with, land acreage is pared down, Aroostook County is a goner. It is going back every day just like your father said to me 3 years ago.

I cannot expect you boys to knock this racket out quickly as they will fight for the cream. But I have a lot of confidence in the boys there and I know they will give a good account of themselves.

Yes, Clifford, I know the Herschel Smith. I heard him talk at a potato meeting and know that he is a big operator and a sound man with generations of potato growers behind him. We are fortunate to have him on our side now. Please tell Herschel that all the small growers are behind you all. Let's keep this fight up. Thanks to you and Herschel both, more power to you.

Kindest regards,

AUSTIN KNOWLTON, *Caribou, Maine.*

EAST LYNDON FARMS,
Caribou, Maine, April 4, 1963.

HON. CLIFFORD G. MCINTIRE,
U.S. House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN MCINTIRE: We wish to inform you of our firm opposition to the operation of the Mercantile Exchange trading on Maine potatoes.

The recent January option had many thousands of cars traded, but only 10 cars were delivered. The trading month did not help to move our crop, or reduce the supply. The only ones to benefit from these transactions were the speculators who were on the profit side, and the brokers who handled the trades. These brokers are behind the strong influence to keep the Mercantile, as would anyone be who made the money in commissions that they do. These brokers also are encouraging some farmers, that they "hold under their thumb" to voice support of the Mercantile. However, over 90 percent of the potato growers have repeatedly voted to do away with the Mercantile. Yet these farmers are repeatedly ignored in the decisions on trading. The decisions are influenced by the thousands of traders who never intend to deliver a sale, or accept a purchase, but confine themselves to a margin operation for speculation only.

In contrast to the above January option, when there are months with actual farmer sales on the board, and any volume of cars are delivered, their arrival completely demoralizes the fresh sales market.

A year ago Maine had what would be called near a normal supply for the market, but we had the Mercantile trading. The large surplus was in the other

States. Maine had the Mercantile and very low prices. The other States had no Mercantile and good prices, as well as a surplus.

We urge you to use every influence at your command to eliminate the New York Mercantile Exchange trading on Maine potatoes.

Very truly yours,

EAST LYNDON FARMS,
JOHN P. DOYLE.

FORT KENT, MAINE, April 5, 1963.

Representative CLIFFORD McINTIRE,
House of Representatives,
Washington, D.C.:

Due to the economy being greatly influenced by potato prices which we feel have been adversely affected by the New York Mercantile Exchange trading we strongly urge your support in removing future trading of Maine potatoes on this exchange.

COUNSELORS, TOWN OF FORT KENT (16).

CARIBOU, MAINE, April 4, 1963.

Congressman CLIFFORD McINTIRE,
House of Representatives, Washington, D.C.:

We, the undersigned Aroostook farmers, are definitely opposed to trading of Maine potatoes on the New York Mercantile Exchange.

Sterling Richards, Delmar Holmes, James Cyr, Lloyd Grant, Grover White, Ralph Kelley, Maynard Lombard, Frederick Jacobs, Ford Merritt, Kenneth Bouchard, Willard Wright, Lester Bennett, Edgar Doak, Vernon Shaw, Lendal Page, Harry Beal, Walter Finnemore, Harold Sprague, Robert Soucier, Arnold Williams, Richard Soucie, William Clark, Clifford Longley, A. Sutherland, Albert Smith, D. Belyea, Frederick Thompson, Amos Fletcher, Elmer Todd, Fred Gahagon, James Jacobs, Odell Jacobs, Raymond Barnes, Jr., Idell Jacobs, Jr., Richard Johnson, Richard Smith, Edwin Levasseur, Roy LaJoie, Ray Richards, Jr., Dell Kelly, Victor Chalou, Hanibel Drew, Kenneth Dow, Chas. Smith, Garfield Holmes, Cecil Parker, Clarence Brown, Kermit Bailey, Earl Bailey, Herbert Hanson, Warren Chapman, Orland Chapman, Raymond Mooers, Philip Mooers, Harold Clark, Charles Smith, Wilson Gallagher, Iver Soderberg, Wasson Sparks, Jack Beveridge, Wendell Thompson, Albert LaPointe, Thomas Sutherland.

HOULTON, MAINE, April 8, 1963.

Congressman CLIFFORD G. McINTIRE,
Washington, D.C.:

Aroostook and Penobscot Union, Pomona Grange No. 17, voted unanimous support of effort to eliminate trading of potatoes on Merchantile Exchange.

ARNOLD G. STORM,
HULMAN CLARK,
WILLIS LONGSTAFF,
Legislative Committee.

LIMESTONE, MAINE, April 9, 1963.

Congressman CLIFFORD McINTIRE,
House of Representatives, Washington, D.C.:

The 102 members of the Limestone Caswell Potato Growers Association go on record as favoring the elimination of futures trading on the New York Mercantile.

LIMESTONE CASWELL POTATO
GROWERS ASSOCIATION.
JOHN IRWIN, *Acting President.*

Mr. GRANT. The next witness is Mr. Harold E. Bryant, executive vice president of the Maine Potato Council.

We shall be glad to hear from you now.

**STATEMENT OF HAROLD E. BRYANT, EXECUTIVE VICE PRESIDENT,
MAINE POTATO COUNCIL**

Mr. BRYANT. Mr. Chairman and members of the committee and Congressman McIntire, we appreciate very much an opportunity to appear before this committee.

With your permission I would like to direct my remarks from notes. We have a prepared statement which has been passed out, but I feel that I can better give you the picture as we see it by discussing this subject from notes.

My name is Harold E. Bryant. I am executive vice president of the Maine Potato Council. The Maine Potato Council is a trade association having as its members all potato growers in the State of Maine. We have as our purpose working for anything that may improve the economic climate and betterment of the potato industry.

In order that I may establish justification for some statements that I expect to make a little later I think it necessary to give a slight amount of personal background. From 1936 to 1950 I was general manager of the Maine Potato Growers, Inc., a cooperative marketing association that, in 1950, when I left, was handling approximately 20 percent of all of the potatoes being shipped out of Maine.

I left to go into other work, in other fruit and vegetable commodities. And for the past 7 years I have been on the west coast working for a large company handling about all types of fruits and vegetables, other than potatoes.

Last March, I was asked to return to Maine to become executive vice president of the Maine Potato Council and another organization which I will discuss later.

When I returned to Maine last March, I was very much impressed with the tremendous change that had taken place in quotations and pricing of potatoes in the 10-year period that I had been gone. When I left in 1950, we normally sent out quotations once a day. We had a relatively stable market. Prices, normally, did not change during the course of the day. Sometimes prices and quotations would hold as much as a week. Normally, our practice at that time was to send out night wires that the buyers would receive in the morning when they opened up their offices.

As you gentlemen know, many produce houses open their offices very early, are open for business very early, and in many cases, have their entire supplies for the day purchased before the normal offices open.

I found, last March, that conditions have changed very substantially, so that now prices and quotations are tied, to some degree at all times, to the New York Mercantile Exchange and its activities. Now they are not tied perfectly or correctly, and, therefore, many times they do not provide a perfect hedge in any sense, but they are influenced by it, and, as will be brought out by other witnesses, we find fluctuations in the market as high as 40 or 50 cents a hundred in a day. We find the mercantile exchange prices fluctuating, not from day to day, but hour to hour, minute to minute. This creates a great difficult situation for the person who is trying to merchandise potatoes and trying to service a chainstore or a wholesaler, because these people are naturally interested; that is, the growers want to get as much money as they can for their product, and if the market should jump, the mer-

cantile may jump, to some degree, their price and they would not be the same.

As a result, the buyers are complaining that, first, they cannot get a quotation until the mercantile exchange opens in the morning. And, secondly, after they get a quotation that it may change any minute, that no buyer or shipper will give him a price that will last for any length of time. Therefore, they are unable to do a job of merchandising.

Thus, I have had the unique experience of being in Maine and closely connected with the marketing of potatoes in two different periods—one, when the New York Mercantile Exchange either was not in existence or was relatively inactive, and the other time, this last March, when the New York Mercantile Exchange activity reached an alltime peak from March and then on.

Upon returning to Maine, I found that there was a great deal of antagonism against the New York Mercantile Exchange on the part of the average grower. That antagonism was transferred, to some extent, to the Maine Potato Council, because the growers do not realize that it takes an act of Congress to remove futures trading, but they felt that if they protested—and 90 percent of them protested, as they had several times—to their trade association, that the trade association should be able to do something about it. So they were somewhat antagonistic to us, because of the lack of activity or what they felt was a lack of activity.

In checking back on the council records, I found that in 1957 the council had attempted to have the futures trading eliminated. At that time, before they asked Congressman McIntire to introduce a bill, they sent out a poll to 4,000 growers asking them whether they favored futures trading or not. They received better than 50 percent returns on that poll. And 90 percent of the growers said that they wanted futures trading eliminated.

As a result, Congressman McIntire introduced a bill. However, between the time the bill was introduced and the time it came on for hearing before a committee, the leaders of the exchange had met with the leaders of the council and they had persuaded them that there should be some method of changing regulations so that this mercantile exchange could be used for the benefit of growers. Many leaders in the council took some stock of this position and, as a result, when the council appeared before the committee, it was somewhat divided, some people feeling that futures should be eliminated, that is, futures trading, and others felt that we should have changes in the rules and regulations.

No doubt, this is the reason that the bill never did come out of hearing.

Changes were made, but no improvements were noted. Growers continued to protest, very vigorously, the futures trading. And as time went on their antagonism and bitterness grew, so that, again in August of 1961, the council conducted a poll of growers. This time with the same result—90 percent were polled. As a result of this poll in March, the council formed an 11-man committee, dedicated to one purpose and one purpose only, that is, to work for the elimination of futures trading.

The first thing that that committee did, after it was formed, was to conduct another poll. This time they did something which may not

be very democratic—may not employ democratic principles—but they felt it was pretty practical. They asked every grower to sign his name and give his address. I have a sample here of the ballot which was sent out, and, with your permission, I would like to introduce it into the record at this point.

Mr. GRANT. Without objection, it may be included and inserted in the record.

(The document referred to follows:)

MAINE POTATO COUNCIL

POTATO MERCANTILE ELIMINATION COMMITTEE

May 4, 1962

George H. Barnes, Presque Isle
Kenneth J. Bouchard, Caribou
Edgar Harrington, Patten
Smith C. McIntire, Perham

John R. Mooers, Houlton
Herschel Smith, Westfield
Owen H. Smith, Mapleton

WHERE DO YOU STAND ON THE FUTURES TRADING QUESTION?

You are a potato grower. What happens in and to the market is your problem. Our committee has as its purpose the ending of mercantile futures trading in potatoes. Our first problem is to know where you stand in this matter, not only now, but where you will be when the "infighting" is underway.

The committee is willing to carry this battle for you if it can know what you will stand up to. We know from previous surveys that growers have opposed trading. However, we want and need this record of your position as evidence. We don't propose to do battle unless there are enough growers willing to face the front and stand in that position.

This battle may well require 2 to 3 years. It will take patience, perseverance, and it may require more money than we see available.

We are asking the following questions so that we can know where you and your neighbors really stand, and whether to move ahead or retreat.

Do you want all possible effort made to end mercantile trading in potatoes?
Yes ☐ No ☐

If it becomes necessary to raise money to carry on this battle, will you support State legislation for a 1-cent-per-barrel tax for a period of up to 3 years, all funds to be used for this purpose? Yes ☐ No ☐

Signature _____

Mailing address _____

IMPORTANT. Please register your vote, sign, giving your correct mailing address, and return in the self-addressed envelope enclosed. Do this immediately, please.

Mr. BRYANT. Now this ballot you will see has on it two questions. One, do you favor the elimination of futures trading in potatoes? Yes or no. On the other one, if you do favor elimination would you be willing if it was necessary to tax yourself or work for State legislation to tax yourself, the industry 1 cent a barrel, a barrel being 165 pounds for every barrel of potatoes shipped out of Maine? And this fund to be used solely for working toward the elimination of futures trading.

When we sent this poll out we sent it to 3,000 growers. However, after we sent it out we realized that many growers, due to the very adverse economic conditions we have had, have had to cease operations. Therefore, we started revising the list. We revised it in this manner—we have 19 members of the board of directors of the council. They are located geographically in the geographic areas, and they cover the potato areas completely. We sent the list of growers in each of these

director's district to them and asked them to eliminate any names of people who had ceased to grow potatoes. When we finally got these returns in we found that instead of 3,000, that we had a full list of 2,560 growers.

Bear in mind that compares to 4,000 growers just 7 years ago. That shows you the economic climate with which this industry has to contend and this has taken place during the reign of the New York Merchantile Exchange and its many benefits.

Of these 2,560 growers, 1,637, or 64 percent replied to the ballot. So we had a 64-percent return; 1,443 or 92 percent of the people who returned their ballots said they favored the elimination of futures trading. One hundred and seventeen said they favored continuation. However, most of those who said they favored continuation suggested that the rules be changed.

We believe this to be the strongest mandate that has come to our attention. We conducted this poll to be sure that we had grower support and to be sure that we were doing what the growers wanted us to do, but we also had in mind that we could save the time of this committee by such a poll.

I have here a list of the names and the addresses of all of the growers who voted and the way they voted. If the committee so desires this list for its use we would be glad to submit the same. However, you can see from this list that we could have a parade of witnesses if we so minded.

Mr. GRANT. That will be made a part of the files of the committee.

Mr. BRYANT. We also want to bring to your attention the fact that you have recorded in the committee here a memorial, passed by the Maine State Legislature, unanimously supporting this bill.

I would like now to touch briefly on the other part of my work, that is, as consultant to the Maine Potato Commission. The Maine State Potato Commission comes about through a tax law whereby the potato growers for many years have taxed themselves 2 cents a barrel to raise funds to be used for research, advertising, and promotion, trying self-help to improve their economic conditions. This normally raises about \$275,000 a year. The commission is administered by a 5-man commission appointed by the commission of agriculture. The actual day-to-day activity and work is carried out by the consultant, currently being myself. We normally will advertise to the extent of \$65,000 or \$75,000, sometimes \$100,000, depending on what type of program we are carrying on. For the past several years we have had nine market specialists traveling in the markets, constantly, attempting to promote orderly marketing, to do a job of merchandising and to create good will for the Maine potato industry and its crops. Those nine men report to us constantly.

Everywhere they go they run into the same statement, they say that the buyers are saying, "We cannot do business with potato growers and shippers in Maine, because they have to wait until the board opens up before they can give us a quotation. In other cases, they are so afraid of the gyrations that the board may take that they do not dare give us a price that would last or a quotation that would last more than 5 minutes."

Last spring one of our market specialists went into the office of a very large chainstore buyer, and the potato buyer was practically ready to throw him out of the office. The reason for his anger was that he had planned a promotion, and in order to plan it he had to know what the price would be. He had been using Maine potatoes. He planned a special promotion. He tried to get someone in Maine to quote him a few cars of potatoes, not a large lot, but a few cars to be used in this promotion. He could not get a single quotation. So he had to discontinue the promotion.

It is my opinion, and I have had considerable experience in merchandising and advertising and sales promotion that as long as the Mercantile Exchange is operating on potatoes it will be absolutely impossible to maintain or develop any satisfactory merchandising program whereby you conduct an orderly marketing program.

I think everybody in the Department of Agriculture and in the State departments of agriculture all recognize and recommend a carrying out of an orderly marketing program, particularly for food commodities and, particularly, for fresh food commodities.

We estimate, based on the trading that goes on, that the brokerage houses in Maine and New York, probably take in anywhere from \$2 to \$4 million a year. We do not blame them for not wanting to give up this very lucrative business. However, we say to you that the economic welfare of 2,560 growers are at stake and if it affects the market as much as some figures show that will be introduced to you later, then we feel that they should stay with the stable commodities that do lend themselves to futures trading and be willing to stay away from this perishable commodity that obviously does not lend itself to futures trading.

We have estimated approximately 150 growers in the Aroostook County area alone are now under foreclosure.

I have here several exhibits that I would like to introduce in evidence in closing.

First, I have an affidavit from the secretary in our office who handled all of this ballot, certifying to the fact that this ballot is correct and that she handled it from the time it started.

Mr. GRANT. Without objection it will be made a part of the record at this point.

(The document referred to follows:)

AFFIDAVIT

I, Marilyn Payson, of Presque Isle in the County of Aroostook and State of Maine, on oath, depose and say that I am employed by the Maine Potato Commission; that I have examined all of the ballots returned in the referendum taken by the Maine Potato Council in May 1962; that I have also examined the mailing list of all growers to whom ballots were mailed; that upon the advice of the Council Directors from each District I have revised the mailing list and the returned ballots by eliminating the names of all persons who had died or ceased to be a producer of potatoes; that after making these revisions, my tabulation showed ballots were sent to 2,560 bona fide growers of potatoes; of this number 1,593 returned ballots; of the ballots returned 1,454 were in favor of the question, "Do you want all possible effort made to end Mercantile Trading in potatoes?" and 107 were opposed with 32 registering no preference; on the question,

"If it becomes necessary to raise money to carry this battle will you support State legislation for a 1 cent per barrel tax for a period of up to 3 years, all funds to be used for this purpose?," 1,332 were in favor, 189 opposed and 72 indicated no preference.

Dated at Presque Isle, Maine, this 1st day of April 1963.

MARILYN PAYSON.

APRIL 1, 1963.

STATE OF MAINE,

Aroostook ss:

Personally appeared before me the above named Marilyn Payson and made oath that the foregoing affidavit, by her signed, is true.

JAMES A. BISHOP,
Notary Public.

Mr. BRYANT. I also have here a petition that was sent to me since I came to Washington. It has 64 or 65 names on it. These people sent this petition wanting to show their opposition and in that light I would like to introduce it.

Mr. GRANT. Without objection it may be done.

(The document referred to follows:)

PETITION

We, the undersigned Aroostook farmers, are definitely opposed to trading of Maine potatoes on the New York Mercantile Exchange.

(Signed by 64 growers who represent in excess of 4,500 acres.)

(The original petition and names may be found in the files of the committee.)

Mr. BRYANT. Now, to show you that it is not just a whim of a few growers in Maine, but rather that it is the candid opinion and the studied opinion of the fruit and vegetable people, generally, across the country, I would like to introduce some other letters and just comment on those.

Mr. GRANT. Without objection those will be made a part of the record.

Mr. BRYANT. First we have a letter from Sam Pugh & Son, opposed to futures trading.

We have a letter from R. C. Boelter, a potato grower and shipper of East Grand Forks, Minn.

We have a letter dated June 25, 1962, from the Massachusetts Potato Growers' Association, protesting futures trading.

We have a letter dated February 11 from the Southland Farms, Inc., protesting.

We have a letter dated February 13, 1963, from W. R. Hackett, Jr., wholesale fruit and vegetable storage in Springfield, Ohio, protesting the futures trading.

We have a letter from Smiling Jim Potato Co. dated February 17, protesting.

We have a letter from Bob Schley of Schley Bros. of Baltimore, Md., a large buyer and jobber, protesting.

We have a letter dated June 1, 1962, from the Fargo Potato Co. This, coincidentally, is the principal supplier for the Stop and Shop Markets, a very merchandise-minded chain in New England.

We have a letter dated June 5 from William J. McCormick, a potato broker in Philadelphia, protesting.

We have a letter from a Berwick Vegetable Cooperative protesting futures trading.

We have a letter from the Pennsylvania Vegetable Growers Association protesting.

We have a letter from Elias Etheridge & Son of Norfolk, Va., protesting.

We have a letter from Matuszko Farms, Inc., protesting.

And we have a resolution from the Empire State Potato Club, Inc., protesting.

(The documents referred to follow:)

STATEMENT OF HAROLD E. BRYANT, EXECUTIVE VICE PRESIDENT, MAINE
POTATO COUNCIL

My name is Harold E. Bryant. I am executive vice president of the Maine Potato Council. The Maine Potato Council is a trade association having as its members all potato growers in the State of Maine. The council serves as spokesman for potato growers on industry and programs.

To establish justification for some of the statements I expect to make in this testimony, I believe it is desirable to give a slight amount of personal history. From 1936 to 1960 I served as general manager of Maine Potato Growers, Inc., in Presque Isle, Maine. When I left there in 1950 Maine Potato Growers, Inc., were shipping approximately 20 percent of all the potatoes being shipped out of the State. In recent years, until March 1962, I have worked for a large fruit and vegetable company on the west coast handling all kinds of fresh fruits and vegetables. I was asked to return to Maine to serve in a dual capacity as executive vice president of the Maine Potato Council and consultant to the Maine Potato Commission, which organization I will discuss later in my testimony.

During the latter years of my employment with Maine Potato Growers, Inc., we had, compared to what we now have, a relatively stable market. This does not mean that everyone was selling at the same price. There always was and always will be a certain amount of competition and difference in price depending on quality and reputation of the brand, but these differences in price fell within the framework of a narrow range of 5 or 10 cents or, occasionally, 15 or 20 cents per hundredweight. Prices were seldom changed more than once a day. Normally we would establish a price in the morning and that price would hold at least all of that day. During that period there were many times when the price would remain constant for a week or two weeks. When changes did occur, they were gradual, seldom changing more than 5 cents or an extreme of 10 cents in a day. With some of our customers during that period we would establish a price that we would maintain for a full week. This situation enabled us to conduct a relatively calm, sensible and orderly marketing program. During that period we normally sent our quotations by night wire so that the buyers had our quotations available when they came to work. As you know, many of these produce buyers do the largest part of their business before normal business offices are open.

On returning to Maine last March I was extremely impressed with the terrific changes that had taken place in the manner of pricing. I found that all prices were based to some degree on the prices on the New York Mercantile Exchange. These prices fluctuate, as will be pointed out later, as much as 40 to 50 cents a hundred in a given day. In periods of active trading they change hourly. As a result it is extremely difficult for buyers in the markets to make any plans for merchandising or orderly marketing. They are not able to obtain from growers and shippers a price of any kind until the exchange opens in the morning. This is much later than the time that chain and wholesale buyers normally purchase their supplies of fresh fruits and vegetables.

Thus I have had a rather unique experience of being closely connected with the potato marketing situation in Maine in two distinct periods. First, when the New York Exchange was either not involved in potato futures at all or was relatively inactive. Second, this past year when activity on the exchange reached its peak. Thus, from my personal experience during these two different periods, I can say that heavy trading on the New York Mercantile Exchange is creating a most difficult situation from a pricing standpoint and is contributing to the breakdown of any orderly marketing programs that have been in existence and, in my opinion, will in the future serve as a definite barrier for any orderly marketing programs that may be developed.

Immediately after starting my present assignment, I was confronted with the fact that the feeling against the New York Mercantile Exchange in the potato areas of the State of Maine was very strong. Grower dissatisfaction with the exchange was transferred to some extent to the Maine Potato Council because,

being a trade association, the growers felt there was no reason why the council could not stop trading of potato futures on the Merchantile. Many of them did not realize that this took an act of Congress so they apparently felt that all the council had to do was make a request and trading would be discontinued immediately.

In checking back on the council records, I found that the first time the council took any active part in attempting to have futures trading eliminated was in 1957—6 years ago. At that time the council conducted a poll of approximately 4,000 growers and at that time out of approximately 4,000 growers polled, the council had approximately 50 percent returned. These returns showed 1,860 voting for elimination of futures trading and 179 voting for continuation of futures trading. It should be noted that a great many of the growers who voted for continuation based their vote on the understanding that changes and modifications in the contract would be made to improve the situation.

As a result of this poll, the council enlisted the support of Congressman Clifford G. McIntire, who introduced a bill in Congress for the elimination of futures trading in potatoes. By the time this bill came to a congressional hearing, many of the leaders of the council had become convinced that rather than elimination they should work for reform. As a result, at that hearing the council had some witnesses testifying for elimination and other witnesses testifying for corrections and changes. This, no doubt, was the reason for the bill not being reported out of committee.

As a result of this hearing changes were made in the rules and regulations affecting futures trading. However, no major improvement in conditions was noted as a result of these changes.

Since that time growers have continued to oppose futures trading and very sincerely believe that the factor that Maine potatoes are being traded on the New York Mercantile Exchange is one reason why the Maine potato industry has suffered such serious economic reverses. One of the things that disappoints growers the most is the belief on their part, with good reason to assume that there is considerable truth to their belief, that some of the leading marketing organizations and individuals engaged in marketing many times sell short on the board. Then these individuals and organizations, whose purpose and function presumably is to try to get the most money possible for the grower, are continually taking a negative position with reference to the market and predicting that it will be lower because it is to their interest for the board to go down so they can make a profit on their short position.

Grower protests became so strong that again in August of 1961 the Maine Potato Council conducted another poll. This time approximately 90 percent of the growers wanted futures trading eliminated.

In March of 1962 the Maine Potato Council formed a special committee of 11 men. The committee was dedicated to one purpose and that was to work on the elimination of futures trading on potatoes. Since this committee was formed they conducted another poll of growers. This time they took a step which might be somewhat undemocratic, but in this instance they believed had a great deal of practicality; namely, they asked the growers to sign their ballots. This ballot contained two questions: (1) Were they in favor of elimination of futures trading of potatoes—yes or no. (2) If they did favor elimination, would they be willing to support State legislation, if necessary, to levy a tax of 1 cent a barrel (165 pounds) on all potatoes they grew. This would then be used solely for the committee's activities in attempting to obtain the elimination of futures trading.

Originally this ballot was sent to approximately 3,000 growers. However, after the ballots had been returned we recognized that due to adverse economic conditions quite a few growers had discontinued their farming operations. Therefore, the council proceeded to review the list of growers. We have a director of each of the 19 different sections of the Maine potato-producing area. We forwarded to each director a list of growers in his area and had him check off any grower who had discontinued farming. We had a substantial number of growers who were checked off by our directors so that our adjusted count showed that we now have in the State approximately 2,560 potato growers. Bear in mind that when the first ballot was sent out 7 years ago, we had 4,000 growers. Thus with 2,500 growers now, we have tangible evidence of this serious economic plight of potato growers during this period of extensive operation of the New York Mercantile Exchange. In checking our revised list compared to the original list of 3,000 sent out, we found that in cases where we had sent ballots to people who were no longer producing potatoes that very few such individuals voted either way. As a result this increased substantially our percentage figure of

growers opposing futures trading. After making these adjustments our final returns showed that out of 2,560 growers polled, 1,637 growers returned the questionnaire properly signed representing a little over 64 percent. Of this number, 1,443 voted for the elimination of futures trading and 117 continuation, representing 92 percent who signed their names to a ballot asking that futures trading be eliminated. In addition to this, approximately 84 percent of the growers replied that they were willing to tax themselves to obtain relief from what they believe to be one of their most serious burdens and what they believe to be one of the main reasons why so many growers have had to discontinue farming in the last 7 years. You will note that these figures do not add up exactly to the 1,637 growers polled. The difference is cases where growers did not sign the ballot or where they did not answer both questions. I believe there were approximately 60 in this classification.

This poll, we believe, constitutes one of the strongest mandates ever to come to our attention. This poll is backed up by 90 percent of the leadership in the potato industry in the State of Maine. We have available and will be glad to furnish this committee for its confidential use if it so desires, a complete list of the names and addresses of all growers voting in this poll, showing whether they favored elimination or opposed it. This list is certified to by the secretary in the council office who counted and recorded these ballots. The purpose of this poll is primarily to show the tremendous desire on the part of the growers to eliminate futures trading and to avoid taking an undue amount of time of this committee. You can see from this list that we could have had an endless parade of witnesses to testify but we felt to attempt to do so would be an imposition on this committee.

We would like to point out to this committee that so far growers have not taxed themselves to raise this money but rather we have taken a small sum from our advertising and merchandising program to obtain professional assistance and take care of travel and telephone expenses.

Now I would like to have you consider the balance of my testimony in the light of my other position; namely, consultant to the Maine Potato Commission.

The potato industry in the State of Maine voluntarily voted to assess a State tax of 2 cents per barrel (165 pounds) against all potatoes being grown and shipped out of the State to provide funds to be used for research, advertising, promotion, and merchandising of Maine potatoes. Most years this fund will run in the neighborhood of \$275,000.

A commission of five men is appointed by the Commissioner of Agriculture to administer the spending of these funds. This commission of five men hire a consultant, currently being myself, to do the actual work of supervising and carrying out this program. We spend approximately \$60,000 on advertising, both consumer and trade. We also have nine marketing specialists who travel in the terminal markets throughout the marketing season promoting Maine potatoes and assisting in the development of an orderly marketing program.

The work of these men is being nullified, to a large degree, because of the lack of stability in the pricing of Maine potatoes. Time after time when our men contact buyers in the market they are given comments such as these: "I cannot handle Maine potatoes because nobody in Maine dares to give me a price until 10 o'clock in the morning, when the mercantile opens. I have to have my potatoes bought and know what my price is before 10 o'clock." Others, particularly buyers for the better and larger chains, will point out that whenever they put on a special promotion of potatoes they have to know 2 or 3 weeks in advance of the time of sale what price they are going to charge so they can line up their advertising and other preliminary activity. They point out that no one in Maine can give a price that will remain firm for 3 weeks. The average broker or shipper does not dare to give a price that will hold for even an hour, because some rumor might start the exchange price moving upward rapidly, and then no one will sell without obtaining at least a part of the advance in price reflected by the mercantile.

Last year, one of our men went to the office of one of the buyers of one of the largest chains in the East. That buyer was so angry he could hardly talk. He had been using Maine potatoes and started to put on a special promotion. He could not find a single person in the State of Maine who would give him a firm price on a bloc of cars (not a large bloc) with which to conduct this sale. As a result, he had to change his entire program and started using potatoes from another area.

Thus, from our work in the markets, we can see where future operation on the New York Mercantile Exchange works to the extreme detriment of our mer-

chandising program. We are convinced that the potato industry in Maine never can conduct a program of orderly marketing as long as Maine potatoes are being traded on the board.

Thus this industry that is now in desperate financial straits, who has taxed itself to raise money for sales promotion and merchandising to improve its economic position finds that all efforts of this self-help program are being nullified.

Just to keep the trading of potato futures on the New York Mercantile Exchange results in an estimated gross income to brokers in Maine and New York to the extent of \$2 to \$4 million a year. We do not blame these brokers for wanting to continue to receive this lucrative plum, but if the economic welfare of more than 2,500 potato growers in the State of Maine is at stake, we feel that this committee will agree with those growers that these brokers should confine their trading activities to the less perishable and volatile commodities that do lend themselves to futures trading and not impose their desire for monetary gain on 2,500 growers who are in a desperate financial position. At the present time, foreclosure proceedings have been brought against approximately 150 growers in Aroostook County alone.

The proponents of the mercantile exchange no doubt will claim that the growers do not understand futures trading and therefore do not understand what is good for them. The growers' position in this matter of futures trading is backed up by leaders in agriculture and fruit and vegetable circles throughout the entire Nation. To show you that is no whim of a few growers who do not understand futures trading, may we list below, by classifications, organizations who either will testify or make statements in opposition of futures trading or have provided us letters or statements in opposition which we will ask to be put in the records? National organizations:

American Farm Bureau Federation; the National Grange; the National Council of Farmers' Cooperatives; Farmers' Union; the National Potato Council; and the United Fresh Fruit & Vegetable Association (this organization represents all types of fruit and vegetable handlers from the grower through the retail chain).

Other potato associations and growers from other areas:

Massachusetts Potato Growers Association; the Empire State Potato Club, Inc., of New York State; R. C. Boelter Potato Co., East Grand Forks, Minn.; Clyde K. Eshelman & Sons, Lancaster County, Pa.; Sam Pugh & Son, Muncie, Ind.; Matuszko Farms, Inc., North Amherst, Mass.; and Elias Etheridge & Son, Norfolk, Va.

Onion growers who have indicated to us, by letter, that their conditions have improved since the elimination of futures trading of onions included:

Paul D. Jones, Inc., Hollandale, Minn.; Howard P. Dunlap, Marshall, Mich.; Dyk Bros. Co., Grant, Mich.; Hank Peterson Farms, Moorhead, Minn.; W. E. McGillyvray, Inc., Stockton, Calif.; Veril Baldwin & Sons, Stockbridge, Mich.; W. J. Piowaty, Fort Pierce, Fla.; J. R. Rose, former secretary of the National Onion Association; and Ike Griffin, Holder & Thomas, Rocky Ford, Colo.

New York State Vegetable Growers' Association; Florida Fruit and Vegetable Association and Berwick Vegetable Cooperative, Berwick, Pa. Terminal market receivers who have vigorously protested futures trading:

Wm. J. McCormick, Philadelphia, Pa.; F. H. Valshing, New York City; M. F. O'Connell, Fargo Potato Co., Boston, Mass. (procurement agency of potatoes for Stop & Shop); Schley Bros., Baltimore, Md.; Smiling Jim Potato Co., Philadelphia, Pa.; and A. C. Hazlett, director of procurement, P. & C. Stores, Inc., Syracuse, N.Y.

This shows that leading national organizations familiar with this situation all support this bill, as does a widely spread group of regional associations, private individuals representing buyers, brokers, and others who are most familiar with the operations of the fruit and vegetable business.

We will present testimony and statistical material to show that the growers are well justified in their dissatisfaction with the speculation in potatoes. Among the points to be covered by other witnesses are:

1. The actual experiences of men who have tried to use the futures market, and are still trying, in connection with their merchandising operations.
2. The relationship between erratic price movements and volume of futures trading.

3. The fact that the industry in areas which do not "enjoy" the benefits of futures speculation gets along very well without it.

4. The striking deterioration of Maine's competitive position pricewise as compared to areas in which there is no use of the futures markets.

5. The exact method of trading and executing orders on the floor of the exchange to show that "supply and demand" factors are often only the opinions of opposing groups of speculators with no actual knowledge of basic conditions in the potato industry.

We intend our testimony to be concise and as brief as we can make it to give the committee the facts—which, to us, overwhelmingly support our desire to have this legislation enacted.

MAINE POTATO COUNCIL,
Presque Isle, Maine, February 6, 1963.

SAM PUGH & SON,
Muncie, Ind.

DEAR SIR: As you may have heard we are again making a determined effort to eliminate futures trading in potatoes.

Under date of April 30, 1958, you sent a telegram to the House Agriculture Committee supporting the bill which was then before Congress. We believe it would be very helpful to us if you would write us at this time expressing your support of H.R. 904 on which we expect to have hearings in the near future.

Any views you can give us covering your opinion as to the undesirable aspects of speculation in potatoes on the New York futures market will be most highly appreciated. This is an all-out fight with no holds barred, and we can use all the help available.

Sincerely,

HAROLD E. BRYANT,
Executive Vice President.

MARCH 24, 1963.

GENTLEMEN: Sorry to be so long in answering. We will send wires to Washington, D.C., anytime to get rid of future trading on potatoes and onions.

We need a supply and demands market very badly. Not a trading speculation market.

Potatoes are the lowest priced edible food there is on the market today.

SAM PUGH & SON,
NELSON PUGH.

R. C. BOELTER POTATO CO.,
East Grand Forks, Minn., February 11, 1963.

Mr. HAROLD B. BRYANT,
Executive Vice President,
Maine Potato Council,
Presque Isle, Maine.

DEAR SIR: Replying to your letter of February 6, would advise that we vigorously support H.R. 904 with reference to futures trading in potatoes.

Futures trading in any perishable commodity such as potatoes and onions should not be permitted as they must be sold within a certain number of months. It cannot be compared with grain which can be stored for several years.

Some few years ago when they permitted futures trading in onions in Chicago, there was a good example of how this operated to the detriment of the industry. Early in the growing season, there appeared to be a huge crop of onions and they made some ridiculously low sales on the Board for January and February shipment. The crop did not turn out as large as expected and there was a "potential" for an advancing market, however, these low sales in futures trading, prevented any advance and it proved to be a sad experience for the growers.

The same would apply to potatoes. Any reduced prices for March, April, or May for the growers, could be directly attributed to the corresponding sales on the futures market.

We certainly hope you are successful in eliminating such trading.

Very truly yours,

R. C. BOELTER POTATO CO.,
R. C. BOELTER.

JUNE 25, 1962.

Mr. GEORGE H. BARNES,
279 State Street,
Presque Isle, Maine

DEAR MR. BARNES: Your letter of June 11, 1962 to Mr. Luther A. Belden, North Hatfield, was discussed at a meeting of the executive board of the Massachusetts Potato Growers' Association.

It was the unanimous feeling of our group that efforts of your committee to eliminate potato mercantile exchange continue in view of the fact that it was not serving its original purpose. We support your actions wholeheartedly.

Very truly yours

CHARLES MICHALOWSKI,
President, Massachusetts Potato Growers' Association.

SOUTHLAND FARMS, INC.,
Montgomery, Ala., February 11, 1963.

Mr. HAROLD E. BRYANT,
*Executive Vice President,
Maine Potato Council,
Presque Isle, Maine.*

DEAR SIR: I have for several years, and do now, support strongly legislation that would eliminate futures trading in potatoes. I am certainly supporting H.R. 904 and hope everyone in the industry will get behind this bill to get it passed into law. I cannot see any worthwhile purpose to the potato industry, nor the public in futures trading in potatoes. I believe it is supported to a high percentage by large speculators who can manipulate prices to suit their own purposes. This trading tends to disrupt normal prices based on actual supply and demand. There may have been a time, 25 years ago, when trading might have profited the grower as well as the buyer by trading in potato futures, but times have changed with the large Cooperative chain stores replacing the corner grocer and the terminal operator.

I cannot see any good purpose being served by futures trading in potatoes today. If I can be of any service in this connection call on me.

Sincerely,

COLE D. BROWN,

SPRINGFIELD, OHIO, *February 13, 1963.*

Mr. HAROLD E. BRYANT,
*Maine Potato Council,
Presque Isle, Maine.*

DEAR SIR: We are definitely against futures trading in potatoes. Anyone engaged in the produce industry, that is the actual handling of the physical product, knows that the business is in itself enough of a gamble without the "board" causing the market to make some peculiar gyrations.

Supply and demand have always been the foundation for markets of all commodities in the produce industry, and it is our frank opinion that the sooner the futures trading in potatoes is done away with the better off all produce dealers who handle Maine potatoes will be.

Sincerely,

W. R. HACKETT, Jr.

SMILING JIM POTATO CO.,
Philadelphia Pa., January 17, 1963.

Mr. HERSCHEL SMITH,
Mars Hill, Maine.

DEAR MR. SMITH: This is to advise you that we are in agreement with many of the State of Maine farmers concerning the potato mercantile exchange.

We are of the opinion that it serves no purpose other than to create confusion in our normal marketing of potatoes.

Respectfully yours,

SMILING JIM POTATO CO.,
Per WILLIAM S. TREDWELL.

SCHLEY BROS.,

Baltimore, Md., May 24, 1962.

Mr. HERSCHEL SMITH,
*Acting Chairman, Futures Trading Elimination Committee,
Presque Isle, Maine.*

DEAR MR. SMITH: I notice the writeup in the New York Packer under date of May 19 which refers to the sale of Maine potato futures on the New York exchange. I want to say that I have been operating a fresh fruit and vegetable business for 58 years, and from the time I entered this business in 1904, we have always sold Maine potatoes, and we are still selling Maine potatoes. I think I am safe in saying that we do sell at least 50 percent of the Maine potatoes that are sold on this market.

I wish to go on record as being utterly opposed to these potato futures, for selling paper is far different from selling potatoes. Without a doubt, this exchange demoralizes the markets. It is bad for the receivers, and it is worse for the growers and shippers. I truly hope that you will be successful in having this exchange to deal in futures stopped when this season is over.

You may use this letter in any way you see fit. If you would like me to write a letter to Senator Muskie of Maine and also a letter to Representative Clifford McIntire, I shall be glad to assist you in any way that I can to have this demoralizing condition abolished.

Sincerely yours,

BOB SCHLEY.

FARGO POTATO CO.,
Boston, Mass., June 1, 1962.

Mr. HERSCHEL A. SMITH,
*Chairman, Potato Mercantile Elimination Committee,
Maine Potato Council, Presque Isle, Maine.*

DEAR HERSCHEL: As you probably know, I am very much interested in eliminating the mercantile. I think that it is a detriment to the business and only kills the grower over a period of time.

I hope that you will be successful in accomplishing what you have set out to do.

Sincerely yours,

FRED O'CONNELL,
M. F. O'CONNELL.

PHILADELPHIA, PA., June 5, 1962.

DEAR HERSCHEL: Long time no see or hear.

Congratulations on your work concerning the mercantile; I have never changed my mind since my speech in Chicago on February 1954 to the United Fresh Fruit & Vegetable Association, copy of which speech is enclosed. It is just as true today as it was then, maybe more so. I had sent this speech to Elvin Huntsinger at Hegins, Pa., last weekend to read and you will find his note attached thereon, which I received back this morning. I am convinced this speech had a lot to do with knocking out the mercantile onion market. As you know it was carried full page in both trade papers at the time and I think I had sent a copy to every Member of Congress. The onion people seem happy without the exchange.

If you wish to have copies made to send to those on the committee, you may do so, as this is the last copy I have and I must have it returned in the self-addressed envelope. Thanks. Stanley Browne, marketing supervisor in the Maine Department of Agriculture in Augusta borrowed it about a month ago and I believe he had copies made for his own use—you can check with him and maybe he can have some made up for you.

Keep me posted as to your progress and if I can do anything for you, please let me know.

Sincerely,

WILLIAM J. MCCORMICK.

P.S.—Herschel: Please do not forget to return this speech when you have finished with it. Thanks.

BERWICK VEGETABLE COOPERATIVE,
Berwick, Pa., January 25, 1963.

HERSCHEL SMITH,
*Smith & Weeks Inc.,
 Mars Hill, Maine.*

DEAR SIR: At their monthly meeting of January 17, 1963, the board of directors of the Berwick Vegetable Cooperative discussed the adverse influence of the mercantile trading of Maine potato futures upon the market price of all fresh market potatoes. Our membership has in the past and will continue in the future to market their potatoes in a market controlled by supply and demand. It is our contention that the futures trading of Maine potatoes disrupts the normal influence of supply and demand thereby creating false market trends. Any false market raise induces unnecessary and unwarranted increases in production which ultimately result in overproduction at a later date.

Because of the aforementioned conditions we give unanimous support to the bill presented to the House of Representatives and Senate Agricultural Committees by Representative McIntire and Senator Muskie of Maine to abolish the mercantile trading of Maine potato futures. We will cooperate with and assist the Maine Potato Council for the elimination of futures trading of potatoes committee chaired by Mr. Herschel Smith through every opportunity available to attain this congressional action.

Sincerely yours,

JOHN W. HETHERINGTON, *Secretary.*

PENNSYLVANIA VEGETABLE GROWERS ASSOCIATION,
Lancaster, Pa., April 1, 1963.

Mr. HAROLD BRYANT,
Maine Potato Council, Presque Isle, Maine.

DEAR MR. BRYANT: The Pennsylvania Vegetable Growers Association at their annual meeting of January 28, 1963, unanimously supported H.R. 904 introduced January 9, 1963, by Congressman McIntire of Maine. We sincerely believe the passing of this bill will remove a detrimental influence presently affecting the market price of potatoes grown by our members throughout the State of Pennsylvania.

We request your favorable consideration of this bill and hope you will exert your influence whenever possible toward the successful passage of this bill.

Sincerely yours,

RUDOLPH O. GROB, *Secretary.*

ELIAS ETHERIDGE & SON,
Norfolk, Va., December 29, 1962.

Mr. HERSCHEL SMITH,
Smith & Weeks, Inc., Mars Hill, Maine.

DEAR MR. SMITH: Please place us on the record as being opposed to trading in potato futures on the New York Mercantile Exchange.

While we do take a position on the exchange from time to time, we feel that the effect of the futures market is detrimental to the best interest of the potato industry. We have used the futures market as a place to hedge when we were heavy in actual potatoes, and we have used it as a place to buy potatoes having taken delivery at New York on numerous occasions. These are legitimate functions that do take place to a limited extent in the futures market. It is the writer's belief, however, that most of the trading taking place in the futures market is purely speculative. The fact that the futures on many occasions move in a direction opposite to the logical direction serves as evidence that the market is manipulated by floor traders and big operators who profit by keeping the public off base. The effect of rumors on the market has led to a more or less continuous flow of rumors of disasters due to freezing weather, floods in Alabama, etc., which usually prove to be gross exaggerations of facts.

It is my conclusion after observing the antics of the futures market over a period of years that potato growers in Maine, and dealers, brokers, and also wholesalers and retailers would be in a better position to buy and sell actual potatoes without distracting futures market actions which tend to confuse all

in the industry. Therefore you have my support in your committee's work to abolish futures trading in Maine potatoes.

Yours very truly,

ELIAS ETHERIDGE & SON,
ELIAS ETHERIDGE, Jr.

MATUSZKO FARMS, INC.,
North Amherst, Mass., May 12, 1962.

Mr. GEO. H. BARNES,
Presque Isle, Maine.

DEAR MR. BARNES: Although I do not have the pleasure of knowing you personally, I hasten to congratulate you for taking the bull by the horns in condemning the use of futures trading in potatoes on the New York Mercantile Exchange for the main purpose, it has appeared to me for many years, of keeping Maine potato growers in actual serfdom for the benefit of the retail giants who have so built up vast fortunes and regal living for themselves. I have been connected with potato farming, and have devoted the past 50 years to the fruit and vegetable business in various capacities all that time. I opposed and worked vigorously to abolish futures trading in onions for several years with success and I feel that anyone in favor of futures trading in potatoes has an ulterior profit motive. Onion traders kept onion growers in continual trouble. Abolition of onion traders made onion growing about the most stable farming operation we have today. I expect to be in Maine before the new crop is all planted and provided you care to, I would be pleased to discuss "futures trading" and other things pertaining to potato marketing with you. Potato planting is about finished here and from present indications the acreage may be cut a bit more than previously predicted. However, it has been so cold that when real warm weather returns, if ever, considerable late planting might be done. After the confusion caused by the present "hoard" hysteria is over next week, lower seed prices would, if they result, tend to lead some of our large growers here to plant land they now fear to.

Very truly yours,

OWEN A. MCNEFT.

COPY OF A RESOLUTION ADOPTED BY THE EMPIRE STATE POTATO CLUB AT ITS ANNUAL MEETING JANUARY 23, 1958, HELD IN THE ROCHESTER WAR MEMORIAL BUILDING

"Whereas we believe that futures trading of potatoes is detrimental to the industry: Therefore be it

"Resolved, That Federal legislation prohibiting the trading in potato futures be enacted; and be it further

"Resolved, That our stand in this matter be referred to the proper authorities in Washington, D.C."

Resolutions confirming this attitude were adopted in 1959 and 1960.

I certify that the above is a copy of a resolution adopted by the Empire State Potato Club, January 23, 1958.

(Signed) H. J. EVANS,
Executive Secretary.

EMPIRE STATE POTATO CLUB, INC.,
New York, May 28, 1962.

Mr. HERSCHEL SMITH,
Presque Isle, Maine.

DEAR HERSCHEL: The Empire State Potato Club is following your efforts in the futures trading elimination committee.

For several years at our annual meetings we have passed a resolution opposing futures trading in potatoes but we have gotten nowhere. We have in our files letters from various officials of the USDA and others to the effect that it is a legal operation, that investigations have shown it to be a useful operation, and utilized by many potato growers.

We are glad to see the active steps you are taking and it will be interesting to know the results of the survey and if we can be of any help to you in future actions let us know.

Sincerely yours,

H. J. EVANS, *Executive Secretary.*

Mr. GRANT. Mr. Teague has a question.

Mr. TEAGUE of California. One question. You have pretty well convinced me, although I have an open mind, that a great majority of these potato growers in the State of Maine are against futures trading. In spite of my exalted position on this committee I do not know much about futures trading. You made the contention that it had an adverse effect on the price of potatoes and on a stable market, but it is not quite clear to me why you think it has.

Mr. BRYANT. I could answer that, but I think that later testimony will answer that very capably.

Mr. TEAGUE of California. All right. I will wait for that.

Mr. GRANT. Mr. Matthews?

Mr. MATTHEWS. Mr. Chairman, I would like to ask some questions, but maybe Mr. Bryant would like for me also to ask them of a later witness. Will there be a grower who will testify here?

Mr. BRYANT. Yes, two are coming up right now.

Mr. MATTHEWS. Mr. Chairman, at this point in the record I would like to submit several letters for the record.

I have a letter dated April 5 signed by Mr. John M. Campbell of the Growers Marketing Service, Inc., who is opposed to the bill; a telegram from Mr. Andrew M. Schuler of Drew Ranch, Inc., Elkton, Fla., opposing the bill; another telegram from Mr. John M. Campbell, in opposition; and one from the Drew Ranch, Inc., of Hastings, Fla., opposing; and a statement from the Florida Fruit & Vegetable Association in favor of the bill.

Mr. GRANT. Without objection, they will be included in the record at this point.

(The documents referred to follow:)

GROWERS MARKETING SERVICE, INC.,
Leesburg, Fla., April 5, 1963.

HON. D. R. MATTHEWS,
House of Representatives,
Washington, D.C.

DEAR MR. MATTHEWS: I sent you a telegram today urging you to oppose the bill which would eliminate futures trading on Irish potatoes.

It is my opinion that any curb of market procedures will do more harm than could possibly be done by a few speculators that trade in a gambling way.

For your information, at the time of the freeze here there was an active interest in putting citrus on the commodity exchange, and it had the support of many members of Florida Citrus Mutual and of bankers, such as Mr. George G. Ware, of Leesburg, and I believe that eventually, after we have recovered from the shortage due to the freeze, the effort to trade in citrus will be revived and eventually put into practice.

It is my opinion that you will do the potato shippers of Florida a great deal of good that will eventually react favorably to the citrus industry, also.

Yours very truly,

JOHN M. CAMPBELL.

HASTINGS, FLA., April 4, 1963.

HON. D. R. MATTHEWS,
U.S. Congress, Washington, D.C.:

Will Byrd, Hastings, Fla., joins with me in urging your efforts to defeat H.R. 904 in order to continue futures trading in Irish potatoes.

ANDREW M. SCHULER,
Drew Ranch, Inc., Elkton, Fla.

HASTINGS, FLA., April 3, 1963.

HON. D. R. MATTHEWS,
House of Representatives, Washington, D.C.:

We are growers of a large acreage of potatoes in the Hastings area and would appreciate your voting against bill No. H.R. 904 entitled "to abolish futures trading in Irish potatoes."

DREW RANCH, INC.

FLORIDA FRUIT & VEGETABLE ASSOCIATION,
Orlando, Fla., March 18, 1963.

Re hearings on H.R. 904, April 8 and 9, 1963.

HON. GEORGE M. GRANT,
*Chairman Domestic Marketing Subcommittee, House Committee on Agriculture,
House of Representatives, Washington, D.C.*

DEAR CONGRESSMAN GRANT: The Florida Potato Council, a division of the Florida Fruit & Vegetable Association, 4401 East Colonial Drive, Orlando, Fla., an organization representing a majority of the potato growers and shippers of Florida, would like to register with your committee its support of H.R. 904, a bill to prohibit trading in Irish potato futures on commodity exchanges.

Our members feel the practice of potato futures trading creates artificial and unrealistic potato supply and demand situations, which result in the lack of buying confidence among the Nation's distributors and receivers. Such trading practices on the commodity exchanges result in an unstable and abnormal potato price structure, not directly related to the actual potato supply. This condition is detrimental to the best interests of Florida potato growers and shippers.

It is felt such futures trading practices have little direct benefit to actual potato growers and shippers and that it would be in the best interests of farmers, distributors, and consumers for potato futures trading to be prohibited on any board of trade.

In a recent conversation with Congressman D. R. "Billy" Matthews on the subject legislation, he advised me that he would speak for us in support of our position on H.R. 904 at the forthcoming hearing before your subcommittee.

Very truly yours,

JOFFRE C. DAVID, *Secretary-Treasurer.*

MR. GRANT. Are there any questions?

MR. SHORT?

MR. SHORT. I am not a member of the subcommittee, but if I may be permitted to inject this observation into the record, I notice Mr. Bryant indicated that one potato farmer was from the Red River Valley in Minnesota and indicated his opposition. I have a report this morning from the secretary of the Red River Valley Potato Growers Association advising me that their association in North Dakota and in Minnesota has no position at this time on this bill.

MR. BRYANT. Thank you.

MR. GRANT. I believe that the next witness is Mr. Arthur Thompson. We will be glad to hear you now.

STATEMENT OF ARTHUR THOMPSON, PRESIDENT, MAINE POTATO COUNCIL

Mr. THOMPSON. Mr. Chairman and members of the committee, I am pleased to have this opportunity to present my testimony today.

I am Arthur Thompson, a 60-acre potato grower, and currently president of the Maine Potato Council. I hold a B.S. degree in agricultural engineering from the University of Maine.

One of the required subjects during my senior year was an economic course in marketing of agricultural products. Since the potato industry is the major product in Maine, our professor started the semester by giving us an imaginary \$10,000 and told us to make at least one trade per day. He wanted us to get some practical experience by actually participating in trading. It only went so far as the classroom.

I don't recall that I made or lost any of the \$10,000, but I did return to Limestone to farm in partnership with my father, loaded with the theory that hedging through futures trading of potatoes was a good guarantee against loss. I convinced my father that we should hedge (or sell) five cars. Since trading in any month ends on the end of the month—when we lifted our hedge which we were forced to do (brought the five cars back), we found that it was absolutely impossible to sell five carloads or even one at the current market. We had no grading equipment or facilities to load at our farm storage, which is the situation of two-thirds of our farmers. Our method of marketing was simply to sell to a local shipper by farm truckload or in carload lots.

Unfortunately, the futures market had reached a high when we lifted our hedge, which we had no way of knowing, then it started lower—sometimes the limit each day. We had to peddle our potatoes 40 to 80 barrels per day. Everybody wanted to sell, and the local outlets were besieged by farmers' trucks, and as a result we lost \$1,200 on our original hedge. This was the first attempt.

After that burning, needless to say, we stayed clear of the exchange until Dad retired and I decided that there must be some way to use the exchange as a marketing and hedging tool. At this time, together with the help of a nucleus of three other growers, I established a packing and marketing corporation which we composed of 25 grower members. I believed that since I now had access to packaging facilities that I should be able to develop a hedge program, but I still had difficulties in the mechanics of hedging, although theoretically it should have been easy.

This past summer, shortly after the vote mentioned in Mr. Bryant's testimony was taken, several brokerage firms in Aroostook County held meetings to try to persuade growers that futures trading was an essential part of our industry. I personally attended two of these meetings and was disturbed to find that these brokerage firms were advocating the practice of switching hedges starting in November through the rest of the year. They did this on the basis that there is normally a spread between contract months and a grower could actu-

ally increase the price he originally hedged at by switching from November to January, January to March, March to April, and April to May. They went so far as to state in some cases a grower might increase the price of his original hedge by 60 cents a hundred.

This actually reverses the orderly marketing; in other words, it tends to advocate the plowing up of the potatoes in the spring, which we are opposed to.

I was worried that our shipping corporation was going to be in an unfavorable competitive position if we did not try to adapt our operation around the practice of futures trading. Our president had been through the same hedging fiasco that I mentioned at the beginning of this testimony, only he had many more cars than I and he lost considerably more money on his hedge, of course, than I did. When I started talking of using futures trading for our corporation, he reacted quite strongly, but the directors finally agreed to let me experiment with my own potatoes. I hedged several cars for November through one of the most reputable brokerage firms in Aroostook County but when we attempted to switch the November contracts to January we found there was practically no spread. As a matter of fact, I found that they had moved two cars from November to March instead of November to January simply because there was not enough trading on January to allow the switch. This was done, by the way, without my knowledge.

To summarize my hedge program this year, the situation again was not very satisfactory. I was in a position of trying to hedge for February with no contract month. I lost money on my original hedge by making so many moves with no spread, all of which convinces me after 7 years' experience that a man must be a professional and must keep in constant daily contact with a brokerage firm.

The marketing program that I set up was to remove two cars a month, starting in January. In March, when it came time to move two cars, to May, I asked my broker what his advice was, seeing that there was a rather large spread between April and May. He said May was a speculative month and he didn't like speculation but if I wanted to I could move one car to April and one to May and see what happened. This was the only advice that I could get out of him. I have found a distinct reluctance on the part of any of the four brokerage firms which I have attempted to use during the past 6 years to give any advice whatsoever on the trend of the futures market. They have been fooled just as many times by the violent fluctuations of the futures market as have the farmers. Therefore, they would rather let the farmer blame himself for a mistake rather than they getting blamed for the wrong advice.

One of our corporation directors hedged fertilizer for the November contract with the option to move the hedge from month to month and take advantage of the supposed spread just as I tried to do. He reported that it had cost him \$400 in commissions to make the necessary moves since there was relatively no spread this year. This \$400 would

have to be substracted from his original hedge. I feel it was unfortunate that some brokerage firms advocated this switch program as an attempt to point out the advantages of the futures market. This is one of several attempts to slow down or to split the farmers when they attempt abolishing futures trading.

I am sure that a relatively small number of merchandisers and processors have from time to time conducted successful operations in futures of a more or less hedging character. I say "more or less" because in reading previous testimony by some of these traders it seems that they have had to be extremely well informed and skillful in deciding when to assume a futures position, when to change it or when to reverse their positions. Even using all their knowledge, ingenuity, and ample financial resources they have not always found their "hedges" a protection. Unfortunately, very few in the industry have the skill, time, and finances to make "hedging" their life work. I have no doubt that if those who do so would direct a comparable effort toward helping to solve the problems of production and marketing of actual potatoes both they and the whole industry would benefit.

About 6 years ago an attempt was made by the farmers to abolish trading and at that time they were convinced by exchange personnel that necessary regulations could be made to make the exchange more beneficial. It took a couple of years for farmers to realize that these changes were practically worthless. Last year when a new vote was taken, several changes were proposed again to try to pacify the aroused farming interests. Each time pressure is put on the exchange they toss the farmers a few crumbs to soothe the troubled waters. However, such as the recent well-timed release modifying shipping point delivery. This time farmers have flatly stated they will settle for no compromise.

The potato futures market has demonstrated that it is so sensitive to rumors, attempts at manipulation and various "technical" factors as to make it hopeless to expect it to ever become a constructive tool for the industry as has apparently been achieved in the grains and other less perishable products.

This word "technical" comes up every so often and has during the last few months. When one moves relative to another, or when a decline in price starts, we are told that reason is the technical adjustment. We have heard of many technical adjustments this year.

I'm not alarmed at the warnings of how we will suffer in Maine if we do not have this futures speculation. I present here a table from a CEA survey showing that there is practically no use of the futures market in the other producing areas and I know that these areas have not only gotten along very well indeed without futures but have actually improved their comparative position relative to Maine. We intend to present some interesting figures on that point later.

Mr. Chairman, I believe that the clerk has copies of this, and I would like to introduce it into the record at this time.

Mr. MATTHEWS (presiding). Without objection, it is so ordered.

(The table referred to follows:)

Maine potato futures: Distribution of traders and open contracts by geographic areas, New York Mercantile Exchange, Oct. 27, 1961¹

[Positions in carlots]

State, division, and country	Speculators			Hedgers			Total		
	Number of traders	Positions		Number of traders	Positions		Number of traders	Positions	
		Long	Short		Long	Short		Long	Short
Maine.....	96	651	309	121	832	4,343	217	1,483	4,652
New Hampshire.....	3	11	0	1	20	5	4	31	5
Massachusetts.....	37	260	65	15	207	250	52	467	315
Rhode Island.....	2	32	29	3	163	20	5	195	49
Connecticut.....	16	59	25	2	15	4	18	74	29
New York (excluding New York City).....	89	650	643	37	609	490	126	1,259	1,133
New York City.....	203	1,407	897	25	501	1,143	228	1,908	2,040
New Jersey.....	53	302	153	18	134	60	71	436	213
Pennsylvania.....	53	171	72	11	150	70	64	321	142
North Atlantic.....	552	3,543	2,193	233	2,631	6,385	785	6,174	8,578
Ohio.....	43	97	32	0	0	0	43	97	32
Indiana.....	15	51	30	2	30	2	17	81	32
Illinois.....	71	1,164	650	4	16	25	75	1,180	675
Michigan.....	37	117	162	17	75	121	54	192	283
Wisconsin.....	11	46	25	1	10	0	12	56	25
East North Central.....	177	1,475	899	24	131	148	201	1,606	1,047
Minnesota.....	20	58	3	2	5	7	22	63	10
Iowa.....	8	37	0	0	0	0	8	37	0
Missouri.....	9	94	1	0	0	0	9	94	1
North Dakota.....	2	3	0	0	0	0	2	3	0
South Dakota.....	2	4	0	0	0	0	2	4	0
Nebraska.....	2	7	0	0	0	0	2	7	0
Kansas.....	3	12	1	1	3	0	4	15	1
West North Central.....	46	215	5	3	8	7	49	223	12
Delaware.....	3	13	0	0	0	0	3	13	0
Maryland.....	8	76	1	0	0	0	8	76	1
District of Columbia.....	6	24	22	0	0	0	6	24	22
Virginia.....	6	3	5	1	0	15	7	3	20
West Virginia.....	3	2	3	0	0	0	3	2	3
North Carolina.....	12	47	10	1	4	0	13	51	10
South Carolina.....	5	17	1	0	0	0	5	17	1
Georgia.....	11	28	8	1	3	0	12	31	8
Florida.....	39	378	97	4	40	8	43	418	105
South Atlantic.....	93	589	147	7	47	23	100	635	170
Kentucky.....	3	21	10	0	0	0	3	21	10
Tennessee.....	8	42	5	0	0	0	8	42	5
Alabama.....	9	29	1	0	0	0	9	29	1
Mississippi.....	2	5	0	0	0	0	2	5	0
Arkansas.....	1	1	0	0	0	0	1	1	0
Louisiana.....	6	5	18	0	0	0	6	5	18
Oklahoma.....	5	16	6	1	6	0	6	22	6
Texas.....	39	133	16	1	4	0	40	137	16
South Central.....	73	252	56	2	10	0	75	262	56
Montana.....	1	2	0	0	0	0	1	2	0
Idaho.....	11	252	90	5	36	15	16	288	105
Wyoming.....	2	5	0	0	0	0	2	5	0
Colorado.....	9	44	48	0	0	0	9	44	48
New Mexico.....	2	4	3	0	0	0	2	4	3

Maine potato futures: Distribution of traders and open contracts by geographic areas, New York Mercantile Exchange, Oct. 27, 1961—Continued

[Positions in carlots]

State, division, and country	Speculators			Hedgers			Total		
	Number of traders	Positions		Number of traders	Positions		Number of traders	Positions	
		Long	Short		Long	Short		Long	Short
Arizona.....	2	4	0	0	0	0	2	4	0
Washington.....	15	63	6	0	0	0	15	63	6
Oregon.....	16	37	13	0	0	0	16	37	13
California.....	83	293	140	2	0	30	85	293	170
Western.....	141	704	300	7	36	45	148	740	345
Hawaii.....	5	9	2	0	0	0	5	9	2
Puerto Rico.....	3	3	0	0	0	0	3	3	0
Total.....	1,090	6,789	3,602	276	2,863	6,608	1,366	9,652	10,210
Brazil.....	2	6	0	0	0	0	2	6	0
Canada.....	73	659	340	24	333	171	97	992	511
Germany.....	1	5	0	0	0	0	1	5	0
Italy.....	1	3	0	0	0	0	1	3	0
Mexico.....	1	2	0	0	0	0	1	2	0
Switzerland.....	2	2	2	0	0	0	2	2	2
Total.....	80	677	342	24	333	171	104	1,010	513
Grand total.....	1,170	7,466	3,944	300	3,196	6,779	1,470	10,662	10,723

¹ Some positions as of Oct. 31, 1961.

Mr. THOMPSON. In this connection I recall testimony in the previous hearings by a supporter of futures trading to the effect that processing in Maine will be retarded if we get rid of the futures market. This same witness, however, recognized that processing had advanced in Idaho without futures trading and I note that the table I have here shows Idaho with only five accounts purported to be hedging. In this connection I recall testimony as to a total of 51 cars purported to be hedging.

In view of so much having been said on the subject, we looked a little further into the supposed use of futures as hedges by processors. We have just recently been in contact with the four processors who account for at least 80 percent of the potato processing in Aroostook County. This comes from the marketing office. All four told us that they do not use futures at all in connection with their business. These are highly competent and successful people. They have seen the futures market and no doubt have had its uses and benefits extolled to them many times. Despite all this they apparently prefer to devote their talents to the processing of potatoes rather than throwing much of their energy toward outguessing the futures markets.

If we just look at the cold facts it seems impossible to give any weight whatever to the contention that Maine processors will be adversely affected by the elimination of futures trading.

Neither does the question of credit trouble me. I think the letter of March 12, 1963, from the Maine State director of the Farmers Home Administration, which Mr. Bryant has introduced, covers this matter completely and accurately.

I would like to quote two paragraphs from this letter at this time.

I quote:

Thus, I believe that as productive ability presents no problem, emphasis in the future must be on disposition, and in order to dispose of the commodity at a profit a major overhauling of marketing and merchandising must be accomplished. It would seem that this is being recognized, and that positive steps are being taken in the direction of orderly selling of an improved product.

It would seem further that the very nature of the mercantile handicaps this approach and if such is the case, the eventual result will be that cash credit will be more and more difficult to come by. In the past, operating credit has been available on a reasonable term basis, and I would be of the opinion that sufficient credit would continue to be available providing a program can be developed which will result in reasonable marketing stability.

He was referring to a merchandising program being developed by the Maine Potato Council and the commission.

I believe the potato industry, the same as any industry, requires reasonable credit at reasonable rates and I frankly have yet to see any volume of any type of contract credit which could be considered reasonable or advantageous to the farmer.

That was signed by Henry F. Lowe, State director.

With your permission, Mr. Chairman, I should like to introduce the letter into the record.

Mr. MATTHEWS. Without objection, it will be made a part of the record at this point.

(The document referred to follows:)

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Bangor, Maine, March 12, 1963.

HAROLD E. BRYANT,
*Executive Vice President,
Maine Potato Council,
Presque Isle, Maine.*

DEAR MR. BRYANT: Regarding our recent discussion relative to the availability of credit for crop production in Aroostook County and the contribution made to the availability of credit by the Mercantile Exchange, my opinion would be as follows:

It would seem that the mercantile facility has been used primarily by fertilizer companies to hedge fertilizer sales contracts and such hedges would appear to protect the supplier rather than the farmer. As a matter of fact, in a year of normal returns it would seem that such contracts would be detrimental to the farmer. Of course, in low price years, such a hedge has a certain amount of appeal inasmuch as the producer's losses are less by virtue of the hedge than they would be without one. However, I do not believe an individual potato farmer or the industry itself can exist on the basis of keeping losses at a minimum. In fact, I believe a reverse approach which would increase profits to a maximum is essential for any type of business.

Thus, I believe that as productive ability presents no problem, emphasis in the future must be on disposition, and in order to dispose of the commodity at a profit a major overhauling of marketing and merchandising must be accomplished. It would seem that this is being recognized, and that positive steps are being taken in the direction of orderly selling of an improved product.

It would seem further that the very nature of the Mercantile handicaps this approach and if such is the case, the eventual result will be that cash credit will be more and more difficult to come by. In the past, operating credit has been available on a reasonable term basis, and I would be of the opinion that sufficient credit would continue to be available providing a program can be developed which will result in reasonable marketing stability.

I believe the potato industry, the same as any industry, requires reasonable credit at reasonable rates and I frankly have yet to see any volume of any type of contract credit which could be considered reasonable or advantageous to the farmer.

Very truly yours,

HENRY F. LOWE, *State Director.*

Mr. THOMPSON. Credit unwisely granted just because the lender is protected is doing the borrower a disservice. We would prefer the old type of relationship between the lender and the grower where the actual benefit to the grower is considered. There is no lack of this kind of constructive financing and no indication that elimination of futures will cause such a lack. Again we point to the potato-producing areas where there is no futures trading.

One of the most disturbing aspects of this futures business to me is the way it has undermined the morale of the whole industry in Maine. Mr. Bryant's figures tell the number of persons who have dropped out of the picture entirely. We also are sure, and we will later present figures on this subject, that our position in Maine has deteriorated badly in relation to other areas of the country where there is no futures trading. Many of our people are so discouraged that they are inclined to take a "what's the use" attitude when faced with the many other problems which need to be considered.

I was recently at the Farm Home Week at the University of Maine, and in talking to one credit director he said that he had just had two young farmers simply walk off their farms, saying that they can make a better living elsewhere and they did not have to take the violent price fluctuations and the decreasing effect of the futures market.

They seem to feel that there is no purpose in bothering with these other matters so long as this thing is on their backs. I'm sure that the realization that they no longer have to worry about futures speculation would give all segments of the Maine potato industry a tremendous boost in morale and provide the incentive for them to tackle the problems of production and marketing of actual potatoes.

We well know that problems will be with us always, with or without futures trading. I am confident, however, that relief from this one extremely demoralizing factor will result in much more real progress toward solution of our other troubles. I most earnestly hope this relief will come promptly. We cannot wait another 12 years and we do not want to wait another 12 months, so gentlemen, we ask you please to help us bring this matter to a conclusion.

Mr. MATTHEWS. Thank you very much, Mr. Thompson. Are there any questions?

Mr. TEAGUE of California. I have an off-the-record observation.

(Discussion off the record.)

Mr. MATTHEWS. On the record.

Mr. Harding?

Mr. HARDING. Mr. Chairman, I would like to ask Mr. Thompson a question. It was pointed out in the previous speaker's statement, that a large chainstore wanted to use Maine potatoes for a promotional program but was unable to get a Maine shipper to give him a bid, because they did not know what the futures market was going to do.

Do all of the shippers in Maine depend upon the futures market to determine the sales price?

Mr. THOMPSON. Speaking from our corporation's point of view, it is hard for us, where we have about 20 members, to sell their potatoes on the market—it is extremely difficult for us in this position to be able to quote a price to any one buyer for, say, a week at a time. When he speaks of a promotion, he would like to run that promotion for a period of time; in other words, he wants more than one car of potatoes.

It is extremely difficult for us to take a chance that the futures market might move to our advantage, but it might, too, move to our disadvantage.

We are set up as a marketing organization. We want to be on the market. This is our only desire. And if we commit ourselves for a week, that is, our production for a week in advance, then we might be in an unfavorable position in case the board drops.

I might quote you an instance that happened just a couple of weeks ago in Maine. The bottom dropped right out of the futures market and it will be demonstrated by the next witness just how this was accomplished. Had we committed ourselves just before this drop for a week's production, then we would have lost for our company a considerable amount of money. So you just cannot commit yourself for a period in advance and neither can the buyer.

Mr. HARDING. Let me ask another question: Don't you buy directly from the grower at a firm price at the time they bring their potatoes in?

Mr. THOMPSON. We have attempted to analyze the marketing program and to stick by it. We start out the first of November and we ship steady all through winter long. We will ship into July, so that the potatoes we have are pledged. The growers sign a contract to us saying that they will pledge so many barrels, 4,000 barrels as a minimum, and those are marketed in equal amounts throughout the season.

Mr. HARDING. And they go at the market price?

Mr. THOMPSON. That is right. We do not have to specify a price when they are moved. At the time they are moved, it is just the seasonal average they will get. Is that clear?

Mr. HARDING. Yes, but wouldn't the grower be willing to take a price that will assure him of the bare cost of production and you would add on the handling charges and enable you to give the man who is making the promotion a firm offer on the potatoes?

Mr. THOMPSON. Well, you say the cost of production—we have not gotten the cost of production for 3 years.

Mr. HARDING. I mean the cost of production plus a fair profit.

Mr. THOMPSON. There is very, very little margin in packaging. We discovered that when we developed our pricing operations—that there was very little margin. The only margin, so far as cost anywhere along the line is concerned, that we have to go pretty much by what the market does day by day. We are not getting the cost of production back. We have not all this year.

Mr. HARDING. I believe, Mr. Thompson, that is true out in Idaho, too. However, I wondered why if the futures trading works to such a disadvantage to the industry, the industry does not ignore the mercantile exchange and sell on the retail market at a firm price, instead of waiting every morning, as Mr. Bryant pointed out, to see what the market was before they would give a bid to a buyer.

Mr. THOMPSON. Well, I think that part of this question will be answered later, but I will say again that the whole atmosphere in the State of Maine is that everybody is keyed to the board. The sales efforts are keyed to it, the marketing efforts are keyed to it. The marketing efforts are keyed to it, the buyers on the other end are conscious of it, because if they buy a car of potatoes at a price and the board drops, and the fresh market follows it, it does not necessarily

follow it, but if it does, then they have put their company in a bad position because of that decline, because somebody will be quoting prices the next minute after they have bought that, if the board dropped, even if it is only a nickle a hundred under it, and so this means that the fellow who committed himself on the other end then gets stuck. Do you follow me?

Mr. HARDING. Right. I appreciate the problem. I am just not convinced yet that it will take legislation to overcome it. I am wondering why the industry itself needs to respond to the exchange every time, rather than sometimes ignoring the exchange in their marketing. Maybe a later witness will clear that up.

Mr. THOMPSON. If he does not, I will be glad to appear again to try to answer that question.

Mr. MATTHEWS. Mr. McIntire, do you have any questions?

Mr. MCINTIRE. Might I just respond to your observation? Mr. Harding, the experience which we have had in Idaho and other places in onions was such that one could operate as a grower, selling his products and operating independently of the Mercantile Exchange. The point was, as Mr. Thompson and others have said—and I think a very valid point—that although this was true with onions over many States, here in this particular situation we are discussing we are dealing with a futures trading which is strictly on a Maine contract.

There is futures trading on Idahos on the Chicago Board that has never amounted to more than one-half dozen cars a year or something like that.

The trading of the Long Island contract on the New York Exchange has never been able to fit the market circumstances to stimulate any particular interest in that contract. But in this particular situation the activities of the Mercantile Exchange are so intensive at all times that the market structure on a spot basis simply is covered over by the activities of the board, so much so that the trade now looks to the Mercantile Exchange in the pricing relationship, which completely dominates the price structure.

And while you might sell directly, nevertheless your purchaser is constantly aware of the price variations on the board, and he will adjust his purchases to it. And the seller, realizing the board's domination in the marketplace on the matter of price quotations, will also be watching the board.

So you move from the normal sale of potatoes and the normal pricing structure over onto the futures board, which completely dominates the pricing structure on the Maine crop.

I would point out to anyone on the subcommittee that the situation here is not a matter of futures trading of commodities generally. You have a particular situation where the potatoes is the only vegetable, the only fresh vegetable, that is on the futures board in this country—the Maine potato. It is constantly based on that Maine contract, and those who are participating in the buying and selling on the board are doing it strictly on the Maine contract and not on potatoes produced in any other States.

Mr. HARDING. I appreciate very much the view of my colleague from Maine. I should like to say that he has done an outstanding job of representing the potato farmer of the State of Maine, but the

question I asked goes to page 7 of Mr. Bryant's testimony, the last paragraph, where he says:

Last year one of our men went to the office of one of the buyers of one of the largest chains in the East. That buyer was so angry he could hardly talk. He had been using Maine potatoes and started to put on a special promotion. He could not find a single person in the State of Maine who would give him a firm price on a block of cars (not a large block) with which to conduct this sale.

It would seem to me that certainly some of the shippers up there, if they wanted to break the so-called stranglehold of the New York Mercantile Exchange could have given this large buyer a firm price. They know their cost of production. They know what constitutes a fair profit to the grower. They know what it will cost them for the washing, the packing, shippers' profit, and so forth, and they could have given him a fair price, ignoring the futures market, because they would have had a finer sale opportunity.

Mr. McINTIRE. I share your views on that. I can only respond by saying that the influence of the board has become predominant in the pricing structure which goes on almost day by day, and the shippers are influenced by it, as well as the buyers and the terminal. This is a most unfortunate situation, the predominance of this pricing on the board making the growers respond to it and depend upon it. As you say, there ought to be a willingness to sell in the marketplace free of the board, but the dominance of the board in the pricing structure has created a situation from which neither the buyer nor seller can escape.

I am not offering any excuse for that circumstance. I should say in my experience in the potato industry, when we were growing potatoes and selling them, we sold because we had a buyer in the marketplace and we did not have the board in the back of our mind as to what the price structure was going to be.

This is what we would like to return to in order that this type of situation would permit free buying and selling and the growers would be responding to the demands of the marketplace, rather than handling their product in relation to a ticker-tape thing.

Mr. DUNCAN. I am not a member of this subcommittee, but I would like to ask this one question. I think it would help clear this up for myself.

Who sets your price on the potatoes? Do the growers set the price, their cooperative organizations set the price, at which these potatoes will be delivered on the market?

The reason I am asking that question is that in my own area, at least, the buyers call up and ask, "What is the price?"

Mr. THOMPSON. You have a real disorganized mess, I guess you might say, in the State of Maine. We have about 1,000 people who are able to load potatoes. Probably these people become involved in quoting prices. You have another interest, the brokerage interest, that is quoting prices, and you have individual farmers quoting prices.

And so what actually happens on any one day is that each buyer in the market receives a low bid. That is about what it amounts to. We do not have any marketing structure now. That is what the potato council has been trying to work toward, but we just cannot seem to do a thing until we can eliminate the futures trading, so that we can all concentrate on our efforts on marketing.

Mr. DUNCAN. Aside from that, before you had the exchange, basically the buyers would call up and solicit bids from the growers, is that right, and then take the low bid?

Mr. THOMPSON. Well, I am not really qualified to answer this, because I was not in business then, but I think you will be able to get this from a later witness.

Mr. DUNCAN. Thank you.

Mr. MATTHEWS. Mr. Beermann?

Mr. BEERMANN. Mr. Thompson, if you do not have any use for the futures trading board, would you have a better market or would you have a more limited market without it?

Mr. THOMPSON. I do not know that it would change our number of markets in any appreciable amount. It would just make the market in our marketing program more stable.

Mr. BEERMANN. Would it be more confining?

Mr. THOMPSON. No, I do not believe so.

Mr. BEERMANN. You think that you will have a better market and a freer opportunity to sell at a better price?

Mr. THOMPSON. Well, let us say at a more stable price.

Mr. BEERMANN. That is all.

Mr. MATTHEWS. Thank you, Mr. Beermann.

Mr. Hutchinson?

Mr. HUTCHINSON. No questions.

Mr. MATTHEWS. Mr. Short?

Mr. SHORT. Again let me say that I am not a member of the subcommittee, but I am very much interested in the legislation being considered.

The point I cannot quite get clear in my mind is that if the potato grower industry in Maine feels that they would be better served by not having futures trading on the commodity exchange, being a factor in the pricing of potatoes, why do they not just disregard it?

Again, as you have pointed out, the pricing structure is very complicated, but I still get back to this basic, perhaps oversimplified question.

Mr. THOMPSON. I am afraid it is oversimplified.

Mr. SHORT. Let me add this: Other areas of the United States, as Mr. Harding has pointed out, are not using futures prices in establishing local prices. The price of potatoes in other areas of the United States are not affected by futures trading to the extent that they are in the State of Maine. Why? I think this question that we are trying to answer is one that needs to be answered as we go along, so that we can better understand why this is the problem that it seems to be in Maine.

I am in sympathy with your problem up there. I would like to be as helpful as I can to help you resolve it.

Mr. THOMPSON. I cannot give you a real technical example, but let me give you this example:

It is like a case where your cinch on your saddle has loosened and your saddle is starting to turn and you are in a position where you do not dare to jump off, because the horse is running too fast and you are afraid of falling off. And I think that we just caught onto the thing and simply cannot let go, because it has caught us in such a tremendous hold and it has such an influence on us.

I am telling you, sir, that the majority of the farmers just hate it, but they cannot get rid of it, because it is not the Maine deal. Even

the Maine Legislature passed a memorial unanimously to rid ourselves of it, but they cannot understand that we have got to come to Washington and pass legislation to do it.

Mr. SHORT. You pointed up a good example. I am more familiar with cinches and saddles than potatoes—it seems to me that perhaps the time has come when you ought either to jump off the horse and try to get him stopped and patch up the cinch so that you can go on.

Mr. THOMPSON. That is exactly what we would like to do. We would like to tighten that cinch and get our minds on the marketing.

Mr. SHORT. I get back to my simple, perhaps oversimplified question. I just do not quite understand why you cannot stop this horse, rather than coming to Congress to get us to help you stop him.

Mr. THOMPSON. There are a good many trades made by some of these companies interested in chemicals and in insecticides and so forth who use this. It will be pointed out in later testimony. They are using this trade. There are brokerage firms that are using this trading. And so to ignore it now at this stage of the game, we just cannot do it.

Mr. SHORT. Thank you.

Mr. MATTHEWS. We have a number of other witnesses that we want to try to accommodate this morning. I think perhaps some of these questions, as Mr. Thompson said, will be answered later.

Thank you very much.

Mr. THOMPSON. Thank you.

Mr. MATTHEWS. Our next witness is Mr. Herschel Smith, of Westfield, Maine.

We will be glad to hear your testimony.

STATEMENT OF HERSCHEL SMITH, WESTFIELD, MAINE

Mr. SMITH. Mr. Chairman and members of the committee, I would like to take just 1 minute to try to answer these two questions.

Mr. MATTHEWS. We will be delighted for you to do that.

Mr. SMITH. I think you asked, Mr. Short, why do not the Maine farmers ignore the thing? I think the best answer to that is that we may be shipping 150 to 250 cars, and the same day there may be 6,000 cars being traded on the board. This board is sort of like an octopus with its tentacles going in all directions. There may be fertilizer companies that have cars committed by farmers against the cost of their fertilizer. It may be lending agencies, it may be brokerage offices, and so forth. So whatever this board does, these agencies may lift these cars or convert them or deliver them. So as this board goes up and down the whole industry must follow.

As Mr. McIntire pointed out, we are smothered under it. Does that answer your question?

Mr. SHORT. Well, not completely. Maybe what we need here, Mr. Chairman and Mr. McIntire, in order that some of us perhaps better understand this whole problem, is a résumé on some of these parts. I am sure there are plenty in the audience who are capable of doing this, to give us a brief rundown of the pattern of the marketing of potatoes in the State of Maine. I do not quite understand this reference that has been made here several times to contracts.

Mr. SMITH. I cover this to a certain extent in my testimony, and after I have completed it, I think your questions will be answered.

Mr. SHORT. Well, good. Again, Mr. Chairman, perhaps I am asking a premature question.

Mr. SMITH. As to the other question by Mr. Harding, why would not a grower or a dealer up there commit his cars to this large chain. Mr. Harding, I had an opportunity to do just this. I could have quoted him an unrealistic price, but the market was at 50 percent of the cost of production or thereabouts, and holding stock and faced with as large a loss as 50 percent of the cost of production, I felt that that was too much to lose, and I see no reason why I should commit myself ahead 2 or 3 weeks at these prices. That is the basic principle.

Mr. HARDING. Why did the price have to be unrealistic? Why could you not have quoted him a price that you know would have given you, as a producer, and as a shipper, your costs plus a fair profit—why could you not have given him that price, and if he accepts, fine, and ignore what the exchange price is?

Mr. SMITH. The day-to-day marketing is \$1.25 a hundred, and if I quote him for a promotional deal, which is usually a sale, in other words, \$2.50 a hundredweight, why it is unrealistic. He will laugh at it. It does neither of us any good. Do you understand?

Mr. MATTHEWS. May I suggest, Mr. Smith, that you go ahead with your testimony, if Mr. Harding will forgive me, and perhaps some of these questions will be answered in it.

Mr. SMITH. I have a prepared statement which will take about 20 minutes.

Mr. MATTHEWS. Any way that you want to do it. You can have the complete testimony inserted in the record and you can talk informally, or you may do it in any way you desire.

Mr. SMITH. Thank you.

I am Herschel Smith, of Westfield, Maine, grower of approximately 500 acres of potatoes, and partner in the sales firm of Smith & Weeks, testifying in behalf of the Maine Potato Council's Mercantile Elimination Committee, of which I am chairman.

As Mr. Bryant indicated, our committee represents the Maine Potato Council in carrying out the mandate of the May 1962 grower poll to eliminate futures trading in potatoes.

I would like to present to this committee a few of the detrimental features of the futures market which appear to me to be particularly striking, and also to answer some of the contentions as to the benefits of futures trading.

We are told that farmers are passing up an opportunity to make a sure profit on their crop through their failure to sell futures, sometimes even before the crop is planted. There are several points that occur to me in this connection.

First, the price must reach a level where the farmer can sell and after allowing for delivery costs and so forth still at least break even. This has not been too often true in the last few years.

If this sale is made prior to planting as suggested or, in fact, any time before harvest and the price of futures advances sharply, the farmer will, of course, be quite dissatisfied with having hedged and will be obliged to borrow more money for additional margin requirements.

Furthermore, if he sells all or a substantial portion of his anticipated crop and then the amount he harvests is much less, his per unit cost

is higher and he will find himself with a big loss in his short futures contract.

The greatest fallacy of all, however, in this contention that the farmers could really use the futures market in the way suggested lies in the utter impossibility of that market to absorb any substantial portion of the quantity that would be sold if a majority of the producers endeavored to use it. I have a tabulation here showing the stocks held by growers and dealers on March 1, 1959 to 1962, as compared to the total short open contracts reported as hedging on these dates.

I would like to place that in the record, if permitted.

Mr. MATTHEWS. Without objection, it is so ordered.

(The chart referred to follows:)

Potatoes—Stocks held by growers and dealers compared with short futures contracts reported as hedging

	Storage stocks			Short open contracts reported as hedging	Short contracts reported as hedging as percent of stocks		
	8 Eastern States	18 Western and Central States	26 fall States		8 Eastern States	18 Western and Central States	26 fall States
	<i>Carlots</i>	<i>Carlots</i>	<i>Carlots</i>	<i>Carlots</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
Mar. 1, 1959-----	49,860	73,100	122,960	2,162	4.3	2.9	1.8
Mar. 1, 1960-----	46,600	70,700	117,300	4,044	8.6	5.7	3.4
Mar. 1, 1961-----	52,040	74,110	126,150	3,888	7.4	5.2	3.0
Mar. 1, 1962-----	53,340	94,310	147,650	6,355	11.9	6.7	4.3

Source: Storage stocks from CEA special report of November 1962. Open futures contracts from "Commodity Futures Statistics."

NOTE.—With open contracts classified as hedging amounting to only 1.8 percent to 4.3 percent of potato stocks, it seems clear that the elimination of futures trading would have no adverse effect on the industry

Mr. SMITH. These figures show that as of March 1, 1962, the eight eastern States had storage stocks of 53,340 carlots and the total open contracts were 6,355 carlots, indicating that 11.9 percent of the March 1 stocks could have been hedged. If an attempt had been made to hedge even 50 percent of the March 1, 1962, stocks, which of course have been reduced greatly since harvest, it would have been necessary to have short hedging contracts of more than 26,000 carlots instead of 6,000. If the farmers had followed the advice to hedge at about the time of planting, we might assume that they wanted to sell one-half or more of the total anticipated production which would have meant short futures contracts of some 67,000 carlots. If the volume of business and open contracts on the New York Mercantile Exchange were expanded to anything remotely approaching the figures necessary for such generalized hedging, that market would unquestionably be in an utterly chaotic condition. Anyone who knows futures trading knows that the price would fall under such pressure and that price gyrations would be completely uncontrollable with some 10 or 20 times as many misinformed amateur speculators churning around in the market.

There are some few potato producers who will maintain that they use the board and have sometimes profited by doing so. This I cannot argue; I have done so myself. Such action, however, may bring temporary prosperity to the individual but is also bringing permanent ruin to the overall industry. The hedger has two choices:

He may deliver his contract, or may buy back his contract and convert it into regular market channels. Either choice accentuates disorderly marketing.

Here I would like to place in the record photographs of Maine potatoes delivered on 1962 May option, showing the deteriorated condition of these potatoes before they could eventually be disposed of.

These photographs are taken in late May. Delivery was made on the 15th day of May or thereabouts. They were taken by the Martin Studios of 801 Third Avenue, New York City.

Mr. MATTHEWS. May I say that I do not know whether or not we have the facilities to put those in the record, but we will file those as an official part of the record and they will be found in the files of the subcommittee.

(The photographs referred to will be found in the files of the subcommittee.)

Mr. SMITH. Hedgers and speculators delivered in such volume as to make it necessary for the "longs" to take delivery from Harlem River to Bridgeport, Conn. Conditions were chaotic. Temperature rose to 95 and 100 degrees. There were inadequate icing facilities and unloading facilities. Potatoes which had weeks before rolled out of Maine under strict size and quality regulations, self-imposed by growers through adoption of Federal marketing order and compulsory Federal and State inspection, remained on rail in New York and Connecticut without a home until they were in the deteriorated condition shown by these photographs.

The hedgers who delivered these cars may have temporarily profited, but so far as the overall industry is concerned, the deliveries created untold damage, the shock of which will be felt for years to come.

Conversely, the hedger who chooses to lift his hedge and convert to normal channels does equally as great damage; this, however, cannot be photographed. For example, futures transactions occurred 2 weeks ago when hedgers had the opportunity to lift their April commitments around the \$2 hundredweight New York price—this is \$1.25 hundredweight, f.o.b. Maine. The Maine cash market of \$1.55 hundredweight held firm about 4 days, but could not withstand the pressure of increased offerings from former hedgers who needed only \$1.25 hundredweight to realize the price at which they had repurchased their contracts.

I therefore maintain that whichever alternative a hedger chooses, the results are demoralizing to the actual trade.

The potato industry is constantly bombarded with rumors, especially near the end of the season when futures speculation is most active. In one of the more spectacular operations a few years ago it was reported that a large number of cars were being shipped to the Harlem River yards, which were already glutted.

The manipulators on that occasion even went so far as to request the USDA to have men on hand to inspect these cars. The rumor was later found to be completely false, but of course had its effect temporarily. Again in May 1962, it was rumored that as many as 3,000 cars would be delivered. There were actually 899 cars delivered. In the May 1962 situation many rumors were circulated. As stated on page 46 of the Commodity Exchange Authority Report, published in November 1962, particularly covering the trading period March through May 1962, "The export rumors at that time, of course, had a pronounced effect upon both cash and futures prices." As recently as February 23, 1963, a well-known market reporter commented

on apparently exaggerated talk of the effect of a freeze prospect in Florida. There is hardly a day during the active trading period when some such rumor is not being kicked around the futures warehouses. This sort of thing of course stimulates speculation by the physicians, teachers, financiers, housewives, and retired people shown in a table which I would like to introduce here. Unfortunately it also causes price gyrations which force speculation upon the whole industry while it is attempting to conduct a stable and orderly production and marketing program.

If so permitted, I would like to introduce this tabulation for the record.

Mr. GRANT (presiding). It will be received without objection.
(The table referred to above follows:)

Maine potato futures—Occupational distribution of traders, by number and class of trader, New York Mercantile Exchange, Oct. 27, 1961¹

[Positions in carlots]

Occupational group	Speculators			Hedgers			Total		
	Number of traders	Positions		Number of traders	Positions		Number of traders	Positions	
		Long	Short		Long	Short		Long	Short
Potato growers ²	27	223	107	105	276	567	132	499	674
Potato shippers and warehouses.....	47	853	520	104	1,141	4,548	151	1,994	5,068
Potato receivers, merchants, and jobbers.....	68	1,101	626	66	981	1,021	134	2,082	1,647
Grocery and chain store organizations.....	4	14	2	4	54	1	8	68	3
Potato processors.....	6	178	167	9	608	150	15	786	317
Fertilizer dealers.....	0	0	0	4	123	288	4	123	288
Subtotal.....	152	2,369	1,422	292	3,183	6,575	444	5,552	7,997
Farmers (other than potato growers).....	48	212	116	2	1	14	50	213	130
Brokerage firms and employees.....	33	362	310	1	0	172	34	362	482
Floor traders and professional speculators.....	34	434	341	0	0	0	34	434	341
Employees of potato shippers, receivers, and processors, and others in the potato trade.....	23	103	32	1	2	3	24	105	35
Manufacturers, merchandisers, and wholesalers (other than in potatoes), capitalists, financiers, and bankers.....	145	1,165	485	1	0	3	146	1,165	488
Retailers.....	73	369	130	2	5	2	75	374	132
Sales managers, purchasing agents, and administrative personnel.....	90	362	216	1	5	10	91	367	226
Manufacturers' agents, and salesmen.....	58	222	51	0	0	0	58	222	51
Clerical employees, craftsmen, and service workers.....	102	253	155	0	0	0	102	253	155
Physicians, lawyers, teachers, engineers, contractors, and other professional occupations.....	206	760	330	0	0	0	206	760	330
Housewives.....	58	254	53	0	0	0	58	254	53
Retired.....	103	487	209	0	0	0	103	487	209
Other.....	45	114	94	0	0	0	45	114	94
Subtotal.....	1,018	5,097	2,522	8	13	204	1,026	5,110	2,726
Total.....	1,170	7,466	3,944	300	3,196	6,779	1,470	10,662	10,723

¹ Some positions as of October 31, 1961.

² Grower classification does not include grower-shippers who are here classified as shippers.

Mr. SMITH. We are told that futures trading in potatoes results in true supply and demand prices. It seems doubtful to me that trading between the very mixed occupational groups shown on the table just introduced is like to represent any well informed judgment of the potato business. Neither do I believe that actual values of potatoes change as much as 40 cents per hundredweight in 3 hours or as much as 19 cents in 15 minutes, which is not uncommon in the futures market—particularly during April and May trading. Along these same lines I should like to point out the fact that during the latter part of May 1962, while Maine potato prices were approximately \$1.90 per hundredweight, delivered Boston, Idaho potatoes were approximately \$5.50, Californias were \$6, and Floridas were \$4.25 per hundredweight, delivered Boston. Maine potato producers believed that the confusion created by heavy commitments on the May contract and threats of heavy deliveries were largely responsible for holding prices of Maine potatoes at unrealistically low levels. This belief was justified by the fact that the Maine cash price increased over 80 percent—from \$1.40 to \$2.55 per hundredweight, f.o.b. Presque Isle, Maine—within 4 days after the close of trading on the 1961-62 crop.

Since 1954 the CEA has issued some 13 special reports and surveys of the potato futures market and has brought charges in some of these cases involving manipulation or attempted manipulation. It appears that this rather small futures market has required quite a lot of regulators' attention in connection with the enforcement of the Commodity Exchange Act.

We are warned of the danger of growers being fleeced by the merchandisers unless they have the protection of board quotations. I have some considerable field of acquaintance among both growers and dealers and I am rather inclined to doubt whether the dealers are as generally unprincipled as this cynical point of view would indicate. This conclusion has recently been circulated in Maine in the form of the sheet which I am presenting now containing a quotation from an article which appeared in Barron's under date of February 4 and was widely publicized by the exchange. This was distributed by the Jacobson Co., 134 Park Place, New York, N.Y. I would like to present this for the record.

Mr. GRANT. Without objection it will be received for the record.
(The document entitled, "Attention Potato Growers" follows:)

ATTENTION POTATO GROWERS

If you had to have \$1,000?

How much would any broker, dealer, or processor pay you for five cars of futures without a daily established price?

This could be your problem in the near future with the elimination of a daily futures market.

"In private dealings, on the other hand, a difference in financial position, market knowledge or other circumstance can be very costly to the weaker side and correspondingly profitable to the stronger. Transactions in cash onions, and potatoes, almost invariably are made in private, allowing the stronger bargainer to exploit his advantage; but if a futures market is operating as well, the prices thus openly quoted supply the weak bargainer in cash transactions with information by which he can avoid being badly hurt. Obviously any large dealer who wished to profit from his bargaining advantage found existence of the futures market a considerable handicap. That is why some dealers in onions actively sought to abolish the futures market, and why some potato dealers now seek to do the same in that commodity."¹

Mr. SMITH. In this same article was the statement relating to the supposed practice of short hedges to "avoid supporting the market."

The basic subject matter of the article was to show that price gyrations in onions had been increased since futures trading was abolished. While I could not find such a statement in the article itself, the release put out by the exchange stated that price gyrations were four or five times as great since the abolition of futures trading. The article also contained a tabulation relating to price movements before and after futures trading. I will have to confess that even though I studied the tabulation pretty carefully I was unable to understand it. I do, however, have here a tabulation we prepared showing wholesale onion prices at west Michigan points for each crop year from 1950-51 to 1961-62, which I should like to offer for the record.

Mr. GRANT. Without objection it will be made a part of the record. (Document entitled "Onion Prices" follows:)

ONION PRICES

This three-page tabulation shows monthly variations in wholesale prices of onions for each of 12 crop years from 1950-51 to 1961-62.

Futures trading declined sharply in the year 1958-59, with abolition imminent, and ceased entirely thereafter except for a negligible 890 cars in 1959-60. Thus it may be considered that for the first 8 years shown futures trading was a factor. For 1 year it may have been a small influence and for the last 3 years was nonexistent.

The figures show no significant trend in price variations before and after futures trading was eliminated. The greatest percentage change (26 percent) was in 1950-51.

The 4-year period after futures trading began to come to its end shows 1 year with a relatively large percentage change—1961-62 with 23 percent. In this year the price advanced from \$1.70 per 50-pound bag in October 1961 to \$3.38 in March 1962, with a 58-percent advance in January 1962. Similar advances occurred in some of the earlier years while futures trading was still active.

These data justify no conclusion as to whether onion price movements have been greater or less as the result of the abolition of futures trading. Figures are available for only 4 years, in one of which there was still a little trading. In one of the years prices doubled and in another more than doubled, advancing about 160 percent between the beginning and end of the season. Under such conditions it can only be said that "the evidence is inconclusive."

¹ Source taken from article in Barron's National Business and Financial Weekly, Feb. 4, 1963, by Mr. H. Working.

Wholesale onion prices—West Michigan points

	1950-51 ¹			1951-52 ²		
	Amount	Price change	Percent change	Amount	Price change	Percent change
August.....	\$1.01			\$1.33		
September.....	.83	-\$0.18	17	1.47	+\$0.14	10
October.....	.73	-.10	12	1.67	+.20	13
November.....	.73		0	2.09	+.42	25
December.....	.88	+.15	20	2.33	+.24	11
January.....	1.08	+.20	23	2.99	+.66	28
February.....	1.84	+.76	70	2.90	-.09	3
March.....	1.39	-.45	24	4.45	+1.55	53
April.....	1.69	+.30	21			
Average.....	1.13	+.30	26	2.40	+.48	20
	1952-53 ³			1953-54 ⁴		
	Amount	Price change	Percent change	Amount	Price change	Percent change
August.....	\$2.03					
September.....	2.06	+\$0.03	1	\$0.83		
October.....	2.86	+.80	39	.76	-\$0.07	8
November.....	3.01	+.15	5	.75	-.01	1
December.....	2.69	-.32	11	.69	-.06	8
January.....	3.20	+.51	19	.74	+.05	7
February.....	3.64	+.44	14	.61	-.13	17
March.....	3.78	+.14	4	.55	-.06	10
April.....						
Average.....	2.91	.34	13	.70	.06	9
	1954-55 ⁵			1955-56 ⁶		
	Amount	Price change	Percent change	Amount	Price change	Percent change
August.....				\$1.46		
September.....	\$1.27			1.58	+\$0.12	8
October.....	1.35	+\$0.08	6	1.76	+.18	11
November.....	1.56	+.21	16	1.74	-.02	1
December.....	1.29	-.17	17	1.53	-.21	12
January.....	1.35	+.06	5	1.29	-.24	15
February.....	1.06	-.29	22	1.04	-.25	19
March.....	.98	-.08	8	.76	-.28	26
April.....						
Average.....	1.27	.16	12	1.39	.18	13
	1956-57 ⁷			1957-58 ⁸		
	Amount	Price change	Percent change	Amount	Price change	Percent change
July.....				\$1.28		
August.....				1.17	-\$0.11	9
September.....	\$0.99			1.08	-.09	8
October.....	.80	-\$0.19	19	1.26	+.18	17
November.....	.98	+.18	22	1.33	+.07	6
December.....	1.06	+.08	8	1.26	-.07	5
January.....	1.24	+.18	17	1.41	+.15	12
February.....	1.42	+.18	14	1.88	+.47	33
March.....	1.13	-.29	21	2.87	+.99	52
Average.....	1.09	.20	17	1.50	.26	18
	1958-59 ⁹			1959-60 ¹⁰		
	Amount	Price change	Percent change	Amount	Price change	Percent change
August.....				\$1.31		
September.....	\$1.72			1.05	-\$0.26	20
October.....	1.69	-\$0.03	2	1.08	+.03	3
November.....	1.80	+.11	7	1.18	+.10	9
December.....	2.14	+.34	18	1.06	-.12	10
January.....	2.78	+.64	30	.94	-.12	11
February.....	3.00	+.22	6	.79	-.15	16
March.....	4.51	+1.51	50	1.02	+.23	29
Average.....	2.52	.47	19	1.05	.14	14

See footnotes at end of table.

Wholesale onion prices—West Michigan points—Continued

	1960-61			1961-62		
	Amount	Price change	Percent change	Amount	Price change	Percent change
September.....	\$1.00					
October.....	.93	-\$0.07	7			
November.....	.94	+.01	1	\$1.70		
December.....	1.02	+.08	9	2.00	+\$0.30	17
January.....	1.36	+.34	33	3.15	+1.15	58
February.....	1.64	+.28	20	3.53	+.38	12
March.....	.92	-.72	44	3.38	-.15	4
Average.....	1.11	.25	19	2.75	.49	23

¹ Volume of trading, carlots, 69,439.

² Volume of trading, carlots, 84,248.

³ Volume of trading, carlots, 136,749.

⁴ Volume of trading, carlots, 76,293.

⁵ Volume of trading, carlots, 164,207.

⁶ Volume of trading, carlots, 126,795.

⁷ Volume of trading, carlots, 89,229.

⁸ Volume of trading, carlots, 69,966.

⁹ Volume of trading, carlots, 41,277.

¹⁰ Volume of trading, carlots, 890.

Source: "Fresh Fruit and Vegetable Prices" USDA, U.S. No. 1, 50# yellow 70, 80, and 90 percent 2 inches and larger.

Mr. SMITH. This tabulation shows the average monthly wholesale price for each year during that period and the change in price from one month to the next, both in actual value and percentagewise. For example, taking the first year shown, 1950-51, the average change in price from month to month was 26 percent and the volume of trading for the whole year was 69,439 contracts. The data appears in similar form for the whole period and to me is utterly erratic both during futures trading and thereafter and is susceptible to no conclusion whatever. Accustomed as I am to wide price movements in potatoes, the complete lack of pattern in onions rather surprised me and, as I just said, I do not believe that anyone can draw a conclusion as to trends from figures such as these.

We do know from letters from responsible persons in the onion trade that they are pleased to no longer be confronted with futures speculation in their product. I point particularly to the last paragraph of the letter from Mr. Fred H. Vahlsing which I should like to read. Mr. Vahlsing states:

Since the onion trading practices in Chicago have been eliminated, the fresh onion business in the United States has reverted to a much sounder basis.

This concern is among the largest producers and handlers of onions in the United States. As I am sure some of you gentlemen know, both Mr. Vahlsing and his son, Fred H. Vahlsing, Jr., have been close to and are well acquainted with the futures markets in both onions and potatoes. I attach great weight to their opinions. I should like to offer these letters for the record.

Mr. GRANT. Without objection it will be received for the record.
(These letters will follow :)

F. H. VAHLSING, INC.,
New York, N.Y., March 29, 1963.

Mr. HERSHEL SMITH,
Smith & Weeks,
Mars Hill, Maine.

DEAR HERSHEL: As one of the largest growers and shippers of potatoes in the United States, with growing operations in Maine, California, Texas, and New Jersey, I offer my opinion as to potato trading futures on the New York Mercantile Exchange. It is my considered judgment that the New York Mercantile trading and futures activities of Maine potatoes is an absolute detriment to the welfare of the Maine potato industry.

Trading on the New York Mercantile Exchange, from my observation, has become a gambling racket, which is always the case when markets can, through the support of rumors, be manipulated. This practice has plagued the Maine potato market and it has fallen victim to such activity. Plus that, the element that has moved in on the Mercantile Exchange, in most cases, has no absolute desire to take actual delivery and assist in the distribution of potatoes.

The Maine potato farmer has been drawn into this system of gambling in potatoes and has become a helpless pawn toward his own destruction and detriment to the potato industry as a whole. It would be to the betterment of the whole potato industry throughout the United States if this system of trading on perishable commodities, like potatoes, would be eliminated.

Since the onion trading practices in Chicago have been eliminated, the fresh onion business in the United States has reverted to a much sounder basis.

Sincerely yours,

F. H. VAHLSING, Sr.
President.

PAUL D. JONES, INC.,
Hollandale, Minn., January 26, 1963.

Mr. HAROLD E. BRYANT,
Maine Potato Council,
Presque Isle, Maine.

DEAR SIR: Your letter regarding onion futures trading was not answered immediately due to that fact that I wished to do a limited amount of verbal research with onion growers in certain producing sections.

In the opinion of a great many onion growers when futures trading was in effect the price swings were so extreme and exaggerated. By having the prices at a reasonably profitable level in the spring at planting time, overproduction was encouraged. In the following winter when the grower had the crop stored and was forced to sell it before going out of condition; certain speculators forced the prices to as low as 25 cents per 50-pound bag, Chicago. Considering the minimum cost of production of \$1.30 per bag, Chicago, you can appreciate the disastrous results suffered by onion producers. Basically this was the reason for the majority of onion growers being opposed to onion futures trading.

The National Onion Association at 201½ East Grand Avenue, East Lansing, Mich., has a complete file on this. The Farm Bureau also worked closely. The association obtained funds from onion growers, shippers, and brokers throughout the United States to accomplish this. The Chicago Mercantile Exchange and the brokers there may have raised many times the amount of money raised by the onion association. Persistence and cooperative effort by the growers, brokers, and shippers with a great many trips to Washington resulted in elimination of futures trading.

Very truly yours,

PAUL D. JONES, INC.,
T. R. MUNSON, President.

HOWARD P. DUNLAP,
Marshall, Mich., February 14, 1963.

MAINE POTATO COUNCIL,
Presque Isle, Maine.
(Attention of Harold E. Bryant).

DEAR HAROLD: We have neglected answering your letter as to the elimination of futures trading in potatoes on the Chicago Mercantile Exchange. My primary reason for the slow reply is that I was desirous of discussing your problem with some of the onion boys who were most influential in getting onions eliminated from futures trading on the Chicago Mercantile Exchange. In the first place, Mr. Jack Rose, who was then secretary of the National Onion Association is entitled to most of the credit. I have discussed your problem with him and he advises that you have had contacts with him and that he will be a willing associate in helping the boys with the potato industry to solve their problems.

Mr. Veril Baldwin who was then president of the National Onion Association was very instrumental, spent a lot of his own money and worked diligently long hours in securing the elimination of futures trading in onions.

Naturally we had the support of practically all the growers and shippers from all the onion producing areas in all United States. These people bombarded the Senators and Congressmen urging and insisting that they vote for our onion bill eliminating futures trading on onions.

For your information, our biggest problem was to get our bills, both in the Senate and in Congress, out of committee. When you have all the other work accomplished, and it takes a lot of high pressure to do this, you will have to concentrate on getting your bills out of committee.

Yours truly,

HOWARD P. DUNLAP.

—
DYK BROS. Co.,
Grant, Mich., January 29, 1963.

HAROLD E. BRYANT,
Maine Potato Council,
Presque Isle, Maine.

DEAR MR. BRYANT: We received your letter relevant to eliminating futures trading of Maine potatoes. I will be happy to give you a few suggestions I feel will be helpful, maybe you already have done what we will suggest.

As to the sentiment of the growers, I would say at least 95 percent are happy the futures trading on onions has been eliminated. I am thoroughly disgusted with many growers who supported the National Onion Association with finances and testimony in Washington at the hearing. I feel many were led to believe eliminating futures would be a cure-all for the onion industry, which it has not been, consequently many no longer are supporting us, at least in areas in Michigan, in which I am familiar. Its elimination has not been a cure-all, however, we do not have the wild fluctuations which played havoc with the cash market.

I would suggest that you put on a vigorous letter writing campaign to your Senators and Representatives in Washington. Have interested growers from every potato growing area in the United States do the same. Say in your own language why you want futures eliminated. You don't have to have a lot of big words. It is difficult to get some people to write a letter. If you have responsible men in various areas, have them write letters for different growers; change the wording a little and have the growers sign their names (or sign for them).

I believe the success of the onion industry was due largely to the number of growers who voiced their objections.

If you can get a hearing in Washington, get a large number of growers to testify. Congressmen will give a lot more consideration to testimony from a grower than a professional market speculator.

Keep on emphasizing that your product is grown by hard labor and sweat and it's your living, then along comes pressure groups who speculate with your

product who have no other interest in the potato than to manipulate the market to get swings up or down to their own advantage, which disrupts an orderly market and brings confusion to growers and many times chaos. (Have figures to corroborate.)

Bring out the fact growers are confronted by concentration of chain buying power and a victim of the speculator who has no other interest than speculation in your commodity. (Have figures and statistics to corroborate.)

We hope these few suggestions may be of some help, it will be a hard fight, however I feel the potato growers have an excellent chance to end futures trading if they stand together. Solicit support from other vegetable growers. Keep emphasizing that paper trading on the exchange has an effect on price all out of proportion of the actual market.

Sincerely yours,

JOHN DYK.

HANK PETERSON FARMS,
Moorhead, Minn., February 22, 1963.

MR. HAROLD BRYANT,
Maine Potato Council,
Presque Isle, Maine

DEAR MR. BRYANT: We have been gone for a few weeks which is the reason for delay in answering your letter.

I believe that all potato growers in the Nation should help get the future trading stopped on potatoes. I know it effects our market and without a doubt other markets throughout the Nation.

Mr. Jack Rose, who was secretary of the Onion Association at the time we stopped the onion trading, could give you a great deal of information. His home is at East Lansing, Mich. If you would write the National Onion Association 201½ E. Grand River, East Lansing, Mich., they will forward the letter to him.

Let me know the number of the bills that you have introduced in Congress and I will write to our Senator and Congressman from Minnesota and North Dakota and will also have the Secretary of the Red River Valley Potato Association work on these bills.

Sincerely yours,

HENRY R. PETERSON.

W. E. MCGILLVRAY, INC.,
Stockton, Calif, February 1, 1963.

HAROLD E. BRYANT,
Maine Potato Council,
Presque Isle, Maine.

DEAR MR. BRYANT: We are writing in answer to your letter of January 18, concerning information relating to the elimination of futures trading in onions.

At the particular time that this endeavor was being carried out by the industry as a whole, I was employed by W. E. McGillvray, Inc., as a field representative. Our predecessor, Mr. McGillvray, who passed away in 1960, was very active in this endeavor. It is almost impossible for me to furnish you with any concrete information as to the manner in which this endeavor was carried out. The final analysis as to whether it was beneficial to the industry as a whole, I think, is self-explanatory.

We are very content here on the west coast in marketing our product through normal trade channels, and good or bad markets are reflected by supply and demand not paper trading. Possibly Mr. George Schmidt, Labish Brokerage Co., Brooks, Oreg., could give you more concrete information, as he also was very instrumental in the fight to eliminate futures trading. There are many people who supported the bill to outlaw futures trading from the west coast, and if you would like we would be happy to furnish you a list of their names.

We're sorry that we can't give you more information regarding this problem, but if we can be any further help to you, please feel free to call on us.

Sincerely yours,

W. E. MCGILLVRAY, INC.,
E. M. MALLET.

VERIL BALDWIN & SONS,
Stockbridge, Mich., January 24, 1963.

HAROLD BRYANT,
*Maine Potato Council,
Presque Isle, Maine.*

DEAR MR. BRYANT: Replying to your letter of January 18. I was president of the National Onion Association all through the years when we were battling for elimination of futures trading in onions and for several years thereafter.

If I answered your question on a percentage basis it would be something like this. Immediately before futures trading in onions was eliminated I believe 98 percent of those engaged in various phases of the onion industry were in favor of the proposed legislation. No one expected such legislation to be a cure-all for all industry problems and as time minimizes some of the evils formerly applying there probably are a few, maybe 3 or 4 percent, more now who would welcome the return of futures trading in onions. However, I believe 95 percent of those engaged in the onion industry would vote for no return of futures trading in onions today.

Good luck to you in your efforts. It was a great cause, a most interesting experience for many of us.

Yours truly,

VERIL BALDWIN & SONS,
VERIL BALDWIN.

W. J. PIOWATY,
Fort Pierce, Fla., January 17, 1963.

MR. HAROLD E. BRYANT,
*Maine Potato Council,
Presque Isle, Maine.*

DEAR MR. BRYANT: Mr. Jack Rose, our former secretary of the National Onion Association, whom I have always held in great esteem, asked me to write you in reference to future trading on the Mercantile Exchange on onion; which trading we finally eliminated after 3 years of continuous fighting in Congress to have a bill passed to eliminate such trading.

At that time the potato dealers of Maine also halfheartedly supported us but we did get a great deal of help from your Representative, Mr. Cliff McIntyre.

Mr. McIntyre is quite conversant with our fight and on numerous hearings I had the pleasure of talking with him while I was in Washington during that time.

There is no question in my mind that future trading has a great deal of bearing on the prices that your potatoes sell at. And more so on a weak market than on a strong. I do not know what percentage of potatoes on the exchange are bought by the processors who, in grains and similar products, use the commodity against hedging the manufactured product.

We in onions had no processors who bought the first carload of onions for processing in any of their plants on the future market. We never had a chainstore directly buy their needs on the future market, so the market was always made by the gamblers and speculators who were mostly speculators out to make an easy buck at the expense of the grower.

Many, many times we had onions sell in Chicago, which was the delivery point, for as low as 75 cents a bag. The cost of packaging the packages and the freight was in many instances more than the price that was realized. This was due to the fact that when onions were sold on the future and were tendered for delivery, the market became so demoralized that there were practically no customers even at 75 cents. I remember a time in Chicago when we had over 300 carloads of onions on track in the terminal yards, which average holding is 25 to 40.

I assure you that if you have potatoes eliminated from future trading they wouldn't be selling today for \$2.10 delivered New York. If you will write your Congressman for the Congressional Record on the various hearings on future trading held in Washington and Chicago you will receive a lot of very pertinent information given by numerous members of the onion industry in their testimony.

I was a member of the National Onion Association since its inception some 40

years ago. I was a director for about 10 years and vice president for several years, but I am now retired from the produce business, having sold my interest out of Chicago about 5 years ago.

If I can be of any further service to you, do not hesitate to call on me.

Yours very truly,

W. J. PIOWATY.

IKE GRIFFIN, HOLDER & THOMAS,
Rocky Ford, Colo., November 26, 1962.

Mr. HAROLD E. BRYANT,
Maine Potato Council,
Presque Isle, Maine.

DEAR SIR: Thanks for your letter of November 19.

The fact that onions are no longer on the board of trade has every onion grower wanting to see the market do only one thing, pricewise, and that is up. I am sure you have potato growers who want to see prices decline so they can make a profit on their sale. Once they get off the board they want the market to go back up. To my mind this was one of the most vicious aspects of the board. Another facet of the deal was the traders on the floor, and the alleged manipulations that occurred.

Now with these several years without the trading, we of the onion industry still have our problems. The biggest of them all is overproduction. We have had 1 extra good year pricewise, with several good spots in places.

The onion growers will never go back to the board. There are a few in the industry would be for it, but even these few know that the trading was not good for the industry. A lot of onion growers were hurt and hurt bad by trading.

Our former secretary, Jack Rose, engineered this through the Congress with the help of many organizations. He can give you a lot of information and advice.

If our organization can be of any service to you, please advise.

Sincerely yours,

IKE GRIFFIN.

Mr. SMITH. We are told that the futures market assures true supply and demand prices, and that futures trading in itself has no effect on prices. However, in an article recently publicized by the exchange it is stated:

Selective hedging allows well-informed dealers to give effect to their market judgment by influencing the price. This emphasis is ours. Those who think it is currently too high, and who therefore judge the stocks they must carry, thus avoid supporting the price. Dealers who hedge in such circumstances will also buy futures when they think the price too low, but for merchandising reasons cannot carry as large physical stocks as they would like. In this way they lend more support to the price than they could if there were no futures market.

My observation of the potato futures market indicates that this is a substantially correct statement. Unfortunately, in recent years most of our Maine "hedgers" have found it expedient to "avoid supporting the price" and apparently have been able to do so more effectively than "if there were no futures market."

Added to the uncertainty as to what the "selective hedgers" plan to do, the great majority of growers and merchandisers (and I speak from experience) must try to foresee what the doctors, lawyers, teachers, and housewives are going to do. We envy the futures brokers who do not need to care what the traders do just so they do something.

It is explained to us that the short seller is actually a market supporter because he must buy back his short position. I think it reasonable to assume that his aim is to buy it back after his, avoiding supporting the market, has resulted in a good decline.

It might be suggested with equal logic that the long buyer is a bearish influence because he must eventually sell.

It is all pretty complicated and most of us are admittedly confused at times. Some 90 percent of us would like to get back to raising, merchandising, and processing potatoes and developing orderly marketing conditions in the interest of the whole potato industry.

The large majority of growers, shippers, salesmen, and processors believe futures trading is detrimental. They have lived with trading since its inception 22 years ago. I know of no one or of any group better qualified to make a judgment. Responsible people in the industry say the board is detrimental and that elimination will not create a hardship on any segment of the industry. At this time I would like to introduce letters from concerns who handle over 50 percent of the Maine crop marketed through sales organizations—substantiating my views that Maine potatoes (being perishable with season depletion of supplies) are not adapted to futures trading.

Mr. GRANT. Without objection they will be received for the record. (The letters follow:)

WARMAN WAREHOUSES, INC.,
Presque Isle, Maine, November 29, 1962.

HERSCHEL SMITH,
Chairman, Mercantile Elimination Committee,
Westfield, Maine.

DEAR HERSCHEL: I am obliged to correct my thinking regarding the New York Mercantile Exchange. For the past several seasons this industry knows that I have been in favor of the exchange with reservations. My reservations were that I knew there were things about the exchange that were not compatible with this industry but I was constantly hopeful that these inconsistencies would be corrected promptly by a joint meeting of the minds of the officials of the New York Mercantile Exchange and our Maine potato industry.

During the past year in the potato business it has been very definitely demonstrated to me that the trading of Maine potatoes on the New York Mercantile Exchange has a demoralizing effect on the potato market, as it effects the Maine potato farmers.

The things that are most damaging are:

1. Several commodities exchange houses are putting out very bearish letters to stimulate (their own) business. The net result of this written opinion is that the future market declines, then some houses here in Maine who own potatoes as a result of fertilizer contracts, growing, or other outright purchases, having hedged these potatoes at higher prices earlier now liquidate the hedges at these new low prices and sell the actual potatoes at near the board price for late delivery March, April, or May. This has the effect of setting the future prices at disastrously low prices for everyone. For instance, today at a March figure at \$2.16 delivered New York with a 76-cent freight rate we have an free on board price of \$1.40 hundredweight. Several potato dealers will sell actual March futures at \$1.50 to \$1.45 per hundredweight and then liquidate their board position. For the 1 percent or less of the people who have potatoes hedged, this is OK, but the other 99 percent of potato people have the market set for them at a price far below the cost of production.

2. During the spring of 1962, large speculative operators by overall weight of money and propaganda, succeeded in forcing the May board price far above the cash market. Then the New York Mercantile Exchange doubled the margin required, thereby forcing Maine farmer hedges to liquidate at disastrous prices because the grower already had all the money he could secure invested in the original margins.

3. We have an operation we call "spreading" trades whereby a trader sells 1 month and buys another. He is not interested in the prices he buys or sells at, except the spread between the months. For instance he may sell March futures at \$2.20 hundredweight and buy May futures at \$2.60 hundredweight. Now he has a spread of 40 cents per hundredweight—his objective is to have this spread go to 50 cents or higher then he can liquidate both sides and take his profit.

Now, as he sets this deal up, his sale of Marches, regardless of actual values, depresses the March board prices and brings the May price down along with it. These operations have depressed the prices the Maine farmer can receive for his labors.

An November 28, 1962, one outfit was observed trying to sell the board at \$2.61 to force it down while other operators were bidding at the same time \$2.68 to \$2.70 because they thought it was a good buy at that price.

One could go on offering examples, but these examples would only tend to confirm the fact that the potato, as a perishable commodity, does not lend itself to board future trading.

Very truly yours,

WARMAN WAREHOUSES, INC.
FRED WARMAN.

MAINE FARMERS EXCHANGE,
Presque Isle, Maine, March 26, 1963.

MR. HAROLD E. BRYANT,
*Executive Vice President, Maine Potato Council,
Presque Isle, Maine.*

DEAR HAROLD: Ever since it started I have used the New York Mercantile Exchange in varying degrees. During the latter part of my being with Maine Potato Growers, Inc., and since forming my own company, I have been trading comparatively heavy on the mercantile exchange. I have no doubt that the commodity exchange authority has done an excellent job of supervising and regulating trading on the exchange insofar as their authority would permit.

I have also served as a member of the New York Mercantile Exchange Committee in Aroostook County. Over a period of time we have recommended, and in quite a few cases the mercantile has adopted, changes in an endeavor to make the operation of the mercantile more compatible with day-to-day marketing.

I have a few grower clients who have used the mercantile exchange quite successfully in hedging. However I realize that if all of my clients or, more particularly if all the growers in the State attempted to do the same thing, that the market would change to the extent that it would provide no hedge.

Therefore, although I recognize there are values and some things about the mercantile exchange that are helpful, at the same time I am forced to admit that there is no way yet conceived or developed whereby the mercantile will be compatible with orderly marketing out of the State of Maine.

The day-to-day fluctuation keeps the growers thoroughly confused and has a tendency when they are confused to have them adopt an attitude of "wait and see," which delays the movement of the crop. Also the prices in the later months, particularly in the May contract, practically invariably are higher than the November-January and other early months. As a result growers will look at the May price and try to hold in an endeavor to get that price. Some of them may hedge and obtain that price, but the potatoes are still here to be moved in May and we feel that this is too late to have a congestion of Maine potatoes in one market. More often, however, growers due to lack of margin money or unfamiliarity with the mercantile, will look at the May price, not hedge, hold their potatoes, only to find as they approach the May shipping period the market declines.

It is my firm conviction that the overall potato industry in Maine cannot survive unless we develop an orderly marketing program whereby we market a steady flow of potatoes from September through at least until June 1.

I feel that this would be impossible as long as the mercantile is in operation, and therefore although it may be benefiting a few, for the interest of many and the overall industry I feel that the futures trading of potatoes should be eliminated on the New York Mercantile Exchange. I feel that futures trading on commodity markets is not practical on perishable commodities.

Cordially,

LAWRENCE A. THIBODEAU.

NORTHERN FARMS, INC.,
Presque Isle, Maine, January 19, 1963.

MR. HAROLD BRYANT,
*Executive Vice President, Maine Potato Council,
 Presque Isle, Maine.*

DEAR HAROLD: After lengthy consideration and much thought relative to the problems involved in marketing the Maine potato crop and particularly our own problems, we firmly believe that the New York Mercantile Exchange is the cause of many of the present problems that effect most segments of the industry today.

We have never favored the exchange and we feel more strongly now than ever about the removal of these trading privileges and our reasons are as follows:

(1) Our first thoughts, of course, are selfish as the mercantile exchange interferes with the welfare of our own business as it has practically done away with seed and table sales made during the summer and fall months for shipment later in the year. We call these regular seed and table futures sold through regular consumer channels.

(2) It is practically impossible to merchandise, and this is true of the terminal or city buyers as well as the local operator, whether a street buyer or a carlot distributor. It is difficult to buy from growers when the board is up and difficult to sell to the trade when the board is down.

(3) It encourages production and possible overproduction through the encouragement of contracts made by fertilizer companies, potato buyers, and others involved in financing.

(4) It places our Maine potato business in the hands of people who in many cases are completely removed from any knowledge of the business and who have no personal interest in our welfare. It appears that at times the trading becomes so intense by the participants that the level of the market can be influenced either up or down, depending on the position of the man or men with the most money. In other words, it is nothing but a gambling device with the grower as the victim.

(5) We are sick and tired of being told by the New York board operators what to do, when to do it, and what is going to happen to the market 8 or 10 months in the future. I think that vital decisions concerning the welfare of this Maine industry should be made in Maine by Maine people and not New York City.

We wish to help you in any way that we possibly can in your endeavor to bring mercantile trading to an end and as quickly as possible. What else we can do at this moment we do not know, but we will be glad to discuss it with you at your convenience if you have other thoughts or suggestions.

Very truly yours,

K. L. BALLARD, *President.*

CARIBOU GROWERS, INC.,
Caribou, Maine, December 11, 1962.

CHAIRMAN, MAINE POTATO COUNCIL,
Mercantile Elimination Committee.

DEAR SIR: Caribou Growers, Inc., feels that the effort to eliminate the trading of Maine potatoes from the New York Mercantile Exchange should be pursued with more energy.

Caribou Growers, Inc., feels the depressing effects on the cash market for Maine potatoes far outweighs any benefits they receive.

The professionals, so-called, profit on both sides of the market, or use it to acquire potatoes below the cost of production at the same time increasing surplus production. These people set themselves up as spokesmen for the industry, as such they undercut the efforts of the mercantile elimination committee of the Maine Potato Council, to present the farmers' side of this matter to the press, the Department of Agriculture, and the Agricultural Committee of Congress.

At our December meeting our group voted 100 percent in favor of mercantile elimination.

FRED GAHAGAN, *President.*

BOUCHARD POTATO CO., INC.,
Caribou, Maine, April 2, 1963.

Mr. HERSCHEL SMITH,
*Chairman, Mercantile Elimination Committee,
 Maine Potato Council,
 Presque Isle, Maine.*

DEAR SIR: The Bouchard Potato Co., Inc., wishes to go on record as opposed to the futures trading of potatoes. We believe that such futures trading is detrimental to the interests of the potato industry in that it encourages wide price fluctuations and discourages orderly marketing. We further believe that due to its degree of perishability and a relatively thin market that this product does not lend itself to futures trading, and makes it vulnerable to price manipulations.

As this is the only fresh vegetable and the only commodity from one area traded on futures exchanges, we believe that this poses problems unique to the product and not applicable to products of a less perishable nature that are traded on a nationwide basis.

As growers, shippers, and brokers, we are in a good position to observe the effects of such futures trading on this product, and have to conclude that the detrimental aspects of such trading far outweigh any benefits claimed by the proponents of futures trading. These proponents are largely concerned only with the income from brokerages and not with the prosperity and stability of the potato industry.

In fact we believe that these people encourage and are the sole beneficiaries of such instability in the markets in that it results in greater volume of trading and thereby more income from brokerages.

You are hereby authorized to use this letter in any way you deem helpful in eliminating futures trading of potatoes.

Yours truly,

KENNETH J. BOUCHARD.

PRESQUE ISLE, MAINE, *March 31, 1963.*

Mr. HERSCHEL SMITH,
Presque Isle, Maine.

DEAR HERSCHEL: As one of the first few farmers to oppose the mercantile trading of Maine potatoes I wrote Congressman McIntire at the start this was unsound business, a perishable product involved, and that the farmers, merchants, and banks could not help but feel the effects on the potato industry.

Congressman McIntire replied back by letter he had taken this matter up with the commodity exchange authorities, but with little satisfaction, as so many other commodities were traded also. As the co-ops drained Aroostook County after War I the mercantile offered a repeat after War II.

Also, by trading before a seed is ever placed in the soil, this trading established a market price for all concerned in the potato industry. These practices leave the farmer at the mercy of the gambler.

In 1957, at a mercantile hearing in Presque Isle, I wrote another letter stating the farmer was being taken for a lamb which was sure of losing his fleece, that the brokerage concerns were so anxious for brokerage fees, regardless of the price to the farmer.

By abandoning this trading—the fertilizer companies—a different condition will exist. This unsound business practice, gambling with the sweat of the farmers' brow, has been prolonged far too long. It's like locking the barn after the horse is stolen.

Our only salvation is to abandon this mercantile trading, then the other obstacles can be overcome.

Sincerely yours,

D. REID McPHERSON.

SMITH & WEEKS, INC.,
Mars Hill, Maine, March 29, 1963.

ARTHUR H. THOMPSON,
*President, Maine Potato Council,
 Presque Isle, Maine.*

DEAR ART: Our firm wishes to congratulate the Maine Potato Council for the efforts they have exerted toward the elimination of the futures trading of Maine potatoes on the New York Mercantile Exchange.

We, as a sales organization, see the detrimental effects of futures trading almost every hour of each trading day. It is our firm belief that potatoes do not lend themselves to futures trading. Not only are potatoes a perishable commodity, but also, unlike other commodities traded, potato futures have a deadline date or cutoff season.

We feel potato trading serves no useful purpose, but only tends to divert attention from actual merchandising of the crop. It also confuses both sellers and buyers as to the true market price.

We market seed and table potatoes from Maine to Florida and west to Chicago. In all our contacts, we find few people who wish to have trading continued.

Sincerely yours,

HERSCHEL SMITH.

LONGVIEW FARM,
Caribou, Maine.

Mr. HERSCHEL SMITH,
Westfield, Maine.

DEAR HERSCHEL: Just a note in support of your very courageous stand taken in opposition to the pitiful state of affairs in our county, when a handful of people can swing this cursed mercantile and put most of us on the road.

I believe the time is long past to make a real concerted effort to do something about this.

More power to you.

FORD MERRITT AND
 NORRIS BROWNE.

CALAIS ROAD,
Houlton, Maine, April 9, 1962.

HERSCHEL SMITH,
Westfield, Maine.

DEAR MR. SMITH: This is a token of appreciation in regard to your comments on "TV Topics" this evening.

I am 100 percent in agreement with your views relating to putting up a good pack and demanding a good price, and I also hold to your theory that we get what we demand.

If we had more men in our county who would be willing to get to the core of the mercantile and bring it to the surface so that every farmer might know the corruption and graft that is hidden from them, there is a possibility that we can get rid of the traitors.

Keep up the good work.

Yours truly,

LEW HANEY.

Maine Potato Council: We give you this release to use as you see fit, with respect to coverage and timing. We would, however, like to have it specifically understood that it be used only as a composite statement, because only the complete statement properly expresses the position of our board.

The board of directors of Maine Potato Growers, Inc., have recently voted to oppose, in general, the trading of Maine potatoes on the New York Mercantile Exchange.

The Maine Potato Growers board expresses their belief that mercantile trading of Maine potatoes is detrimental to the proper merchandising of the Maine crop. However, in making this statement, they have also directed and recommended to Maine Potato Growers management that Maine Potato Growers continue to utilize mercantile trading in every way possible to forward the interests of Maine Potato Growers and its patrons, as long as mercantile trading continues.

The board of directors feels that their expression of general opposition to mercantile trading as a principle, represents the feelings of the majority of their 1,700 Maine Potato Growers members.

Mr. SMITH. We are confident that presentation of the full and unbiased facts will appeal to the intelligence and good judgment of this committee as it has the Maine State Legislature and 92 percent of the members of the industry, all of whom are determined to restore the Maine potato trade to a supply and demand basis—uninfluenced by speculative groups whose paramount interest is the quick grab for the fast dollar.

Mr. GRANT. Thank you very much for your statement.

If there are no questions, our next witness is Mr. Robert DeBraun of Zeeland, Mich.

We are glad to hear from you now.

STATEMENT OF ROBERT DeBRAUN, ZEELAND, MICH.

Mr. DeBRAUN. Mr. Chairman and members of the committee, I come from a small town in Michigan near Grand Rapids. I will speak from notes.

I am a producer-shipper. We acquire our vegetables that we ship in three different ways. One, we purchase from the growers; second, we handle some of our growers' produce on a commission basis, or on a brokerage basis; and we grow principally onions on a partnership basis.

Our firm has handled fresh vegetables since 1894, but it has only been since the depression days when we sold the general stores that we owned that handling produce has been our principal business.

During the last season we handled 4,900 carloads or carload equivalent of onions, celery, carrots, lettuce, and mixed vegetables. About 3,500 cars of that tonnage was onions.

I might say that we handled perhaps five or six loads of potatoes as an accommodation to our growers. I have never traded a potato on futures. I have absolutely no financial interest in the potato deal.

The reason I am here today testifying against the continuation of the futures trading in potatoes is because in 30 years' experience I have seen the onion industry deteriorate from a group of independent, fairly prosperous growers and shippers who refused price supports and governmental controls to frustrated, divided, and financially embarrassed shippers who lost to the unscrupulous and unprincipled speculators who dominated the trading on the Chicago Mercantile Exchange.

Now after 4 years of freedom from futures trading we are again getting on our feet. I am interested in free economy and freedom for agriculture. I think agriculture can solve its own problems.

We did get trapped into a futures trading deal and asked the Congress to help us out of an intolerable situation, but given a chance, agriculture can control its own destiny.

I might say that we raise onions in Pecos, Tex., on a farm adjoining the farm of Billie Sol Estes. And we have had the opportunity to observe the advantages and disadvantages of the cotton subsidy. And, gentlemen, it was not good.

May I tell you briefly of our experience in futures trading in onions? During the difficult days of the thirties and the prosperous war years we all made a comparatively good living. Onion markets were determined by the law of supply and demand. If we had a good year we often overplanted the next year. Because we had no outside interference we in the onion industry knew we had overproduced and we knew what to do about it by cutting down the next year.

Even the depression years were not disastrous to the onion grower.

Futures trading on onions was introduced about 1943. In theory futures trading can be used as a hedge and it is right in principle. And I am sorry to say it does not work that way in practice.

During the first few years of trading; that is, futures trading on onions in the middle forties we had absolutely no trouble. The Chicago Mercantile Exchange was used as a hedge. Most of the trading was done by onion people and we got along fine. It was about that time that the speculator-broker on the Chicago Mercantile Exchange saw the potential for larger profits. Trading increased, so that in the fifties we were trading 1,500 to 1,600 cars of a single option like November or January options in a single day. That is too many onions to trade when you figure that in those years the consumption from commercial channels was about 150 cars a day. I remember one day when 3,300 cars of onions were traded in a single day. Gentlemen, you can see what an effect that would have on a spot market.

Open commitments in future onions in middle fifties reached 60 million sacks and in some years larger, which was more than the total production of northern onions. When the commitment is more than the total production of the crop that you are trading you can see that you are in for trouble.

We found that in 1957, 89.5 percent of the traders were speculators, and only 9.5 percent were hedgers. Overproduction was encouraged by the speculators through loans to the farmers. They acquired onions, put them in cold storage in Chicago and elsewhere and held them over as a threat over the spot market.

I would like to give you just three short illustrations. I could talk to you all afternoon, but I know that there is a ball game on and I shall not.

I remember back in 1955 onion prices were fairly reasonable in September. One Minnesota grower hedged his crop, which is the right thing to do, on the November option, and then as the season went on the market advanced to unrealistic heights. This poor grower could not bring up his margin. All of these onions were bought and sold on margin. And after several margin calls they sold him out. So his complete cash position was wiped out. Then about December the speculators in Chicago started to dump 1,100 cars of onions on the market. The price went down. I remember selling one car of

onions to a customer in Columbia, S.C. at three different prices in the same day. I sold in the morning and at noon I changed the price downward and in the afternoon I changed it down again and I still had a dissatisfied customer, because the price was too high the next day.

Needless to say, this grower was a two-time loser and he went bankrupt.

I will give you another illustration. A large chain in the South acquired 50 cars of onions from a March contract to cover their requirements for the month of March in 1955 or 1956. When the speculators tried to force the market down this chainstore manager became angry, decided to support the market, he supported the market, he took 640 cars of actual delivery. And these onions met U.S. 1 grade, but they were very poor quality onions. We were asked to come in as so-called undertakers. I personally handled 350 cars of the distressed onions delivered on the Chicago Mercantile Exchange. Most of those cars had to be consigned. The trade would not buy them. They were uncertain of the market. They were uncertain of the quality. I remember selling some cars as low as \$25 a car. The last three cars I sold were three cars for \$25, a bargain. That is what your board did.

In 1957 I handled a crop of onions for an Indiana grower. The market was short. As we got into the latter part of the season we decided to raise the price about every day. I would call him and ask "What do you want for your onions today—what do you want me to sell for?" And every day he would be a quarter up. They ran the market to unrealistic heights. I think it was about \$6.50 a bag. And all at once one morning I called and asked, "What do you say, what do I do today?" And he said, "Well, I do not feel quite so good about this market. I think I will drop the price 50 cents, but do not sell them any."

I found that he was in a combine that was manipulating the market in Chicago. They had been on one side of the market and they had decided to give their partners the doublecross and got on the other side of the market. And so they started to run the market down. They ran the market down to a level of about \$3.50. We shippers and growers were very much disturbed. Our trade lost confidence in the onion market when they saw the mercantile go down sharply. They were afraid to buy. They thought the cash market would follow, and it did follow. They work in sympathy to each other.

And so on Saturday afternoon I well recall all of the growers I could get hold of being called, and then getting their support and having them agree to wire in. We called the commodities exchange in Washington. We could not get anyone so we sent wires. We called the USDA. I finally called the president of the Chicago Mercantile Exchange and threatened to be there with a group of growers on Monday morning and turn the place upside down. It was an idle threat. I threatened to do that if something was not done. They stopped trading that Monday morning, had a meeting of the board of governors, and limited trading to the commitments they already had.

We finally stabilized the market at about \$3.90. I think that is what it was, and we managed to move the rest of our onions which would have probably sold for as low as \$2.50 when the market should have been around \$5.

Then in about 1959, thanks to Representative Gracie Pfost and Representative Ford and many others, legislation was passed to eliminate onion futures trading in the Chicago Mercantile Exchange and other exchanges. Since 1959 we have had orderly marketing so necessary to profitable produce operations.

In the 1961-62 season we had some rather wide fluctuations of onion prices. We had a former mercantile exchange speculator who tried to manipulate the market. He had always been successful when the mercantile exchange was in operation. This time, without the framework of the mercantile exchange to support him, he went broke. He is now back in futures trading in our locality, trading in potatoes and other commodities. He cannot exist unless he is under the framework of futures trading organization.

In 1955 we had a crop of 29 million bags of northern grown onions. The cash price went from \$1.75 a bag to nothing in the spring—and I mean nothing. We dumped them. March futures that year and the Chicago Mercantile Exchange went from \$2.40 to a low of 10 cents and a close of 15 cents. If you realize that a bag costs you 20 cents you can see what shape we were in that year.

In 1962 without the futures trading in onions we had a crop of 34 million bags. The market fluctuated from \$1 to \$1.80 a bag and closed at \$1.50. And we are about to clean up the entire crop at a profit to most every grower and shipper. I feel that because of the perishable nature of onions and potatoes, as well as other fruits and vegetables they do not lend themselves to futures trading.

You have freed the onion industry from an intolerable situation which we could not do anything about, and I hope that you see fit to do as much for the potato industry.

Thank you.

Mr. GRANT. Mr. McIntire?

Mr. McINTIRE. I certainly want to express appreciation for Mr. DeBraun's statement. You made reference to a couple of Members of Congress who were very active in connection with the elimination of the futures trading on onions which this subcommittee, under the leadership of Mr. Grant, actually implemented. And some of us who were on the committee at that time were very much in on the onion controversy, being part of hearings in Chicago and here in Washington.

Is it your observation, Mr. DeBraun, that growers offering their commodities into the marketplace had absolutely no influence in the elimination of the futures trading on onions, that it required legislation in order to accomplish that end?

Mr. DEBRAUN. It certainly did. We tried every way. I went through the whole gamut of it. I was opposed to futures trading when it started. When they were using it as a true hedge I traded several cars. When the abuses started in the fifties and it got to be speculation, I dropped out of the market, but the futures trading was in such volume, and the fact that so many cars were stored in Chicago and elsewhere was such a threat to the cash market that we were forced to buy a seat on the Chicago Mercantile Exchange and hedge for our growers. They demanded it. It affected their markets. We needed the pipeline to the source of information in Chicago. Control had

changed from the grassroots, from the growers out in Michigan and New York and elsewhere to the Mercantile Exchange of Chicago. So we started to trade.

Then the thing got so bad that we asked for regulations. When they did not work we asked for the elimination of the board and we quit trading.

We tried advertising. We have tried regulation. The only successful way of getting our industry back and getting it free from this situation, getting it back into the hands of the growers, back to the law of supply and demand, was to eliminate futures trading.

We certainly appreciate the help given us by the potato growers and your committees here in Congress in accomplishing that end.

Mr. MCINTIRE. Thank you.

Mr. GRANT. Thank you very much for your testimony.

Mr. DEBRAUN. Thank you.

Mr. FINDLEY. May I ask a question?

Mr. GRANT. Yes.

Mr. FINDLEY. Out of your experience with the futures trading on onions—and I do not know my onions, I will say parenthetically—do you see any possibility of setting rules and regulations on the futures market so that if it continues to operate it would still not be a hardship on the trade?

Mr. DEBRAUN. No, sir; I see none whatever. We tried those rules and regulations in our onion industry. If you are not going to obey the laws there are ways of getting around it, and that's just exactly what happened in the rules and regulations on onions. Combines were formed, sales were made in other names. And they got around any regulations that were passed. And we finally gave up in despair and asked for the elimination of futures trading on onions. I think we had no other alternative. I think—we had lost control of the thing entirely.

Mr. FINDLEY. What other perishable commodities are subject to the futures of trading?

Mr. DEBRAUN. I think onions and potatoes are the two principal ones. They are picking on Maine potatoes particularly now. We had some representatives from other States, North Dakota and Idaho, and they could not understand why this futures board affected their markets, because back home in their States it did not, but all they have to do is to go back to the onion growers in North Dakota and in the Red River Valley, in Idaho, and ask how they were ripped around they will quite understand how it affects the market.

Mr. FINDLEY. Am I correct in concluding from your testimony that the prices producers are getting for onions today are better than they were when the futures trading was in operation?

Mr. DEBRAUN. Yes, sir; decidedly better.

Mr. FINDLEY. Thank you.

Mr. DeBRAUN. And by regulating the orderly marketing of onions we do not have the wide fluctuations. The chainstores and other parts of the trade have confidence in buying ahead and putting on sales because they know there are not going to be a lot of them dumped unexpectedly, and they know that they will not create an artificial shortage. We have a very much more stable market. The farmers know what to figure on. And most of them are making money. Last year they made a lot of money. A year ago—this year they made a good living and a profit besides. What it will be next year we do not know. They will probably overplant, but we know what to do the following year about that.

Mr. GRANT. Thank you.

Mr. DeBRAUN. Thank you, sir.

Mr. GRANT. With that, we will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:05 p.m., the hearing was in recess, to reconvene at 10 a.m., Tuesday, April 9, 1963.)

PROHIBIT TRADING IN IRISH POTATO FUTURES ON COMMODITY EXCHANGES

TUESDAY, APRIL 9, 1963

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

The subcommittee met, at 10:05 a.m., pursuant to recess, in room 1310, Longworth House Office Building, Washington, D.C., Hon. George Grant (chairman of the subcommittee) presiding.

Present: Representatives Grant, Matthews, Harding, Rosenthal, Teague of California, Findley, Beermann, and Hutchinson.

Also present: Representatives Duncan, McIntire, and Short.

Christine S. Gallagher, clerk; Hyde H. Murray, assistant clerk; John J. Heimburger, counsel; and Robert Bruce, assistant counsel.

Mr. GRANT. The subcommittee will come to order.

Our first witness this morning is Mr. Douglas Bagnell, who is, I might say, a former resident of Washington and for many years worked in the Department of Agriculture, and then went to Alabama and is now back with us.

STATEMENT OF DOUGLAS BAGNELL

Mr. BAGNELL. Mr. Chairman and gentlemen, my name is Douglas Bagnell. I live in Alabama, where I have been since I retired from the Department of Agriculture in 1959.

I would like, if I may, to say that I received a telegram last night from the Rocky Mountain Farmers Union which is in support of this legislation, and this might be as good a time as any to put it in the record, with your permission.

Mr. GRANT. Without objection, it will be received for the record.

(The telegram follows:)

Mr. HAROLD BRYANT,
Maine Potato Council,
Washington, D.C.:

Delegates to Rocky Mountain Farmers Union convention representing 40,000 farm families unanimously voted to support legislation making it illegal for potatoes to be traded on the future's market. We feel that ruinous ups and downs in potato pricing, which still plague the potato growers are a primary result of gambling in the future's market.

GEORGE L. BICKEL,
Assistant to the President,
Rocky Mountain Farmers Union.

Mr. BAGNELL. About 1928 I had my first contact with futures trading in connection with the audit of a large wheat concern in Ama-

rillo, Tex. I am a certified public accountant of Texas, also of Alabama.

In 1931 I went to work for the Commodity Exchange Authority or rather its predecessor organization, the Grain Futures Administration.

Perhaps I should interrupt myself here a minute by saying that while I have a prepared statement, I nevertheless, with your permission, will speak more or less extemporaneously on those.

Mr. GRANT. Yes. Without objection, you may do so.

Mr. BAGNELL. As I say, I went to work for what later became the Commodity Credit Authority in 1951. Since that time, with the exception of about 2½ years on military leave, I have been in rather continuous and close touch with all of the commodity futures markets in the United States.

My work with the CEA was largely investigational and enforcement in character and involved observation of trading in commodities. Generally, the last 5 years for the CEA I had the job of Deputy Administrator.

About 6 years ago, when I was still with the Department of Agriculture, I was sent on a trip through Maine to discuss the Maine potato industry the general problem of futures trading. There was quite a bit of dissatisfaction and also quite a bit of misunderstanding as to what the Department's authority was in controlling and regulating those markets. I met with quite a number of groups and merchandisers, mainly in Aroostook County. I found that there was universal antagonism toward futures trading by the majority of the people at these meetings, but at the same time there were certain changes being proposed in the rules of the exchange, some of which were made in the hope of making the contract more palatable to the trade. And quite a few of the people who were in opposition, nevertheless, were persuaded to take a sort of wait-and-see position, hoping that these changes would enable the potato futures market to become the same useful tool that other futures markets had become.

I personally was rather sympathetic to that approach, because after years of observation of the markets in wheat, corn, and cotton and the other nonperishable commodities, it had shown me that they did perform a very useful function. There was no legislation, as you know, of course, and the market continued to operate.

Last summer I was asked by the Maine Potato Council to come to Maine and take a look at the situation as it then existed 6 years later. I was glad to do so. And I heard a great many comments, complaints, and observations that showed that the Maine people were even more opposed to futures trading than they had been 6 years earlier when I was first there. I agreed to try to find out as well as I could if there was a basis for this general dissatisfaction. There was no doubt on my part about the dissatisfaction, derived both in my talking to people and from the poll that Mr. Bryant described yesterday. So I interpreted my job to be to find out if there was any reason for it. Were these people misinformed 6 years earlier when I first was there? Were they more misinformed now? Were they trying to destroy a mechanism that really had done them good and was continuing to do them good? That was my approach to what I agreed to undertake.

In working toward that end I looked at all the statistical data mostly prepared by the U.S. Department of Agriculture that seemed to me to have a bearing on answering these questions.

The general comment around Maine was that speculative activities had greatly increased because the question of whether the volume of trading had increased was very simply answered. It was published every day in all of the papers, but for the convenience of the committee I have prepared a very simple tabulation. I think that you have it in front of you. This is the one that has a little "a" up in the upper right-hand corner and shows the volume of futures trading from 1945 to 1962 on the Chicago Mercantile Exchange which relates to Idaho potatoes and on the New York Mercantile Exchange which relates to the Maine contract.

As will be mentioned in connection with subsequent tabulations, there was no trading at any time of any consequence on the Chicago Mercantile Exchange, so we can simply, I think, say that it has not been influenced significantly any time by futures trading. The New York Mercantile Exchange down until about 1951 and 1952 had relatively small volume; then began to increase sharply and continued to increase last year, as shown by the last year that I have here, there being 237,688 contracts.

I would like to submit this tabulation for the record, if I may, Mr. Chairman.

Mr. GRANT. Without objection, it will be received.

(The tabulation entitled, "Potato Futures—Annual Volume of Trading," follows:)

Potato futures—Annual volume of trading

Year	Chicago Mercantile Exchange	New York Mercantile Exchange	Year	Chicago Mercantile Exchange	New York Mercantile Exchange
1945-46-----	570	5,642	1954-55-----	576	196,610
1946-47-----	182	16,142	1955-56-----	180	126,159
1947-48-----	19	27,563	1956-57-----	123	137,055
1948-49-----	6	9,208	1957-58-----	12	188,157
1949-50-----	38	6,554	1958-59-----	48	95,423
1950-51-----	111	2,516	1959-60-----	273	284,621
1951-52-----	280	17,901	1960-61-----	364	188,911
1952-53-----	1,720	121,729	1961-62-----	3	237,688
1953-54-----	1,030	66,495			

Source: Commodity Futures Statistics, USDA, "In Carlots."

Mr. BAGNELL. I would also like to interject, while there are a number of tabulations, please do not be alarmed by them, because I am going to make my remarks and comments very briefly and simply try to touch on the essential points.

Also, a number of these tabulations have attached to them explanatory notes and I would like, if possible, to have those notes inserted in the record as a footnote to the tabulation.

The first tabulation I just mentioned showed that the volume had gone up from about 130,000 cars a year, at about the time I was up there 6 years earlier, to more than 200,000 cars currently.

One of the principal things that I heard commented on or contended was that Maine's position in relation to other producing areas

that were not influenced by futures trading had steadily deteriorated as futures trading increased. In looking at that, I compared the price situation in Maine, first with those in Idaho. Idaho was chosen because it is in almost, in many degrees, in many respects, rather comparable to Maine as regards the production season, the quantity produced, and the tabulation which you have there with the little "b" on it relates to that.

This was a comparison of the wholesale potato prices at shipping points in Maine in relation to the wholesale potato prices at shipping points in Idaho. Recognizing, of course, that Idaho ships a longer distance, but the object of the tabulation primarily is to show the change in relationship which I thought was pertinent, even though there is some basic difference in the product itself.

You will notice that the first tabulation headed, "Wholesale potato prices f.o.b. shipping point," et cetera, is divided into three segments.

The first segment is from 1946 to 1951, which relates to the period before futures trading was of any consequences in the State of Maine. It has been said that it was never, as I said before, of any consequence in Idaho. You will note that in that 5-year period the Maine price averaged 88 percent of the price in Idaho.

The next 5 years, 1951 to 1956, was the first 5 years when the futures trading in Maine became quite active, and you will note that Maine's position in relation to Idaho dropped from 88 to 76 percent.

The last 5 years shown on the table when futures trading in Maine had become still heavier shows Maine with 69 percent of Idaho's prices.

Now that, to me, accounts to a considerable extent for the general contention among the people of Maine that their position had deteriorated. It bore that out. I endeavored to break these figures down into dollars and cents on a financial basis which admittedly, in the case of any agricultural product, should not be considered a complete and absolute conclusive piece of evidence. There are thousands of things, of course, that affect the prices of any product, but the last one, the long table which is attached to it, to that series of tabulations, in the interest of saving time I would suggest that you just look at the last column on the right-hand side. If Maine had maintained its 88 percent relationship to Idaho in that first 5 years of futures trading, rather than dropping to 76 percent as it did, the return on the whole crop produced in Maine would have been \$12,-836,000 per year more than it was.

Taking the last 5 years, when futures trading had become very active, if Maine had maintained its 88-percent relationship instead of dropping to 69 percent, as it did, the return to Maine would have been \$17,898,000 per year more.

The average for the 10-year period involved being \$15,367,000 per year that Maine received less than it would have received had it maintained its original 88-percent relationship.

With your permission, I will just pass these on to the reporter, Mr. Chairman.

Mr. GRANT. Without objection, they may be received for the record.

(The statement entitled, "Comparison of Maine with Idaho," follows:)

COMPARISON OF MAINE WITH IDAHO

The comparison of wholesale prices of Maine and Idaho potatoes for the 15-year period from 1946-47 through 1960-61 shows the steadily worsening competitive position of the potato industry of Maine as compared with that of Idaho.

Idaho was selected for this comparison because the harvesting season and volume of production make it more similar to Maine than are any of the other producing areas.

There were no futures trading of any significance in Idaho potatoes at any time during the period, and during the first 5 years there was no such trading of any consequence in the Maine contract. In this 5-year period the wholesale prices of "most Katahdin" potatoes at Aroostook County points averaged 88 percent of the prices of Russet Burbank's at Upper Valley points in Idaho. During the next 5 years (1952 to 1956) futures trading in Maine potatoes on the New York Mercantile Exchange began to reach sizable proportions, averaging 106,536 car lots per year. During this period the Maine price declined in relation to Idaho and averaged 76 percent of the latter.

In the third period shown (1957 to 1961) futures trading in Maine potatoes continued to increase, averaging 178,997 cars per year, and this was accompanied by a further decline in Maine's relationship to Idaho to 69 percent.

During the most recent 3 years shown 1959 to 1961 futures trading averaged about 190,000 cars per year and wholesale prices in Maine declined to an average of 64 percent of those in Idaho.

While the general price level in the two areas may be presumed to reflect a usually higher price for Russets as compared with Katahdins the striking change in the relationship in 15 years seems most significant. It was considered that an increase in Maine production as compared with Idaho production might be expected to bring lower Maine prices as compared to Idaho prices.

The fact is, however, that during the first 5-year period of heavy futures trading Maine produced an average of 34,690,000 hundredweight or 124 percent of Idaho's average of 28,066,000 hundredweight.

During the next 5 years (1957 to 1961) Maine increased production only slightly to an average of 35,797,000 hundredweight, failing to approach Idaho's increase to an average of 42,318,000 hundredweight. Maine's percentage of production declined drastically from 124 to 85 percent. Thus Maine's position (with futures trading) deteriorated sharply in relation to Idaho (without futures trading) both pricewise and productionwise.

The financial effect of the striking deterioration of Maine's competitive position can be to some extent judged by a calculation of what the Maine crop would have brought if for the 10-year period of heavy futures trading the same relationship with Idaho had existed as during the 5 years before such trading had become an important factor.

If instead of being on a 76-percent basis with Idaho during the 5 years 1951-56 as shown in the tabulation Maine had been able to maintain its prefutures position of 88 percent the wholesale price of \$2.42 shown on the tabulation would have been \$2.79, a difference of 37 cents per hundredweight. Applying this difference to the 5-year total production of 173,454,000 hundredweight gives the startling figure of \$64,177,980 as the additional amount at wholesale prices which would have gone to the Maine potato industry in the 5 crop years 1951-52 to 1955-56. The average is \$12,835,000 per year.

During the next 5-year period of heavy futures activity the financial disadvantage to Maine continued. Applying the figure of \$1.89 per hundred to the production of 178,988,000 hundredweight results in a valuation of \$338,287,320 or \$67,657,464 average per year.

If Maine had remained on its prefutures 88-percent basis with Idaho the price would have averaged \$2.39, exactly 50 cents per hundred more than that shown by the table. This would have increased the valuation for the 5-year production by \$89,494,000 or \$17,898,800 per year.

To summarize, it appears that the decline in Maine's position in relation to Idaho amounted to a financial disadvantage to Maine of an average of \$15,366,900 per year over the 10-year period from 1951-52 to 1960-61.

Wholesale potato prices f.o.b. shipping point, Idaho compared with Maine, crop years 1946-47 to 1960-61

Crop year	Idaho ¹	Maine ²	Percent Maine to Idaho
1946-47	\$2.37	\$2.13	90
1947-48	3.89	2.93	75
1948-49	2.90	3.20	110
1949-50	2.77	1.91	69
1950-51	1.73	1.82	105
Average	2.73	2.40	88
1951-52	4.06	3.61	89
1952-53	3.96	2.51	63
1953-54	1.82	.95	52
1954-55	3.36	2.43	72
1955-56	2.67	2.58	96
Average	3.17	2.42	76
1956-57	2.16	1.54	71
1957-58	2.65	2.27	85
1958-59	1.97	1.57	80
1959-60	3.58	2.53	71
1960-61	3.26	1.56	47
Average	2.72	1.89	69

¹ Russet Burbank No. 1, size A, sales f.o.b. shipping point, Idaho Falls, Twin Falls district.

² Mostly Katahdin type, U.S. No. 1, size A, sales, Aroostook County points, Presque Isle, f.o.b., shipping point.

Source: "Fresh Fruit and Vegetable Prices," Agricultural Marketing Service, USDA.

Summary of financial effect of decline in Maine prices in relation to Idaho

Period	Production (hundred- weight)	Average price per hundredweight		Value of crop					
		As reported	88 percent of Idaho	As reported		88 percent of Idaho		Maine under Idaho basis	
				Total	Average per year	Total	Average per year	Total	Average per year
1951-52 to 1955-56.....	173,454,000	\$2.42	\$2.79	\$419,750,000	\$83,951,000	\$483,936,000	\$96,787,000	\$64,178,000	\$12,836,000
1956-57 to 1960-61.....	178,983,000	2.30	2.30	338,287,000	67,637,000	427,781,000	85,556,000	89,494,000	17,898,000
10-year total.....	352,437,000	2.15	2.59	758,045,000	75,804,000	911,717,000	91,172,000	153,672,000	15,367,000

Mr. BAGNELL. That seemed to be a rather clear indication that the people in Maine had some basis for their feeling concerning this deterioration in relationship. The thought that occurred to me, perhaps, is that it might be well, due to an increase in production in Maine as related to Idaho. In other words, if Idaho's crop was going down all of the time and Maine's crop was going up, I would suspect that the Idaho prices to go up and the Maine prices to go down. I found, however, the exact opposite was true.

In 1952 Maine produced about 15 percent of the total U.S. crop and Idaho produced about 12 percent. Ten years later, in 1961, Maine's production had dropped to 15 percent and Idaho's production had gone up to 19 percent. So I had to charge that off as a possible explanation of this deterioration in Maine's position.

Then I wondered if a comparison with other areas than Idaho might be interesting, so I made a similar comparison in connection with Michigan which is the tabulation there with the letter "C" on it.

I found that in the first 5 years when there was no futures trading in either market, Maine got 112 percent of Michigan's prices. In the next 5 years when futures trading had gotten a pretty good head of steam, Maine dropped to 97 percent of Michigan's prices. And in the last 5 years when there was quite active futures trading, Maine dropped to 87 percent.

So all three of these indications seem to point in the same direction. I should like to offer this table for the record.

Mr. GRANT. Without objection it will be received for the record. (The document entitled "Comparison of Maine to Michigan" follows:)

COMPARISON OF MAINE WITH MICHIGAN

A comparison of Maine wholesale prices with those of Michigan shows the same weakening of Maine's competitive position as in the case of Maine and Idaho.

During the 5 years immediately prior to active futures trading (1947-51) Maine prices averaged 112 percent of those in Michigan. During the first 5 years of heavy activity in the futures market Maine prices declined to 97 percent of Michigan's, and in the period of 1957 to 1961, with still greater volume of futures trading, Maine's wholesale prices averaged only 87 percent of those shown for Michigan.

*Wholesale potato prices at shipping points in Maine compared with Michigan,
1946-47 to 1960-61*

Year	Maine	Michigan	Percent, Maine to Michigan
1946-47	\$2.13	\$1.86	114
1947-48	2.93	2.73	107
1948-49	3.20	2.63	121
1949-50	1.91	2.00	96
1950-51	1.82	1.48	123
5-year average	2.40	2.14	112
1951-52	3.61	3.63	99
1952-53	2.51	3.35	75
1953-54	.95	1.41	67
1954-55	2.43	2.10	116
1955-56	2.58	1.96	132
5-year average	2.42	2.49	97
1956-57	1.54	1.82	85
1957-58	2.27	2.79	81
1958-59	1.57	1.57	100
1959-60	2.53	2.42	104
1960-61	1.56	2.30	67
5-year average	1.89	2.18	87

Source: "Fresh Fruit and Vegetable Prices," Agricultural Marketing Service USDA.

Mr. BAGNELL. Another very frequently heard complaint in Maine was that futures trading increased price fluctuations. That is a very difficult thing to be precise on. I did, however, take the period, that is, the most recent period on which I was able to get data of heavy activity in the Maine market. That is contained in the CEA special report covering the period through to May 1962's contract, which was the subject of quite a lot of controversy and investigation. And I have a chart, which is the last page of the exhibit, that has the letter "D" on it, which shows on the last two lines the volume of trading and the daily price fluctuations. And by "daily price fluctuations," I mean the difference between the high price registered on any one day and the low price on any one day.

The bottom line of that chart shows the volume of futures trading on each trading day, from the first of March through the middle of May, and you will note over there about the middle of April that it got up to, I guess, 6,000 cars. Early in March it was up to about 4,000 cars, and it jumped up and down quite regularly.

The line above that headed, "Daily Price Range," that I just described as the difference between the high and low prices registered demonstrates that. Those two lines are almost a mirror reflection of each other, as you will see. One goes up and the other goes up.

Of course, that brings up the old question of the hen and the egg, does trading increase because of increased price movement, or do price movements increase because of trading?

In my personal opinion from many years of observation, it is that there is some element of both. That is, that increased price movement attracts speculation, and speculation in itself tends to accentuate those price movements.

I would like to have that inserted in the record also.

Mr. GRANT. Without objection it will be received.

(The document entitled "Price Range and Volume of Futures Trading" follows:)

PRICE RANGE AND VOLUME OF FUTURES TRADING

This tabulation and the chart which accompanies it sets forth the relationship between prices movements within each day in the May 1962 futures contract and the volume of futures trading daily from March 1, 1962, to the end of trading in the May contract on May 14, 1962.

It is clear that prices move more widely as futures trading becomes more active. During March the trading averaged 1,534 cars per day and the average price range was 9 cents. In April trading increased to an average of 2,003 cars per day with the price range moving up to 13 cents. The peak was reached in May with trading averaging 2,337 cars accompanied by average daily price swings of 17 cents.

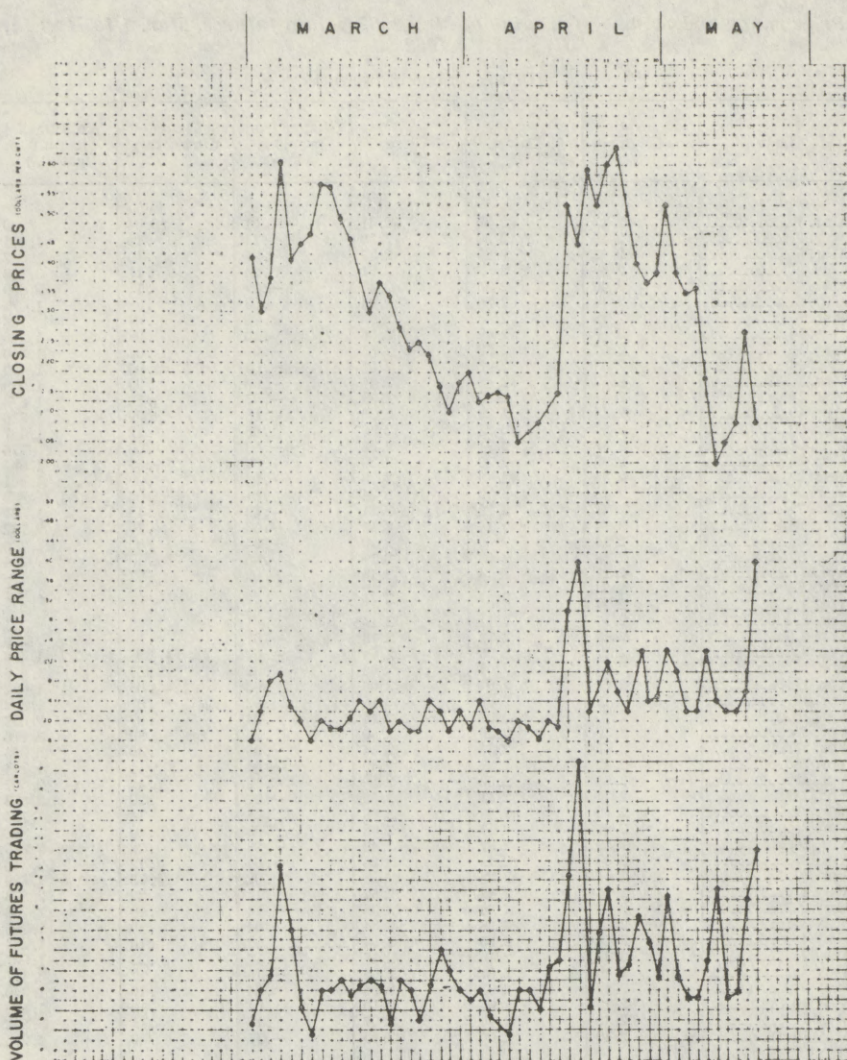
Relationships on individual days are striking. On 2 days, April 17 and May 14, the price moved 40 cents per hundredweight. These also were the days of heaviest futures volume, with trading of 6,053 carlots and 4,215 carlots, respectively.

Price range and volume of trading of May 1962 potato futures, Mar. 1 to May 14, 1962

[Dollars per hundredweight]

Date	High	Low	Close	Change from previous close	Range during day	Volume of trading (carlots)
<i>1962</i>						
Mar. 1	\$2.43	\$2.39	\$2.41	—\$0.01	\$0.04	739
Mar. 2	2.40	2.30	2.30	— .11	.10	1,471
Mar. 5	2.42	2.26	2.37	.07	.16	1,677
Mar. 6	2.69	2.52	2.61	.24	.17	3,938
Mar. 7	2.46	2.35	2.41	— .20	.11	2,600
Mar. 8	2.44	2.36	2.44	.03	.08	1,066
Mar. 9	2.48	2.44	2.46	.02	.04	766
Mar. 12	2.57	2.49	2.56	.10	.08	1,386
Mar. 13	2.57	2.50	2.55	— .01	.07	1,370
Mar. 14	2.53	2.46	2.51	— .04	.07	1,499
Mar. 15	2.52	2.43	2.45	— .06	.09	1,289
Mar. 16	2.47	2.35	2.38	— .07	.12	1,573
Mar. 19	2.35	2.26	2.30	— .08	.09	1,616
Mar. 20	2.37	2.25	2.36	.06	.12	1,487
Mar. 21	2.37	2.31	2.33	— .03	.06	776
Mar. 22	2.30	2.22	2.26	— .07	.08	1,565
Mar. 23	2.24	2.18	2.23	— .03	.06	1,421
Mar. 26	2.25	2.19	2.24	.01	.06	839
Mar. 27	2.32	2.20	2.21	— .03	.12	1,500
Mar. 28	2.24	2.14	2.15	— .06	.10	2,182
Mar. 29	2.14	2.09	2.10	— .05	.05	1,746
Mar. 30	2.18	2.08	2.16	.06	.10	1,254
Apr. 2	2.21	2.14	2.18	.02	.07	1,198
Apr. 3	2.24	2.12	2.12	— .06	.12	1,451
Apr. 4	2.14	2.07	2.13	.01	.07	946
Apr. 5	2.17	2.11	2.14	.01	.06	724
Apr. 6	2.16	2.12	2.13	— .01	.04	536
Apr. 9	2.11	2.03	2.04	— .09	.08	1,473
Apr. 10	2.08	2.01	2.06	.02	.07	1,456
Apr. 11	2.09	2.04	2.08	.02	.05	1,042
Apr. 12	2.14	2.06	2.10	.02	.08	1,862
Apr. 13	2.15	2.08	2.14	.04	.07	2,028
Apr. 16	2.50	2.20	2.50	.36	.30	3,716
Apr. 17	2.65	2.25	2.44	— .06	.40	6,053
Apr. 18	2.42	2.31	2.40	— .04	.11	1,114
Apr. 19	2.65	2.50	2.59	.19	.15	2,567
Apr. 23	2.71	2.51	2.52	— .07	.20	3,393
Apr. 24	2.62	2.48	2.60	.08	.14	1,734
Apr. 25	2.67	2.57	2.63	.03	.10	1,882
Apr. 26	2.59	2.37	2.40	— .23	.22	2,915
Apr. 27	2.38	2.26	2.36	— .04	.12	2,346
Apr. 30	2.41	2.28	2.38	.02	.13	1,629
May 1	2.65	2.43	2.52	.14	.22	3,373
May 2	2.52	2.34	2.38	— .14	.18	1,768
May 3	2.38	2.28	2.34	— .04	.10	1,338
May 4	2.43	2.33	2.34	—	.10	1,294
May 7	2.38	2.16	2.17	— .17	.22	1,997
May 8	2.13	2.01	2.02	— .15	.12	3,417
May 9	2.12	2.02	2.06	.04	.10	1,340
May 10	2.15	2.05	2.10	.04	.10	1,408
May 11	2.30	2.16	2.27	.17	.14	3,222
May 14	2.40	2.00	2.10	— .17	.40	4,215

Source: Table 27 of CEA report "Futures Trading in the Marketing of Maine Potatoes, 1961-62."



Closing prices, price range, and volume of trading of May 1962 potato futures,
March 1, to May 14, 1962

Mr. BAGNELL. Then the question of price fluctuation was also looked into a bit as regards action on potatoes, and the exhibits you have there marked with the letter "E" is a comparison of the range of prices from year to year in these wholesale f.o.b. shipping points in Maine as compared to the range from year to year in comparable points in Idaho.

Again we have it divided into the three segments of 5 years each. You will note that the first segment, where there was no futures trading in the market, that Idaho has an average annual price change for the 5 years of 39 percent, while Maine's average is 23 percent, Maine being obviously at that time much more stable than Idaho as to potatoes.

Dropping down to the next 5-year bracket, when futures trading was of some consequence, we see that Idaho's fluctuation percentage went up a bit from 39 to 41 percent, but Maine takes a jump from 23 to 52 percent.

Coming on down to the last 5 years on which I have data, both markets were relatively more stable than they had been earlier; Idaho down to 24 percent annual average price change and Maine down to 33 percent, but still maintaining the general picture of greater stability in Idaho and a lessening of stability in Maine which went right along with the same periods when the futures trading in Maine was increasing.

Those were the most interesting data that I was able to accumulate. I asked the question then as to what might be some of the underlying factors in this situation. As I said before, it is my own view that the heavier speculation, the greater, at least, the short-term price movement. If you will wait long enough over a period of 10 years or 15 years, I doubt if you could see a nickel's worth of difference. From minute to minute, from day to day, I think it would make an enormous difference.

I think that difference seems to be around the volume of speculation, but also the type of speculation that is in the market. I think that a volatile market tends to attract the reckless type of speculation. I know enough about the brokerage business to know that with respect to that, that if a commodity speculator walks in and has a little money, the customer's man is likely to put it into something that will move pretty fast, because the man obviously wants action and the customer man's job is to give it to him, if he can.

And he also is concerned with how much the customer is concerned with how much it will cost him to get in.

Before I forget it, I should like to have the document with the letter "E" on it made a part of the record.

Mr. GRANT. Without objection, it will be received for the record.

(The document entitled "Comparative Range of Prices, Maine and Idaho" follows:)

COMPARATIVE RANGE OF PRICES, MAINE AND IDAHO

An examination of the average annual wholesale price movements of Maine "mostly Katahdin" potatoes as compared to Idaho Russet Burbanks shows that Maine prices reflected greater changes relative to Idaho as futures trading increased in volume.

In the 5 years just before futures trading reached a significant volume, Idaho prices showed an average annual change of 39 percent as compared with the previous year. During that period Maine enjoyed relatively more stable prices, with a fluctuation rate of only 23 percent.

In the first 5 years of active futures trading the situation reversed, with Idaho showing a slightly larger percentage of movement of 41 percent, but Maine's percentage rate of fluctuation more than doubling to reach 52 percent.

In the last 5 years shown (1957-61) both areas reflected less violent annual average price movements. Idaho dropped from 41 to 23 percent while Maine dropped from 52 to 33 percent, still a much more volatile market, both actually and relatively, than Idaho.

Comparison of changes in average annual wholesale prices Idaho Russet and Maine Katahdins

[Dollars per hundredweight]

Year	Idaho			Maine		
	Average prices	Change from previous year	Percent change	Average prices	Change from previous year	Percent change
1947	\$2.84			\$2.50		
1948	4.43	\$1.59	56	3.06	\$0.56	22
1949	3.07	-1.36	31	2.50	-.56	18
1950	2.03	-1.04	34	1.91	-.59	24
1951	2.77	.74	36	2.42	.51	26
5-year average			39			23
1952	4.62	1.85	66	3.65	1.23	50
1953	3.99	-.63	32	1.49	-2.16	60
1954	1.96	-2.03	38	1.23	-.26	17
1955	3.10	1.14	58	2.65	1.42	117
1956	2.77	-.33	11	2.17	-.48	18
5-year average			41			52
1957	2.23	-.54	19	1.60	-.57	27
1958	2.56	.33	15	2.14	.54	33
1959	2.66	.10	4	1.80	-.34	16
1960	3.93	1.27	47	2.57	.77	42
1961	2.60	-1.33	33	1.35	-1.22	47
5-year average			24			33

Source: Annual bulletins "Fresh Fruit and Vegetable Prices," Agricultural Marketing Service, USDA.

Mr. BAGNELL. Now I have here a margin table which the CEA gave be showing the minimum speculative margin requirements of September 1962. I do not think that it has changed at all, certainly not materially since that time.

You will note in looking at the second column, the second to the last column on the right, headed "Contract," that is the amount of money that the respective speculator has to put up to get into the market. You will see that potatoes, down about the middle of the table, carries a requirement of \$200, which is the smallest of any amount required. I have no criticism of that percentage-wise. It was 9.8 percent which is, I guess, higher than the average margin.

You will notice up there for cotton that you put up as little as 3 percent. It is kind of like the man going in on installment buying. He does not look beyond the one question except what he has to put on the line. The potato man only has to put \$200 on the line. Consequently, I think people get into the market from time to time who are not too responsible financially and also of people for whom it does not take much change in price for them to get out.

That brings up what has been referred to frequently here as adjustment of the technical position. Those adjustments, as shown in the CEA report, frequently occur near the end of the trading session, the end of the trading season, particularly in May when these people, hoping against hope, have remained in the market either long or short and all of a sudden, about the last day, the customer's man calls them up and says that he has to get out of the thing and get out fast. The result is that the brokers on the floor are deluged with orders to get these people out. And sometimes they become so deluged that they miss an order which they have to push in right at the very last second. So it all ties in, to my way of thinking, to a rather hectic situation regarding the price movement of several cents, I guess, 10 or 15 cents in just a few minutes which, of course, is just, as I said before, an adjustment of a technical situation.

The price of potatoes simply does not change that much that fast. I would like to put this margin table into the record here, too.

Mr. GRANT. Without objection, it will be received in the record.

(The document entitled "Minimum Initial Margins Prescribed by Exchanges as of September 28, 1962" follows:)

Minimum initial margins prescribed by exchanges as of Sept. 28, 1962, on speculative futures transactions in specified commodities

Commodity	Market	Contract	Margin		Percent of price
			Price per contract	Cents per unit	
Corn.....	Chicago Board of Trade	5,000 bushels.....	\$5.363	5 per bushel.....	4.7
Cotton (port).....	New Orleans Cotton Exchange.....	50,000 pounds.....	16.575	500 per bale.....	3.0
Cotton.....	New York Cotton Exchange.....	100 bales.....	16.625	do.....	3.0
Cottonseed meal.....	Memphis Board of Trade Cleaning Association.....	100 tons.....	5.700	400 per ton.....	7.0
Cottonseed oil.....	New York Produce Exchange.....	60,000 pounds.....	7.470	0.7 per pound ²	5.4
Eggs (shell).....	Chicago Merchants Exchange.....	35,000 dozen.....	5.895	2.3 per dozen.....	6.0
Eggs (frozen).....	do.....	30,000 pounds.....	7.671	1.2 per pound.....	4.6
Lard (drummed).....	Chicago Board of Trade.....	40,000 pounds.....	3.360	1 per pound.....	11.9
Oats.....	do.....	5,000 bushels.....	3.181	5 per bushel.....	7.9
Potatoes (Maine).....	New York Merchantile Exchange.....	1,000, 30-pound bags.....	2.050	40 per hundred weight.....	9.8
Rye.....	Chicago Board of Trade.....	5,000 bushels.....	6.025	8 per bushel.....	6.6
Soybeans.....	do.....	do.....	11.856	do.....	3.4
Soybean meal.....	do.....	100 tons.....	6.125	400 per ton.....	6.5
Soybean oil.....	do.....	60,000 pounds.....	4.836	0.8 per pound.....	10.3
Wheat.....	do.....	5,000 bushels.....	3.361	8 per bushel.....	4.0
Do.....	Kansas City Board of Trade.....	do.....	10.369	7 per bushel.....	3.4
Wool.....	Minneapolis Grain Exchange.....	do.....	17.550	9 per bushel.....	3.9
Wool tops.....	Wool Associates of New York Cotton Exchange.....	6,000 pounds.....	7.500	10 per pound.....	7.9
Millfeed ¹	do.....	5,000 pounds.....	8.300	do.....	6.0
	Merchants' Exchange of St. Louis.....	105 tons.....	4.358	600 per ton.....	14.5

COMMODITIES NOT INCLUDED UNDER THE COMMODITY EXCHANGE ACT

Cocoa beans.....	New York Cocoa Exchange.....	30,000 pounds.....	\$5.913	2.5 per pound.....	12.7
Coffee (B).....	New York Coffee & Sugar Exchange.....	32,000 pounds.....	10.611	3.1 per pound ²	9.4
Hides.....	Commodity Exchange, Inc., New York.....	40,000 pounds.....	6.468	1.5 per pound.....	9.3
Rubber.....	do.....	25,000 pounds.....	6.216	1.5 per pound ²	6.4
Sugar (S).....	New York Coffee & Sugar Exchange.....	112,000 pounds.....	3.618	0.4 per pound ¹	11.1
Frozen tom turkeys.....	Chicago Merchants Exchange.....	30,000 pounds.....	9.780	1.7 per pound ²	5.1

¹ Actual or approximate closing price of nearby futures as of Sept. 28, 1962.

² Approximate.

³ Basis Chicago.

Source: Commodity Exchange Authority.

Mr. BAGNELL. The question of volatility is undoubtedly a very important one in making people decide whether they want to trade in one commodity or another. Many speculators want a volatile market.

Some years ago the CEA prepared some data showing the relative variability in price of a number of commodities. And those sheets are headed "G," which show from 1929 to 1956 the annual change in prices of onions, potatoes, wheat, corn, oats, soybeans, cotton, and everything else. Onions at that time were by far the most volatile, with almost 46 percent average change. Potatoes were No. 2 on the list, they were almost 38 percent. And then came wheat with 18 percent, and corn with 23 percent, and oats with 27 percent. However onions and potatoes led the list. Of course, onions are no longer in the picture.

I made no attempt to bring this table down any further. I doubt, as to the situation regarding these other commodities, that it would be greatly changed.

Those figures again, like everything else I have said, are subject to all sorts of possible reasons. In many commodities we have Government controls, ceilings, and floors and what have you that would affect their price movement and tend to retard them, but I still think, I am personally sure, that we would find that potatoes were up on the list of the question of volatility, and that seems to me to be a sort of explanation of why it attracts the type of speculation that it does and why that speculation has as much effect as I believe it does.

I should like to have this table made a part of the record.

Mr. GRANT. Without objection, it will be received for the record. (The table entitled "Season Average Prices Received by Farmers for Selected Commodities and Percentage Change from Previous Season's Price, 1929-30 Through 1955-56" follows:)

Season average prices received by farmers for selected commodities and percentage change from previous season's price, 1929-30 through 1955-56

Season	Onions		Potatoes		Wheat		Corn		Oats		Soybeans		Cotton		Eggs		
	Average price	Percent change	Average price	Percent change	Average price	Percent change	Average price	Percent change	Average price	Percent change	Average price	Percent change	Average price	Percent change	Average price	Percent change	
1929-30	Dollars per 50-pound sack		Dollars per bushel		Cents per bushel		Cents per bushel		Cents per bushel		Dollars per bushel		Cents per pound		Cents per dozen		
1930-31	0.74	-35.1	1.30	-32.3	103.6	-35.2	79.9	-25.2	41.8	-23.0	1.88	-27.1	16.78	-43.6	29.8	-20.5	
1931-32		-93.8	0.48	-48.9	67.1	-41.7	59.8	-46.3	32.2	-33.9	1.37	-63.5	5.06	-40.2	23.7	-25.7	
1932-33		-49.3	0.35	-45.9	38.2	-2.3	32.6	-1.6	21.2	-26.3	0.50	-8.0	5.06	-40.2	17.6	-19.3	
1933-34		-59.9	0.48	-48.9	38.2	-1.6	32.0	-1.6	13.7	-33.5	0.54	-8.0	6.52	-40.2	14.2	-19.3	
1934-35		-56.1	0.81	-113.2	74.4	-14.8	52.0	-64.6	33.5	-113.4	0.94	-74.1	10.17	-56.0	13.8	-2.8	
1935-36		-67.4	0.42	-83.1	81.9	-16.6	56.7	-56.7	36.4	-43.6	0.99	-26.3	12.36	-21.5	17.0	-23.2	
1936-37		-71.4	0.59	-40.5	63.2	-2.0	63.2	-50.4	36.4	-43.6	1.01	-26.3	11.09	-10.3	23.4	-37.6	
1937-38		-39.4	1.12	-89.8	102.5	-23.3	104.3	-50.4	30.2	-32.7	1.27	-33.1	12.36	-11.5	21.8	-6.8	
1938-39		-66.5	0.52	-55.4	96.2	-6.1	151.8	-60.2	30.2	-32.7	0.87	-21.2	18.41	-32.0	21.3	-2.7	
1939-40		-55.4	0.54	-8.0	156.2	-41.6	143.6	-16.0	30.3	-31.2	0.87	-21.2	18.41	-32.0	21.3	-2.7	
1940-41		-18.2	0.69	-27.8	169.1	-23.0	156.8	-16.0	30.3	-31.2	0.87	-21.2	18.41	-32.0	21.3	-2.7	
1941-42		-45.5	0.68	-26.1	168.2	-1.3	161.8	-18.8	30.3	-31.2	0.87	-21.2	18.41	-32.0	21.3	-2.7	
1942-43		-57.1	0.79	-54.9	194.4	-38.4	175.1	-21.5	41.1	-32.6	1.55	-72.2	17.03	-72.2	18.0	-3.4	
1943-44		-99.0	1.14	-44.3	110.9	-16.5	191.7	-22.1	48.8	-18.7	1.61	-13.8	19.05	-11.9	30.0	-30.6	
1944-45		-69.7	1.36	-10.5	113.0	-23.6	192.7	-22.1	72.2	-46.0	1.81	-12.4	19.05	-11.9	30.0	-30.6	
1945-46		-28.6	1.44	-14.3	114.1	-3.7	110.9	-4.4	60.7	-5.9	2.05	-13.3	19.05	-11.9	30.0	-30.6	
1946-47		-40.8	1.38	-4.2	150.0	-6.4	127.4	-16.5	66.7	-5.0	2.08	-13.3	19.05	-11.9	30.0	-30.6	
1947-48		-47.3	1.21	-12.3	191.0	-6.4	127.4	-16.5	80.9	-21.3	2.97	-32.6	19.05	-11.9	30.0	-30.6	
1948-49		-133.7	1.60	-32.2	229.0	-19.9	156.0	-38.5	105.0	-20.8	3.33	-32.6	19.05	-11.9	30.0	-30.6	
1949-50		-36.5	1.52	-5.0	1199.0	-13.1	130.7	-30.8	172.3	-31.1	1.97	-31.8	19.05	-11.9	30.0	-30.6	
1950-51		-11.4	1.27	-16.4	1188.0	-5.5	125.0	-3.8	165.7	-9.1	1.26	-14.8	19.05	-11.9	30.0	-30.6	
1951-52		-40.8	1.90	-29.1	1200.0	-5.5	136.0	-22.4	179.1	-20.4	1.47	-14.8	140.07	-10.2	36.3	-19.7	
1952-53		-92.0	1.63	-81.1	1211.0	-5.5	166.0	-8.5	182.3	-4.0	1.27	-10.5	137.88	-5.2	47.8	-31.7	
1953-54		-38.3	1.95	-19.6	1209.0	-7.8	153.0	-7.8	178.6	-5.5	1.72	-0.4	134.59	-8.7	47.8	-31.7	
1954-55		-70.6	1.78	-60.0	1204.0	-2.4	140.0	-2.6	174.3	-5.5	1.27	-0.4	137.88	-8.7	47.8	-31.7	
1955-56		-57.4	1.30	-66.7	1212.0	-3.9	143.0	-4.0	171.4	-3.9	2.46	-9.6	132.25	-6.8	47.8	-31.7	
1955-56 3		-22.4	.94	-27.7	1199.0	-6.1	131.0	-8.4	159.2	-17.1	2.10	-14.6	433.0	-1.5	36.8	-22.9	
Average 1		45.8		37.8		17.9		23.0		26.9		23.4		18.2		\$ 16.1	

¹ Includes allowance for unredeemed loans.

² Includes an allowance for all cotton put under loan.

³ Preliminary.

⁴ Aug. 1, 1955, to Dec. 1, 1955.

⁵ Disregarding algebraic signs.

⁶ 1929-30 through 1954-55.

NOTE.—Averages are for crop marketing seasons, which overlap calendar years for all commodities shown, except eggs, in which data are on a calendar year basis for the 1st year shown.

Source: For 1929-30 through 1952-53, U.S. Department of Agriculture, Agricultural Statistics, and Agricultural Marketing Service Statistical Bulletin No. 140, "Potato Prices," For 1953-54, U.S. Department of Agriculture-Agricultural Marketing Service, potatoes, wheat, corn, oats, and soybeans—"Field and Seed Crops," May 1955; onions, "Agricultural Prices," Feb. 15, 1955; cotton, "Cotton Production," May 9, 1955; eggs, "Crops and Markets," 1955. For 1954-55 and 1955-56, Agricultural Marketing Service, "Crop Values," Dec. 19, 1955.

MR. BAGNELL. If a market is very volatile it takes very little pressure on either side in the form of rumor or a number of people to decide to do the same thing at the same time, not necessarily in collusion, but just doing it. It takes very little of that sort of thing to affect it. That effect is frequently offset and goes back, perhaps, further in the other direction. I do believe that volatility as shown by this exhibit has a distinct relationship to this whole problem.

It seems to me that these data and the other material I have already heard presented here very definitely explains, and I will say justifies, in my opinion, the feeling of the industry in Maine concerning trading in potato futures. It is my personal belief that the Maine market would become less confused and more orderly without this particular additional problem on their hands.

That is the conclusion of my planned discussion. I shall be most happy and privileged to answer anything I can.

MR. GRANT. Thank you very much for your statement.

MR. TEAGUE?

MR. TEAGUE of California. I have just one question. I realize we do not have much time. I do not want to become involved in any argument of quality of product between Mr. Harding and Mr. McIntire, as to which has the higher quality potatoes, Maine or Idaho.

I would like to know whether, in view of these figures, you considered transportation costs, and the population growth on the west coast, assuming, of course, as I know, that Idaho is much closer to that market than is Maine.

MR. BAGNELL. On transportation costs, I feel that was taken care of by the fact that they throughout the whole period were both at the same shipping points respectively, that is, in Idaho at the Red River section and Falls River, whatever it is, and in Maine in Aroostook County. I did not consider what the population explosion—would have had any effect on this. I did not consider that.

MR. TEAGUE of California. Thank you. Perhaps it would; I do not know.

MR. CLIFFORD MCINTIRE. Then in this analysis that you made it is strictly an f.o.b. shipping point comparison?

MR. BAGNELL. Yes.

MR. CLIFFORD MCINTIRE. It is not intended to include anything on a delivery basis?

MR. BAGNELL. No.

MR. CLIFFORD MCINTIRE. It is an f.o.b. shipping point comparison?

MR. BAGNELL. That is correct.

MR. CLIFFORD MCINTIRE. In view of your own long experience as a market authority and the understanding that you have gained in connection with changes in rules, are you familiar with the rule change under date of April 3, in which the New York Mercantile Exchange has now modified the rules, permitting shipping point delivery instead of delivery at Harlem River or some other multiple river point? I understand there is now established a shipping point delivery rule. Would you care to comment on that?

MR. BAGNELL. I have read in the trade journals the description of the rule which I believe was the exchange's release on it. I have not seen the rule itself.

As I understand it, the rule simply provides that the prospective recipient of a delivery, that is the long buyer, has a certain length of

time—and I think it is 4 days—in which he can notify the seller of some specific shipping point in Maine where he wishes that delivery to be made.

If he does not do so the seller will send the card to the old points, mainly, the Harlem Yards, except for the November and December contracts where it can go into the Boston area. It does not change the seller's position at all. Of course, he will get a freight adjustment or differential for any deviation from his normal opposition to send it to New York. And so far as I can see I do not believe it would have any great impact on the price structure or on the trading system. In the first place, deliveries are quite small in all of the futures markets. The biggest one ever in New York was last May with 899 cars delivered. So it is not so much the number of deliveries.

Of course, these circumstances under which they are delivered can become a factor. The threat of a small number of deliveries being held in an inaccessible place out of these normal channels makes many longs unhappy about the prospect. This is a recognition—I think it has been recognized on other occasions—of the fact that the delivery system is a very sensitive proposition. About 5 years ago we tried to improve it by having a penalty on warehouse deliveries which had become a very bad thing.

Mr. McINTIRE. It is your opinion that this will not make any material difference?

Mr. BAGNELL. In my opinion, it would make very little, if any, difference.

Mr. CLIFFORD McINTIRE. Thank you. That is all.

Mr. GRANT. Mr. Duncan.

Mr. DUNCAN. Mr. Bagnell, in your exhibit A, comparing the volume on the Commodity Exchange or the New York Mercantile Exchange, are you referring to the Maine contracts in both places?

Mr. BAGNELL. No, sir. The Chicago Exchange trading, if there was any, would be in Idaho contracts.

Mr. DUNCAN. Idaho?

Mr. BAGNELL. Idaho. Idaho potatoes.

Mr. DUNCAN. And were there any Idaho potato contracts on the New York Exchange?

Mr. BAGNELL. No. The New York Mercantile Exchange excludes Idaho potatoes.

Mr. DUNCAN. And were there any Idaho potatoes and were there any Idaho potato contracts on the New York Exchange?

Mr. BAGNELL. No. The New York Mercantile Exchange is exclusively Maine potatoes, except for a little Long Island contracts which do not amount to anything, either.

Mr. DUNCAN. That is all, thank you.

Mr. GRANT. Thank you very much, your prepared statement will be made part of the record at this point.

(The prepared statement of Douglas Bagnell follows:)

STATEMENT OF DOUGLAS BAGNELL

My name is Douglas Bagnell. I estimate that my testimony as I have it planned will take less than 20 minutes. For the past several months I have been working with the Maine Potato Council and particularly with the committee headed by Mr. Herschel Smith in the effort to eliminate trading in futures contracts in Maine potatoes.

About 6 years ago when I was with the USDA, I made a trip through Maine and met with a number of groups of growers and merchandisers of potatoes in Aroostook County. At that time, it was apparent that most persons in the industry were unfavorable to futures trading in potatoes. This was about the time of some speculative activities which resulted in charges of violations of the Commodity Exchange Act and also caused the exchange to make certain changes in its rules. These changes were made in the hope of making the contract more desirable and stable and less subject to violent and unwarranted price fluctuations. While the majority of growers to whom I talked 6 years ago would have liked immediate abolition of the futures market, many were persuaded to wait and see if it could be developed into a useful marketing medium such as has been the case in wheat, cotton, and other less volatile agricultural products.

Late last summer I was asked by the council to take a look at the current situation. I first found that sentiment against futures trading was manifestly stronger than it had been some 6 years earlier. The poll of May 1962 described by Mr. Bryant made this clear.

I agreed to undertake the task of trying to find out whether the growers and merchandisers of Maine potatoes had a sound basis for their conviction that speculation in their product was causing disorderly market conditions, injuring Maine's position in relation to other producing areas and generally contributing further complications to the already hazardous production, marketing, and processing of potatoes.

Were these growers misinformed and misled 6 years earlier? Were they still more misinformed in May 1962? Were they now trying to destroy a marketing medium which was actually benefiting them?

In trying to find answers to these questions I have prepared a small number of tables taken mainly from USDA publications which I believe give some information on the effect of the futures market and the details of its operations. My explanation of these tables will be quite brief, but I will, of course, be very glad to take any additional time the committee may permit in answering questions or for further discussion.

I have here a table and chart labeled exhibit 1 which compares wholesale potato price movements in Maine with those of Idaho for a 15-year period. At no time has there been any futures trading of consequence in Idaho potatoes and during the first 5-year period shown by the table (1946-47 to 1950-51) futures trading in Maine potatoes was negligible. In other words both areas were operating free of significant futures activity. As the table shows, during that period Maine Kataidins were bringing 88 percent of the price of Idaho Russet Burbanks. During the next 5 years (1951-52 to 1955-56) futures trading in Maine potatoes had reached significant volume—more than 106,000 carlots per year—and the Maine wholesale price declined to 76 percent of that in Idaho.

In the last 5 years (1956-57 to 1960-61) futures trading had a further sharp increase to about 179,000 cars per year, while Maine potatoes brought only 69 percent of the Idaho price. The trend continues. During the last 3 years shown by the table futures trading went up to about 190,000 cars per year and Maine's relationship to Idaho went down to 64 percent, 88 percent, 76 percent, 69 percent, 64 percent.

Exhibit 2 is a calculation of the financial effect of the decline in Maine as compared to Idaho. I will only point to the last column for the moment. If Maine had maintained its 88 percent relationship the total crop would have brought an average of nearly \$13 million a year more from 1951-52 to 1955-56 and nearly \$18 million a year more from 1956-57 to 1960-61.

Most noteworthy is the fact that in 1951 Maine's production was 27 million hundredweight or 14 percent of U.S. production while Idaho's was 21 million hundredweight or 11 percent of the total. In 1961 Maine produced 36 million hundredweight or 13 percent of the total and Idaho produced 54 million hundredweight which is 19 percent of the total. Thus it is clear that Maine's deterioration of price position in relation to Idaho is not the result of an increase in Maine production in relation to Idaho. A similar calculation of Maine to Michigan as set out in exhibit 3 shows Maine at 112 percent of Michigan before futures trading became a factor—97 percent in the first 5 years of heavy trading and 87 percent in the last 5 years shown. Many comments could be made on these figures, but I'll only say at the moment it may account for some of the dissatisfaction among Maine producers.

Exhibits 1, 2, and 3 relate to long-term price trends in actual potatoes over a 15-year period. In exhibit 4 we have a table and a chart setting forth daily volume of trading and daily range of futures prices from March 1 to May 14, 1962. Still trying to conserve time I think the quickest way to show the point of these figures is to look at the last two lines on the chart. The fact that prices move further as futures trading increases is evident. If time permits later I would like to point out other details from these tables. I believe this exhibit accounts for the conviction of many Maine growers and dealers that there is a relationship between large daily price swings and increased futures trading, particularly near the end of the marketing season.

Still on the subject of range of prices, but going back now to actual potatoes, we have in exhibit 5 a comparison of changes in wholesale prices in Idaho against Maine. Again it should be pointed out that the Idaho area has at no time had any futures trading of significant volume and that such trading did not become important to the Maine area until 1952. During the 5 years when neither area was affected by futures Idaho had average price changes from year to year of 39 percent and Maine had 23 percent. Maine showing much greater stability than Idaho. In the next 5 years with substantial futures trading in Maine potatoes Idaho's average change from year to year was 41 percent. Maine's was 52 percent, more than double the 23 percent just mentioned. The next 5 years (1957-61) shows Idaho at 24 percent and Maine at 33 percent. Maine was substantially more stable than Idaho prior to futures trading and markedly less stable since such trading attained significant volume.

My observation of nearly all the futures markets in this country over a period of some 30 years indicates that frequent and wide price movements attract speculators. The volatile character of potatoes has that effect. Another factor is the small investment necessary to get into the potato futures market. Of the 17 agricultural products in which futures trading is subject to regulation under the Commodity Exchange Act potatoes have the smallest initial margin requirement—\$200 per contract. This makes it tempting to the speculator with limited resources.

The table of margin rates which I would like to put into the record here also shows no other commodity with the seasonal and perishable characteristics of potatoes.

It is my belief that the figures we have presented and the testimony of the previous witnesses show good cause for the almost unanimous feeling in Maine that relief is needed from the burden of futures speculation, and I am convinced that it will be to the benefit of the great majority of growers and merchandisers of potatoes in Maine if H.R. 904 is enacted into law.

Mr. GRANT. We will next hear from Mr. Kenneth D. Naden, executive vice president of the National Council of Farmer Cooperatives.

STATEMENT OF KENNETH D. NADEN, EXECUTIVE VICE PRESIDENT, THE NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. NADEN. Mr. Chairman and members of the committee, I am Kenneth D. Naden, executive vice president of the National Council of Farmer Cooperatives. This organization is a national federation of farmer-owned and farmer-controlled cooperative marketing and purchasing associations. Our affiliates include 5,700 farmer cooperatives throughout the Nation, which serve approximately 3 million farmer memberships. Our member organizations market for their farmer members varying percentages of most commercial farm commodities and purchase for their farmer members their basic production supplies.

We appreciate the opportunity to bring to this Agriculture Subcommittee the view of this organization on H.R. 904. The National Council of Farmer Cooperatives is appearing before you today on behalf of one of its direct affiliates—Maine Potato Growers, Inc., of Presque Isle, Maine. We support the bill H.R. 904 to prohibit trading in Irish potato futures on commodity exchanges and urge the committee to give a favorable vote to the bill.

Maine Potato Growers, Inc., is one of the largest and most influential agencies in the marketing of potatoes grown by Maine farmers. Its marketing objective is to sell its members' products through such channels, agencies, and methods that yield the highest returns to the grower. This organization has been in existence for 30 years and during that period has been an important influence in the orderly marketing of potatoes from this area. During this period of time it has marketed varying amounts up to 20 percent of the total Maine potato crop. It is one of the largest shippers in that area and has used the commodity exchanges extensively in the sale of its members' products. It has tried to live with the exchange as an institution and has tried to use it constructively in an effort to support orderly marketing of potatoes.

It feels, however, that the existence of the exchange is not compatible with orderly marketing. The potato marketing cooperative has sought to establish gradual changes in potato prices but feels that the existence of the exchange has created erratic changes in price movements—up to 40 cents per hundredweight in 1 day—indicating speculative buying and selling which are not related to the value of the product. Changes in price not related to fundamental changes in supply and demand are not in the interest of farmers. This kind of erratic fluctuation in prices attracts people that are uninformed and who are not regularly operating in potato markets.

It is our understanding that the commodity exchange operations for potatoes are used almost exclusively by the growers, shippers and other operators in the Maine area. It appears that other major potato-growing regions do not need the futures market and have been able to improve their economic position over the years because of changes in the value of their product and other considerations. This indicates to us that the existence of the exchange is in no wise essential for progress of the potato industry.

After consideration of all of these things and after trying for many years to live with and utilize the facilities of the exchange, Maine Potato Growers, Inc., reluctantly believes that the authority to trade in Irish potato futures should be prohibited.

We suport this view and again urge the committee to approve H.R. 904.

Mr. GRANT. Thank you very much.

Mr. NADEN. Thank you, Mr. Chairman.

Mr. GRANT. Are there any questions? If not, our next witness is Mr. A. E. Mercker, executive director of the National Potato Council. We will be glad to hear you now.

STATEMENT OF A. E. MERCKER, EXECUTIVE DIRECTOR, NATIONAL POTATO COUNCIL

Mr. MERCKER. Mr. Chairman and members of the committee, the potato industry is thankful that this committee has granted a hearing on H.R. 904, which the industry believes it needs if the marketing of potatoes is to be operated for the benefit of the producers, dealers, and the public.

My name is Albert E. Mercker, executive director of the National Potato Council since November 1956. Prior to that time I was an employee of the U.S. Department of Agriculture for 36 years, working

in various capacities in the Fruit and Vegetable Marketing Division, such as a market news representative, inspector, and supervising inspector. In 1929 I was assigned to work on potatoes, including work under the Steagall amendment during the years 1942-59. I had been Chief of the Division of Markets in the State of New Jersey, and in the early part of the century I was active in the marketing of fresh fruits and vegetables in the metropolitan area of New York City for a period of years.

The National Potato Council is a nonprofit organization established by potato growers to look after the interests of all aspects of potato production, marketing and processing. Its offices are located in Washington, D.C.

This testimony is presented in response to a resolution adopted on the floor at the Ninth Annual Meeting held November 19-21, 1957, at Washington, D.C., which reads:

Be it resolved, That the National Potato Council support legislation prohibiting futures trading of potatoes on the commodity exchanges.

This resolution was reaffirmed by the Steering Committee of the National Potato Council at a meeting held at Los Angeles, Calif., on February 10, 1963, as follows:

Be it resolved, That the National Potato Council reaffirms its stand to eliminate futures trading of potatoes.

The National Potato Council has a mailing list of about 12,000, including growers, dealers and processors throughout the United States, and a few additional in other countries.

Apparently the potato growers and dealers in Maine are convinced that they would be better off without futures speculation in their product. Their 92 percent vote is conclusive on that score. I have considered the effect which the elimination of futures trading in potatoes might be expected to have on the industry, not only in Maine but particularly in the other producing areas.

My contacts with the trade in Maine substantiate the views of Messrs. Bryant, Smith, and Thompson that the erratic price movements in potato futures, especially near the end of the marketing season, cause a great deal of confusion and disorder in the most critical period of marketing. There is every indication that when the market is basically weak futures speculation tends to accentuate the downward movement. It seems rather obvious that the well-informed professional speculators, and the persons who advise the amateur speculators, will favor the selling side when the market is weak just as they would be buying if the market was basically strong. Unfortunately for potato growers, their market has not been basically strong for quite a while.

I was not surprised at the material already presented to this committee showing the wild gyrations which have occurred in potato futures and it seems to me that such price movements just about nullify any usefulness of the market either for price registration or hedge protection. It is true, I believe, that some few highly skilled operators with the economic knowledge and necessary capital have been able to show gratifying results on some of their hedging operations. I am convinced, though, that this is not possible as regards the average merchandiser or grower. Many of those who do use the market I believe are simply trying to protect themselves against an unfavorable

situation brought about by the market itself, and I am also convinced that they would much prefer to have a sufficient orderly marketing situation so that they would not have to resort to these measures.

I am particularly impressed by the fact that the vast majority of potato producers and dealers throughout the United States have always conducted their marketing operations and are doing so now on what appears to be a satisfactory basis with no use of futures. This is clearly indicated by material developed by the Department of Agriculture showing the geographic location of the persons who use the New York futures market for either hedging or speculation. In a bulletin put out by the Department under date of April 12, 1962, it is shown that as of October 27, 1961, there were 1,470 trades with positions. Of these 1,170 were classified as speculators and 300 as hedgers. Of the 300 represented as being hedges 121 were located in the State of Maine and 112 in the other North Atlantic States. In other words, a total of 233 of the 300 shown as hedgers were in the area including the New England States, New York, New Jersey, and Pennsylvania leaving only 61 accounts scattered among all the remaining States and 6 foreign countries.

Looking at the States outside of the North Atlantic area where heavy production occurs, I have found that there was not indication of any significant use of the futures market in connection with merchandising. In Idaho, for example, with an average production since 1957 exceeding that in Maine, only five accounts were reported as hedging. These on October 27, 1961, had a total of 36 contracts long and 15 short. In California, the third largest producing State, 2 accounts appeared as hedging and they had a total of 30 contracts short. Alabama, which produces a late spring crop, had no accounts at all in the hedging category. This information, which appears in table 8 on page 18 of the report I mentioned, seems to me to completely dispel any fear that the elimination of futures trading in Maine potatoes on the New York Mercantile Exchange would have any adverse effect on the overwhelming majority of potato producers and merchandisers.

While there are those persons in the industry scattered all across the United States who do not, and I believe cannot, use the New York market in their operations, they nevertheless feel the effects of the price movements on that market.

Many people say that supply and demand determines price for agricultural products. Supply and demand might determine price if knowledge were perfect; however, for perishable agricultural products at any time or place there is imperfect knowledge as to what is the demand.

The lack of definite knowledge and the many statements emanating from traders that may be correct or that may be incorrect brings further uncertainty into the price equation. As this commodity is a perishable commodity, buyers discount for any uncertainty so that they discount the price to the disadvantage of the farmer, the shipper, and the consumer.

As an organization that is interested in the welfare of the rank and file potato producers throughout the Nation, we feel strongly that there will be less confusion and disorder and a better atmosphere of orderly marketing in potatoes if this futures speculation is eliminated, just as was done in onions some 5 or 6 years ago.

The National Potato Council went on record in 1958 in support of bill H.R. 10282, then before Congress to stop this trading. The lack of any improvement in the market's operations since that time makes us feel even more strongly on the subject now.

I want to emphasize again that the National Potato Council strongly supports the passage of H.R. 904 which would eliminate many uncertainties, particularly pricewise, in the marketing of potatoes not only in Maine but in the United States as a whole.

Mr. GRANT. Thank you very much for your statement. Are there any questions?

Mr. TEAGUE of California. I have no questions.

Mr. GRANT. Mr. Harding.

Mr. HARDING. I just want to compliment Mr. Mercker on a very fine statement. I sincerely believe that Mr. Mercker knows as much about potatoes as any man in the Nation today. And I think that his statement on page 4 relative to the determination that supply and demand have on the market price that the growers receive for their potatoes is particularly well stated. I feel that Mr. Mercker's statement has contributed a great deal to the committee's consideration of this subject.

Mr. GRANT. We thank you.

Mr. MERCKER. Thank you.

Mr. GRANT. The next witness is Mr. John Datt, assistant to the director of the Washington office of the American Farm Bureau Federation. We will be glad to hear you now.

**STATEMENT OF JOHN C. DATT, ASSISTANT TO THE DIRECTOR,
WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION;
ACCOMPANIED BY SMITH McINTIRE**

Mr. DATT. Mr. Chairman, members of the committee, with your permission I would like to have Mr. Smith McIntire, of Maine, accompany me in the presentation of the Farm Bureau's paper.

Mr. GRANT. Is that the younger brother of our colleague here?

Mr. DATT. I do not want to get into any argument as to that. Mr. Smith McIntire said earlier this morning that he was the older brother. [Laughter.] I do not want to be the one to decide that, Mr. Chairman.

Mr. GRANT. I feel sure that Mr. Smith McIntire could give us an unbiased statement or report as to the difference between Idaho and Long Island and Maine potatoes. Mr. Clifford McIntire is very much biased on that subject. [Laughter.]

You may both be seated and we will be glad to hear from you now.

Mr. DATT. Mr. Chairman and members, what I would like to do is this: I have a very short statement that I would like to present on behalf of the American Farm Bureau Federation, then Mr. Smith McIntire would like to make some comments on behalf of the Maine Farm Bureau Federation and the Aroostook County Farm Bureau. Mr. Smith McIntire has been and is one of the outstanding agricultural leaders in the State of Maine. He served for 6 years as vice president of the Maine Farm Bureau and has been president of the Aroostook County Farm Bureau and is currently serving on the board of the Aroostook County Farm Bureau and for a number of years has served as a member of the American Farm Bureau Food

Advisory Committee. So I feel deeply privileged to have him with me here today.

We appreciate the opportunity to present the views of the Farm Bureau with regard to futures trading in potatoes. Farm Bureau recognizes the fact that futures trading serves an important function in the marketing of some agricultural commodities. If we thought our recommendation for action on potatoes would seriously jeopardize the continued use of futures trading on other crops where it serves well the interests of farmers, we would not support legislation to eliminate futures trading on potatoes.

Futures trading in perishable agricultural commodities, particularly onions and potatoes, has been a matter of concern to Farm Bureau members for several years. Previously we supported legislation to prohibit onion futures trading, and today we support H.R. 904 to prohibit potato futures trading. We do not think it serves the interests of potato producers—or the cause of futures trading generally—to perpetuate an unworkable program of futures trading in a perishable commodity, especially when it involves only one of the producing areas.

In 1955 the Farm Bureau first discussed some of the problems that had arisen in connection with onion and potato futures trading. In May 1956 the Farm Bureau testified before the House Special Subcommittee on Futures Trading in Perishable Agricultural Commodities. We recommended at that time that steps be taken to eliminate onion and potato futures trading from the various commodity exchanges.

In May 1957 the Domestic Marketing Subcommittee held hearings on bills to prohibit trading in onion futures in commodity exchanges. Farm Bureau at that time supported the legislation to prohibit onion futures trading and was actively involved in securing its passage.

The current Farm Bureau policy on potato futures trading is as follows:

We continue to favor legislation to eliminate potato futures trading from the various commodity exchanges.

We have cited this background in order to have it understood that the Farm Bureau has been interested in this matter for a number of years and has given it serious consideration.

In our previous statements to the Congress, we have recommended the elimination of onion and potato futures trading for two basic reasons:

- (1) Onions and potatoes by their very nature are perishable commodities. They cannot be stored for an unlimited length of time, and only limited processing is involved. This situation is quite different from that existing for wheat, corn, and other storable commodities, where the futures market performs a valuable role since hedging provides price risk insurance. Futures trading in these storable commodities serves an important function because of the considerable amount of processing that occurs in marketing. This is quite different from onions and potatoes which, having only limited processing, move from producer to consumer in virtually the same form. Because of their perishability and lack of processing, we do not believe that onions and potatoes lend themselves to sound futures trading.

(2) The volume of both onions and potatoes that is involved in futures trading is relatively small, thus providing the opportunity for sharp price fluctuation and facilitating price manipulations.

We feel that these two reasons still are valid and that H.R. 904 should be enacted into law. However, in addition to these, we would like to cite some additional reasons for eliminating potato futures trading.

(1) While contracts are offered in at least three other potato areas, futures trading in potatoes is confined solely to Main potatoes. This means that the trading activity is confined to the product of one potato area, which produces about 14 percent of the total crop. Furthermore, within Maine not all the potatoes are eligible for trading. This is a very narrow basis for trading. While future contracts involving opatotes from other areas have been offered, they have never been traded.

(2) The fact that trading is confined to such a small volume increases the opportunity for rumors and other questionable market information to have an effect on the futures and cash markets.

(3) The lack of processing, and the consequent lack of need for hedging to cover the risk of price changes during the time required for processing, means that the potato futures market is highly speculative in character. While there has been a considerable increase in the use of potatoes for food processing in recent years, this is less true in Maine than in other areas of the country.

(4) Potato futures price movements which cannot be justified by supply and demand factors and which are the result of speculation have a serious effect on the orderly marketing of potatoes. From the potato producer's point of view, the type of future price movement which delays cash purchases, or creates cash market instability, contributes nothing to orderly marketing.

Farm Bureau is a believer in the market price system. We believe that futures trading plays a valuable role in agricultural marketing. Our support of H.R. 904, to eliminate potato futures trading, does not in any way change this belief. We do, however, feel that futures trading in potatoes does not help the potato marketing system, but is in fact a detriment. We, therefore, support H.R. 904 and urge its prompt enactment.

I would like to ask Mr. Smith McIntire if he would care to make some comments from his point of view.

Mr. GRANT. Mr. Clifford McIntire.

Mr. CLIFFORD MCINTIRE. Of course, I would just like to say that is a privilege for me, as a member of the Committee on Agriculture of the House of Representatives, to have my brother, Smith, here testifying in support of legislation which I have introduced.

I just want to state to the members of the committee that his background is strictly that of farming, although he takes a very active interest in community as well as agricultural affairs. He speaks from as much experience as any other witness could, from the standpoint of actual farm operation. I am very pleased that he is here today to support this legislation.

Mr. GRANT. Thank you, Mr. Clifford McIntire.

I said a few moments ago that we are particularly glad to hear from him because we are glad to hear from members of the family from the practical side. [Laughter.]

Mr. Smith McIntire, we will be glad to hear you.

Mr. TEAGUE of California. I join in welcoming Cliff's brother here. We think very highly of Cliff. We are delighted that you are here. I would like to say this: I hope that he comes up with a genuine Maine accent. I am still looking for one. [Laughter.]

STATEMENT OF SMITH McINTIRE, PERHAM, MAINE

Mr. SMITH McINTIRE. Mr. Chairman and members of the committee, I would like to say that in the few days I have been here, I have had some trouble substituting the cherry blossom pollen for the snow that I have been breathing for 6 months, so that my voice is off a little.

It is a privilege to me to be here representing what I consider the rank-and-file producer of Maine potatoes.

I have been a grower since 1947 of about 125 acres of potatoes. I have had some 15 years' experience in educational work with the Maine Extension Service. This is enough background.

You have already had information relating to my association with the Farm Bureau work in the State of Maine. I can assure you that having participated in four polls of farmer opinion, the first two being just within the Farm Bureau membership in Aroostook County, therefore not previously referred to in the potato council testimony, these being some 8 years or more ago, and the latter two conducted by the Maine Potato Council, of which you have the results, that the opinion of the farmer has never varied in their wish that this burden could be removed once and for all.

And without taking more of your time, I wish to assure you that both by resolution, by consistent action of the Aroostook County Farm Bureau Association and the Maine Farm Bureau Association we have been in support of this type of legislation and are now 100 percent in support of the passage of this bill in order that this burden of futures trading can be removed from our industry and we can be permitted to grow and sell and merchandise real potatoes.

I thank you.

Mr. GRANT. Thank you very much, Mr. Smith McIntire. I want to say about the snow in Maine that I have had the pleasure of visting your fine State and your fine county, not only in the summertime but in the wintertime, and I still say that it is a privilege to be there even in the wintertime.

Mr. MATTHEWS. May I say this off the record?

Mr. GRANT. Yes.

(Discussion off the record.)

Mr. GRANT. Are there any questions?

Mr. Harding.

Mr. HARDING. I take it, Mr. Datt, that your objection to the futures trading in potatoes is limited to two things:

No. 1, it does not cover a large enough area in the industry; and No. 2, that there is not enough processing to justify the trading in potato futures, is that right?

Mr. DATT. That is probably true. And there is the perishable character of the commodity, too. That is the third factor.

What you have is trading in a perishable commodity, the only one of its type, limited to one major production area.

Mr. CLIFFORD MCINTIRE. Mr. Harding, on the processing point, because of your very close familiarity and long relationship with the potato industry in Idaho could I ask you the extent to which the processors in Idaho use any futures contract hedging in relation to their raw materials?

Mr. HARDING. It is very limited at the present time. However, before I came over to the committee room this morning I did have a representative of the potato processing industry in Idaho call on me, in opposition to this bill and he stated that there was some contemplation in the State among other members of the processing and shipping industries to utilize futures trading in the future.

Mr. CLIFFORD MCINTIRE. Might I point out that there has been an Idaho contract on the Chicago Mercantile Exchange for years which was in the interest on the part of the Idaho processors. Why have they not used the contract which is already there?

Mr. HARDING. That is a very good question.

Mr. CLIFFORD MCINTIRE. I think that it is, Mr. Harding, an interesting situation. The processing industry in Idaho has grown without the use of futures trading, has grown so rapidly that it now boasts the largest percentage of processing of any producing area in the country. It has grown with others. It has grown within the same period of time when a futures contract was available to it on the Chicago Mercantile Exchange, but without any resort thereto. Now, perhaps that contract has not been written exactly right in order to stimulate trading, but certainly if there was a basis of any need for this kind of protection in purchasing through futures, it would not have been a problem in initiating a contract. It would simply have been a problem of adjusting the contract already in existence, and this, I think, is an interesting turn of historical fact, because the contract has been there a long, long while without being used to any extent, and while it has not been used, the processing industry has been growing very, very rapidly.

Mr. HARDING. I believe that the remarks of the gentleman are correct. However, I do not believe that there is any more compulsion on the potato industry of the State of Maine to use potato futures contracts any more than there is on the industry in Idaho. I think it is a matter of equal availability. Both have to make the choice.

I have one additional question that I want to ask Mr. Datt and that is, how did the Farm Bureau arrive at their decision to come in and support this legislation?

Did you poll out the Farm Bureau membership in other potato-producing States, or just what is the basis of your appearing here before us today on behalf of the American Farm Bureau Federation?

Mr. DATT. As I attempted to indicate in our statement, we have been interested in this subject since the midfifties—1954 and 1955. This subject has been discussed at a number of the Farm Bureau meetings. It was discussed in 1955 and 1956 by the food and vegetable advisory committee who made a recommendation to the Farm Bureau board of directors that we support legislation to eliminate both onion and potato futures trading.

Mr. HARDING. How did the resolution come about?

Mr. DATT. The voting delegates from the State farm bureaus, at the annual meeting of 1958 and 1959, and in 1960, I believe, approved

a policy statement which I referred to at the top of the second page of my statement.

Mr. HARDING. How about 1961 and 1962?

Mr. DATT. Under the Farm Bureau organizational procedure, we have a procedure that when a policy is adopted by the voting delegates, that it is reaffirmed until it is changed. And so the policy adopted in 1960 was reaffirmed in 1961 and 1962. It has been reaffirmed each year since that time.

Mr. HARDING. One further question: Two weeks from today the full committee, I understand, will be conducting hearings on one of the most comprehensive pieces of potato legislation that has come to the Congress.

Is the Farm Bureau going to have a position on that piece of legislation?

Mr. DATT. I am here today testifying on this particular bill. I would prefer to wait and comment on that one at that particular hearing.

Mr. HARDING. Do you not know whether or not you will have a position?

Mr. DATT. That question is under consideration at the moment. I do not know exactly what we will do. I would prefer not to comment on it today.

Mr. HARDING. That is all.

Mr. GRANT. Thank you, gentlemen, very, very much.

This concludes this list of witnesses. I know that Mr. Hazlett wishes to testify this morning.

Mr. CLIFFORD MCINTIRE. I saw his name on the committee list of witnesses yesterday. I would appreciate your recognizing him to present a statement now, and if he can keep it very brief it will be helpful to the committee.

Mr. GRANT. Yes. We will be glad to hear from you now, Mr. Hazlett.

STATEMENT OF ARLING C. HAZLETT, SYRACUSE, N.Y.

Mr. HAZLETT. Mr. Chairman and members of the committee, I apologize for the fact that I do not have copies of my statement for you. I do have a copy for the record.

My name is Arling C. Hazlett. For the past 3 years I have been employed by P. & C. Food Markets, Inc., Syracuse, N.Y., first as produce buyer and presently as director of buying and merchandising.

P. & C. which stands for Producers & Consumers, operates 50 retail markets in central New York and is also a wholesaler. The annual volume is approximately \$50 million per year.

Prior to joining P. & C. I was extension potato marketing specialist for the University of Maine for 6 years. From 1950 to 1953, I was a district sales manager for the Pennsylvania Co-op Potato Growers, Inc.

I am here at the request of the Maine Potato Council to state why, as a representative of an organization which uses from 3 to 5 carload equivalents per week of potatoes, we do not make use of the New York Mercantile Exchange to hedge our potato purchases.

I would like to take the liberty of prefacing my remarks by making the observation that if trading in Maine potato futures is so valuable

to the potato industry of Maine, why have the majority of growers in Maine been so consistently opposed to trading?

Further, if the Maine potato industry does not want trading of their commodity on a futures exchange, then why in a democracy such as ours must it continue to exist?

Much of the retail foodstore business is carried on by organizations similar in nature, if not in size, to P. & C. We buy the potatoes we need for resale during the same week or a week or two prior to offering them for sale in our retail outlets. As long as the purchase is made competitively and sold in the same fashion, we are assured of recovering a reasonable proportion of the cost of handling the product.

It is my opinion that procurement practices other than day-to-day buying and selling would be regarded as speculation for a retail store organization. Even though it might be called hedging, this is a little bit in contrast, but because of the nature of our industry, I would consider this to be a speculation position.

The existence of futures trading in potatoes serves no useful purpose for organizations similar to P. & C. In fact, at times it probably interfered with our normal pattern of buying and selling. We sell potatoes in our stores 6 days a week, we cannot stop or start the flow of potatoes to customers because the price on the futures market has gone up or down.

This happens, or appears to happen, at times, at the shipping point.

Our produce buyer does not know what the futures market prices for Maine potatoes are for weeks at a time. The information is of no value to him, nor was it to me when I was in that position.

As a former student of potato marketing, it is my opinion that there are several faults with futures trading in Maine potatoes as it exists on the New York Mercantile Exchange.

First, there is a lack of hedging interest of those who want to own potatoes at some future time. It appears from the statistics compiled by the Commodity Exchange Authority that the number of buying hedges is relatively small. This lack has to be filled by speculative interests. I believe this contributes greatly to the instability which exists in Maine potato futures trading.

Second, the contract for delivery of Maine potatoes which presently exists is not readily negotiable.

The pack calls for 50-pound units which is of declining importance, particularly in solid carloads for fresh consumption.

As to the delivery, many who have or might trade are not in a position to accept delivery at the points called for in the contract. The terminal markets designated have declined in importance as have most terminal markets as receivers of fresh produce. The delivery at Harlem River yards in New York City for the March, April, and May contract is for the most part a dead end.

As to the grade, when we buy potatoes today, while we call for a certain grade, the people we buy from know what we would like within the grade itself. U.S. No. 1, size A, 2-inch minimum is an inadequate description for the trading of actual potatoes as carried on today. Most buying and selling, while done on the basis of Federal grades, also involves an understanding of the quality of merchandise which is acceptable within the grade, or in some cases, in lieu or in spite of the grades. I have seen potatoes go to New York to be delivered against the contract which would not readily be absorbed

in the market because of the fact that many of the desired potatoes had been screened out of the package, but it would still meet these minimum specifications.

This implied understanding does not exist in the case of deliveries made against the exchange contracts. As long as they meet the minimum standards which the grade calls for, a car of potatoes can be used to fulfill a contract obligation.

For example, several years ago when there was a premium of \$1 per hundredweight for large potatoes—3 to 4 inches in diameter—a number of cars of potatoes were delivered to fulfill futures contracts from which all potatoes $2\frac{3}{4}$ inches or larger in diameter had been removed.

These cars of uniformly small potatoes were a drug on the New York market, which because of its restaurant and institutional business, wants mostly large-sized potatoes in other than consumer-sized packages. Most outlets would have found it difficult to utilize the potatoes delivered against the futures contract at any price.

It was somewhat amusing in rereading a description of the Maine potato contract to be reminded that the contract discriminates against the Green Mountain variety, which is generally regarded as the best eating potato grown in Maine and which is more difficult to grow than most varieties.

In conclusion, the majority of Maine potatoes are marketed fresh. The outlets through which they are sold appear to have no need for a futures contract. The existing contract contains a number of flaws which prevent it from being readily negotiable in that deliveries are not easily absorbed into the regular marketing channel.

If neither consumers nor producers have a use for trading in Maine potato futures, why should it exist?

I thank you.

Mr. GRANT. Thank you for your statement.

Mr. HAZLETT. Thank you.

Mr. GRANT. The next witness, I believe, is Mr. John L. Baxter, Jr., of Corinna, Maine. We will be glad to hear from you now.

**STATEMENT OF JOHN L. BAXTER, JR., VICE PRESIDENT IN CHARGE
OF PRODUCTION, SNOW FLAKE CANNING CO., CORINNA, MAINE**

Mr. BAXTER. Mr. Chairman and members of the committee, I did not expect to be here quite at this moment. I am not the kickoff man, but the schedule seems to be changing quite rapidly so I have been pressed into service.

Mr. CLIFFORD McINTIRE. I do not presume to know precisely what the situation is, but in view of your comments, let me say that it was my understanding that this was the way you wanted it.

Mr. BAXTER. This is the way it has to be. That is correct, sir.

My name is John L. Baxter, Jr., and I am vice president in charge of production for Snow Flake Canning Co., which manufactures processed potato products at Corinna, Maine.

I am a member of the board of directors of the New York Mercantile Exchange and chairman of the Maine advisory committee of the exchange. The other members of that committee represent many facets of the industry, including growers, bankers, and those who supply the industry with materials. None of the other members are

members of the exchange. The committee in its present form was established under my direction at the suggestion of the exchange. There was also established an information office in Presque Isle to assist the industry in the proper use of the futures trading for the benefit of all segments of the Maine potato business.

The objectives of the committee, as outlined by the exchange and myself, are to continually review the trading mechanics of the exchange, together with the details of the contract so as to make recommendations to the board for any improvements which the Maine group felt would be of benefit to the industry.

It has been my experience that these suggestions we have made have been constructively and sympathetically received by the board. Changes have been made and I expect that more changes will be made as we get further into the subject of making the futures exchange an even more useful tool for the industry as the basic conditions of the industry change.

I would point out here that this is to be expected, because several basic improvements in the contract were made subsequent to the last time a similar bill was before this subcommittee. These changes were made by the former Maine advisory committee under the able direction of Mr. Frank Totam, of Houlton, Maine, from whom a statement relative to these changes will be submitted to you today.

For instance, we suggested that an information office be established in Aroostook County to help the growers and others who use the exchange to understand the mechanics of commodity trading. This office was opened approximately a year ago or a little less than that.

We also suggested that the exchange commence trading at 9:30 in options which were being traded during the time that there was a cash market in Maine potatoes.

This suggestion was also suggested and the New York Mercantile Exchange is the earliest exchange in the country to open its doors in the morning.

We also suggested that perhaps the exchange could place more of its funds in the county banks, and we got a start on this with a deposit of \$110,000 in Aroostook banks. And we are trying to develop the mechanics of having a substantially greater amount.

The third thing that we have worked on is a change in the delivery condition of Maine potatoes. And this change has recently been enacted into the rules of the exchange, and it provides that, contrary to, I believe, what you have been told quite frequently here, that potato delivery points will be Aroostook County, not Harlem River or Charleston. This provides, as I say, that the delivery points will be Aroostook County and that a reinspection and final acceptance will be carried out either at Charleston River or Harlem River, depending upon the option of the buyer.

This does two things: We hope it will considerably cut down the congestion at the yards of reinspection and it also gives the buyer a much better opportunity to dispose of the product which he has received because he has, we will say, 3 days, in the case of New York, to arrange for a customer, and he can divert and have the cargo delivered either to Charleston River or New York, which will allow him to divert it easily to practically any point in the United States.

This we think will be a very constructive change and will help substantially the conditions that arise when the shorts which are normal

to growers find it to their best interests to make substantial delivery to the exchange, rather than buy under the contract and sell elsewhere.

The use of the futures market for Maine potatoes is an integral and important part of the operating procedure of our business. It is further my opinion that the use of futures trading in our potato buying arrangements is of great importance to the economic welfare of the potato growers who supply us. We use it as a hedge and we use it in connection with our pricing mechanism with our growers.

I have several pages in my statement which deal with this in some detail, but I think that in the interests of time, I will compress it and paraphrase what I have to say.

I know you gentlemen are altogether familiar with what a hedge is and it does not seem that it will be necessary to explain that in any degree.

The reason we need to use this as a hedge is because the potato plant, of course, must operate—it cannot stop and start depending upon the supply of potatoes or the individual daily price fluctuations of potatoes which, as you know, are very substantial. Therefore we must have large raw material inventories backing up our plant so as to keep the plant running and the employees working, generally on a three-shift basis.

Also the orders which come to us do not necessarily come in direct relationship to our production capacity, and therefore it is not at all unusual for us to accumulate substantial unsold inventories. The singlemost variable, practically the only variable in our finished product cost is our raw material cost, and this can vary easily as much as 400 percent over the course of the normal manufacturing season.

Therefore, we feel that it is very important for us to hedge the raw product components of our finished products.

The other way in which we use it as a hedge is in such cases as where we sell our finished product on a contract basis for a firm price. The firm price generally is maintained or must be maintained over a 12-month period, and with deliveries made over that period of time, since it is a firm price contract, we must know when we sign our contract what our raw material costs will be. If it could vary, it could easily wipe out all of our profits and so forth.

Therefore we hedge this contract by board purchases.

In connection with our growers, of course, in any buyer-seller relationship the matter of price is always a problem, the point where relations break down or unhappiness develops. So we say to our growers, rather than haggling over the price, merely commit your potatoes to us in the spring when you make your farm plan and then we will offer to pay you any time between now and when you deliver your potatoes any price which is quoted on the New York Mercantile Exchange for the month of your delivery, subject to a formula which changes the price from the New York delivered price graded to a Maine delivered basis ungraded.

If during the period between the spring and when you make your delivery a price suitable to you is not quoted on the exchange, then we will, in any event, pay you the average market price during the month in which you deliver.

Thus the grower is assured of getting the market at the time of delivery, but if in the meantime—and this can be up to 12 months, for

instance—if he commits to us in May for the following May contract, he has 12 months of the normal variations of the commodity market, such as potatoes, which is obviously very sensitive to weather and crop conditions and supply and demand conditions—he has these full 12 months to select the price, and if in response to conditions the price should rise in that period, he will very likely confirm the price then. This we feel has worked very well and I think our growers feel that it has, also.

We have maintained good relations in every year of the last 3 years. The board has in response to ominous crop conditions had substantial increases, but as you know, in every year the crop is finally made. And there was an oversupply and at the time of delivery or during the cash market the price was low. Our growers having learned to use this confirmed price during those periods when the market is under pressure on the upside. I have absolutely no doubt but what the availability of the exchange has meant hundreds of thousands of dollars to the growers in our area through their confirming activities over the past few years.

I am also certain, and I suppose it is obvious, that on account of this there are many growers who were able to maintain their farms and who are in adequate financial condition at the moment to carry on their farming operations. These are family-sized farms. These are not large, of course. They will grow, I would suppose, from 25 acres to maybe 125 acres. This is characteristic of these growers. It has, in my estimation, kept this size grower in business and working.

I think that pretty much covers the way we use this.

I would just like to point out in this connection that this is a hedge operation for the grower. This method of our confirming for them is a type of hedge and it is because the board is there, and it would not be available if it were not there, although the hedge in this case is slightly indirect.

In conclusion, it is my belief, substantiated by others such as the commodity exchange authority, that the cash market in potatoes is a function of supply and demand and that the potato futures market is not an adverse influence on these cash prices. A great many people throughout the whole fabric of the industry use the futures market as an essential part of their business operations. Others do not, largely, I believe, for lack of understanding as to how to use the futures market as a hedging device to insure price rather than the more popular and obvious use of speculation. It does not seem reasonable to me to take this useful and valuable market away from those who have learned to use it properly and who depend upon it to maintain their livelihood.

Thank you.

(The prepared statement of Mr. John L. Baxter, Jr., follows:)

STATEMENT OF JOHN L. BAXTER, JR., CORINNA, MAINE

My name is John L. Baxter, Jr. I am vice president in charge of production for Snow Flake Canning Co., which manufactures processed potato products at Corinna, Maine. I am a member of the board of governors of the New York Mercantile Exchange and chairman of the Maine Advisory Committee of the exchange. The other members of that committee represent many facets of the industry including growers, bankers, and those who supply the industry with materials. None of the other members are members of the exchange. The committee in its present form was established under my direction at the sug-

gestion of the exchange. There was also established an information office in Presque Isle to assist the industry in the proper use of futures trading for the benefit of all segments of the Maine potato business. The objectives of the committee, as outlined by the exchange and myself, are to continually review the trading mechanics of the exchange, together with the details of the contract so as to make recommendations to the board for any improvements which the Maine group felt would be of benefit to the industry. It has been my experience that the suggestions we have made have been constructively and sympathetically received by the board. Changes have been made, and I expect that more changes will be made as we get further into the subject of making the futures exchange an even more useful tool for the industry as the basic conditions of the industry change. I would point out here that this is to be expected, because several basic improvements in the contract were made subsequent to the last time a similar bill was before this subcommittee. These changes were made by the former Maine Advisory Committee under the able direction of Mr. Frank Totman of Houlton, Maine, from whom a statement relative to these changes will be submitted to you today.

The use of the futures market for Maine potatoes is an integral and important part of the operating procedure of our business. It is further my opinion that the use of futures trading in our potato buying arrangements is of great importance to the economic welfare of the potato growers who supply us.

Basically we use futures trading to hedge the raw material component of our product cost structure; to establish purchase prices with our potato suppliers; and, through this pricing system, to assist our suppliers to carry out a hedging operation in connection with the potatoes which they grow and sell to us.

First, I will explain our use of futures trading to hedge our raw material cost. The need for hedging arises from the fact that daily potato prices in the cash market vary widely. This variance is often greater than the profit margin of the finished product. All other cost components of the product are relatively stable. This means that it is vitally essential that our raw material cost be stabilized with relation to our selling prices. The only means which we have at our disposal to accomplish this is by carrying out a hedge operation on the potato futures exchange. In this connection I would make these observations:

1. Spot prices for processed potato products do not vary directly with changes in the price of raw potatoes because these products are produced in many different areas under many different market conditions, and because the nature of the distribution of these products would make it impossible to institute daily price changes.

2. Processed potato products are often produced under firm price contracts, the manufacture to be carried out over a 10-month period, and delivery to be carried out over a 12-month period. In these time periods raw potato prices have historically varied as much as 400 percent. Under these conditions the raw potato price must be assured at the time the contract is signed. The only means which we have at our disposal to accomplish this is by carrying out a hedge operation on the potato futures exchange.

3. It is essential that our potato processing plant be run continuously because our processing season is limited to 10 months and because it is impractical to call in and dismiss hundreds of employees working a three-shift schedule, according to the flow of orders to the plant. This flow of orders is normally high in the fall, low in the winter, and high in the spring. This necessitates the accumulation of substantial unsold inventories. Between the period when the inventories are manufactured and when they are sold substantial variations in the price of raw potatoes frequently occurs making it absolutely essential to hedge the potato component of the finished product cost of these inventories by short sales in the futures market.

In concluding this section of my testimony I would like to point out that the business procedures which I have outlined are common to processors of many other agricultural commodities such as cotton, soybeans, soybean and cottonseed oil, coffee, sugar and the like. Potatoes over the years have been distinguished by the fact that they have been the most unprocessed of the major agricultural commodities. Since the war, and particularly since 1955, potato processing has become an integral and certain part of the potato industry to the extent that it has been predicted that by 1970, fully one-half of all potatoes sold for human consumption will be sold in processed form. It is my opinion that a futures market for potatoes is as important in this context as it is for other similarly processed agricultural commodities.

The second part of my testimony has to do with our use of the potato futures market for establishing prices with the potato growers who supply our raw product; and the manner in which they use this system for their own hedging operations.

In the late winter or early spring when growers are making their farm plans for the crop year to come, we meet with each man individually to ascertain the number of carloads he expects to grow, and the month or months of our manufacturing season, which is from September 15 to July 15, in which he wishes to make his deliveries. This is a commitment to deliver potatoes. Price is yet to be determined and price, of course, is where most negotiations break down and ill will is generated. In our case we say to our supplier, "Rather than haggle over price, we will pay you any price quoted on the New York Mercantile Exchange for 1 month or months of your deliveries at any time between the date of our agreement and the beginning of the month in which you make your delivery. If you have not selected a price by then, or if the price you have selected has not been quoted by then, we will pay you the average price quoted on the exchange for each trading day during that month weighted by the number of cars traded each day." The exchange price in either case is subject to a formula which translates the New York graded and delivered price to a Maine ungraded and delivered price.

The way this works is that immediately or any time thereafter the grower may give us a price, say five cars in March at \$2.55, with instructions to confirm without contacting him if the market reaches that point. Or he may ask us to contact him when the market moves into a certain range so he can make his decision at that time. Under this system the grower has the opportunity to price his potatoes over a period of up to 12 months taking advantage of market swings caused by growing conditions and supply-and-demand changes within that period. If a grower fails to confirm a price, he is paid the average market price during the month in which he delivers his potatoes.

The only reason we are able to offer this long-term pricing latitude is because we can instantaneously take whatever action on the futures exchange we deem necessary to protect ourselves against a loss resulting from a price change. Thus both are hedging at the same time.

I will conclude this with a specific example to illustrate my point. In April 1962 farmer X arranged with us to grow 10 cars of potatoes during the 1962 crop year. These he would plant in May, care for through September, harvest in October, store until March 1963, at which point he would deliver them to our plant. He has no idea what the market price will be in 11 months, but he needs some money immediately to plant his crop. In April 1962, the March 1963 futures option is quoted in the \$2.50-\$2.55 range, which is less than he would like to sell for, but is above his total costs and substantially above his cash costs. He, therefore, prices six cars which cover the total cash costs for his crop. This amount of money he borrows from a bank with our contract as collateral. Now he knows he can pay all of his bills and still has four cars to sell, the proceeds of which he can pay his overhead costs and realize his profit. Meanwhile our analysis of future market conditions leads us to believe that the market will be very low in March 1963, so we sell these six cars short.

Farmer X further notes that if he could sell his remaining four cars at \$2.67, he would cover his overhead costs and make a satisfactory profit besides. He therefore instructs us to price these four cars at that level if the March option reaches \$2.67. On May 18 due to very wet planting conditions in certain growing areas, the March 1963 futures reaches this point and his potatoes are priced. Our analysis now is that the wet weather is severe enough so that prices in March 1963 might be at this level or higher. Therefore we take no action in the futures market. Late in June, however, the weather breaks and crops all over the country are in good shape indicating to us a substantial oversupply during the marketing year. Now we sell these four cars short. In March 1963 the potatoes are delivered. The market by then has dropped to \$2.25. The grower, however, is paid \$2.60. Had he been paid the March market price he would have suffered a loss, whereas by hedging he maintained a satisfactory financial condition. Having sold these contracts short, we are able to offset the short-sale profit against the higher price which we have paid him, and our net price is the March market price.

This is but one example. There are many variations to this same general procedure, all of similar benefit to the grower and to us; and all of which would be impossible without the availability of a futures market in which to carry out the transaction. It is an incontrovertible fact that many of our growers

in these years of low cash prices at time of delivery have maintained their solvency and their way of life by establishing a price for their crop during futures market increases which occurred prior to the actual time of delivery. Over the years this has meant hundreds of thousands of dollars more income to this farm community than would otherwise have been realized.

It is my belief, substantiated by others such as the Commodity Exchange authority, that the cash market in potatoes is a function of supply and demand and that the potato futures market is not an adverse influence on these cash prices. A great many people throughout the whole fabric of the industry use the futures market as an essential part of their business operations. Others don't, largely, I believe, for lack of understanding as to how to use the futures market as a hedging device to insure price rather than the more popular and obvious use of speculation. It does not seem reasonable to me to take this useful and valuable market away from those who have learned to use it properly and who depend upon it to maintain their livelihood.

Mr. GRANT. Thank you very much for your statement. Are there any questions?

Mr. MATTHEWS. Mr. Baxter, could you give me some information as to the number of Maine potato farmers who would be using the facilities of the New York Mercantile Exchange at the present time?

Mr. BAXTER. Well, that is an interesting question. I cannot answer it specifically off the top of my head.

I believe that perhaps some of the CEA material would have that information. However, I would like to call to your attention that there are a great many farmers using it who would not appear in any record. Thus the farmers that deal with me are using the exchange to hedge, and yet they never have a position on the exchange. We carry it.

I would further call to your attention the fact that a very, very substantial number of farmers obtain fertilizer and materials through contracts with the suppliers of those items. The suppliers are able to do this because they then can take a position on the board. There, again, the suppliers would appear on the board, rather than the growers.

So my answer would be that any figure you read as to the number of growers who use the exchange would be basically misleading and not a true picture of how many use it or depend upon it.

Mr. MATTHEWS. Is it true that a potato grower often sells his potatoes on the exchange at a price higher than the cash market?

Mr. BAXTER. For a full month, yes; yes, sir.

Mr. MATTHEWS. Do you have any instances to your knowledge of growers who sell potatoes on the exchange and buy them back and sell them in the cash market, on the merchandising market?

Mr. BAXTER. I am afraid I do not quite understand the question.

Mr. CLIFFORD MCINTIRE. I think that Mr. Matthews' question is directed to the proposition where, the grower purchases a futures contract, then buys that contract back or liquidates it and actually moves the potatoes on to the normal market for somebody who wants to purchase them.

Mr. MATTHEWS. That is it, that is correct.

Mr. CLIFFORD MCINTIRE. Practically 100 percent of the transactions would be of that category?

Mr. BAXTER. Yes.

Mr. CLIFFORD MCINTIRE. With very little on the board, except in periods where it is more profitable to deliver on the board than it is to the cash market generally the bulk of these contracts are liquidated.

But as far as the exchange offering an outlet for the merchandising of potatoes, it does not?

Mr. BAXTER. It does—it is not intended to do that.

Mr. CLIFFORD MCINTIRE. That is not a function of the exchange to merchandise?

Mr. BAXTER. That is correct.

Mr. MATTHEWS. Just one more question. Does the Department of Agriculture exercise any vigilance over the operations of the New York Mercantile Exchange, in your opinion?

Mr. BAXTER. Yes; a great deal. I believe there are at least two members of the Commodity Exchange Authority on the floor the entire period in which trading takes place.

Mr. MATTHEWS. Have there been any violations on the part of the exchange reported to the Department of Agriculture, in your opinion, or to your knowledge?

Mr. BAXTER. Not in my knowledge or not since I have been on the board, shall we say. In other words, I am not competent to answer the question.

Mr. MATTHEWS. That is all, thank you.

Mr. CLIFFORD MCINTIRE. I might comment to that. As you say, since you were on the board—the advisory board—but, of course, there have been other cases. There is an outstanding one.

Mr. BAXTER. I think that the question of Mr. Matthews was, Has the exchange been guilty of any violation? This would be on the part of the individual dealing through the exchange. I think there is quite a difference here.

Mr. CLIFFORD MCINTIRE. I stand corrected.

Mr. BAXTER. This, of course, is by all means the reason why this type of an exchange is useful. The so-called futures buying that we once had in Aroostook County is utterly useless because the exchange is under the direction of the Government, and violations are dealt with, and dealt with extremely severely. So those of us who deal know that the contract that we have entered into will be carried out. And this is most definitely not the case in an unregulated market, which would be the only thing left if the exchange were gone.

Mr. FINDLEY. Mr. Baxter, Barron's, the Business Front, February 4, has an article captioned, "Congress Acted Unwisely When It Banned Trading in Onion Futures."

Previous witnesses have drawn a parallel between onions and potatoes. I would like to know if you agree with that caption, that the Congress acted unwisely in banning futures trading in onions.

Mr. BAXTER. I am not familiar with onions. I never have had anything to do with the onion market; and therefore I really could have no opinion.

I obviously think it would act unwisely to ban futures trading in potatoes.

Mr. FINDLEY. I have here a letter from Mr. Jack Roth of Beaver Brook Farms of Caribou, Maine, in which he makes this declaration:

Without the futures market the small growers would be subjected to private dealings where their financial position would be at a disadvantage.

Do you believe that is a fair statement?

Mr. BAXTER. I do.

Mr. FINDLEY. Thank you; that is all.

Mr. GRANT. Mr. Beermann?

Mr. BEERMANN. Mr. Baxter, when a grower uses the futures market, does he establish a price when he sells on the futures market?

Mr. BAXTER. Yes.

Mr. BEERMANN. You say that the price is the average for the month he makes delivery?

Mr. BAXTER. This is if he does not sell on the market, up to the time he delivers.

If a man says, I am going to bring in five carloads of potatoes, and he says that in May and he further states, I will bring that in the following March, we say that any time between now and the first of March, if you see a price in the March option which you wish to be paid for your potatoes, tell us and we will pay you for the five carloads. That establishes his price on that carload of potatoes.

If up to the first of March he has not done this, the potatoes are still unpriced, he get the average price for the month of March.

Mr. BEERMANN. Well, what the contract really is, is price date of shipment, rather than the futures price?

Mr. BAXTER. You mean our contract with our growers?

Mr. BEERMANN. Yes; in other words, it is a contract that allows for contracting for so much tonnage rather than a futures price?

Mr. BAXTER. He has a chance of both. He may establish his price on a futures basis. Say in June, the price of March is \$2.55, and he says, "That is the price I want." He gets it. That is how the price will come in March and that is the price he will get. If he has not priced it up to March, then he will get the price at the time of delivery. So it is both.

Mr. BEERMANN. Then he automatically gets p.d.s. (price date of shipment)?

Mr. BAXTER. Right. He is still going to deliver the car in March.

Mr. BEERMANN. He will deliver the same car?

Mr. BAXTER. Yes; right.

He contracts with us to deliver five cars in March. In June, the price for the March option in the future—the futures price on the March option arises at a price which is satisfactory to him—it covers the stocks and overhead, and he has some profit, and he says to us, "I want you to pay me this price quoted next March." "Next March" he says, "When I bring my potatoes in."

We will say it is \$2.55. We say, "We will pay you that when you bring your carload in next March—we will pay you this price that is being quoted today in June." And we do.

If, however, he has not done that, he still delivers the car in March but he has not established the price, so obviously we have to find a price, and that is the average market during the month.

Mr. BEERMANN. Well, what if he is short one of those five cars when it comes for the later delivery? Does he have to buy in the market to get it?

Mr. BAXTER. Definitely. He makes a physical commitment to us for X carloads of potatoes.

Obviously, we work with our growers. For some reason obviously beyond his control—we, of course, would work out something with him, or possibly forgive him.

But that is a matter of our judgment and his judgment.

Mr. BEERMANN. What is the experience—what experience do we have? Just what is the normal experience with the grower on fulfilling a contract?

Mr. BAXTER. Good. I mean, our experience with our growers is good.

Mr. BEERMANN. Thank you.

Mr. HARDING. Mr. Chairman, I have a question to ask of Mr. Baxter and I want to state that I am interested in getting the facts from both sides on this issue.

The other day the leadoff witness made a statement to the effect that a buyer in a large retail grocery firm was unable to put on a promotion because he could not get a firm offering from a shipper in Maine.

I questioned whether or not the exchange could be that dominant in the marketing and supplying of Maine potatoes.

But here today, on the first page of your statement, in speaking of the need for potato futures, you state:

The only means which we have at our disposal to accomplish this—meaning a firm supply of raw material—

is by carrying out a hedge operation on the potato futures exchange.

In Idaho today we have over 50 percent of our crop being processed. And our processors guarantee themselves a firm, stable raw material supply by grower contracts.

Have you ever utilized grower contracts?

Mr. BAXTER. Well, your opening statement was that I said in here—I am not exactly sure where—that the only way we had of guaranteeing ourselves a supply, a firm, stable supply, is a firm, stable price. We have our suppliers. They line up. We do contract with practically all our growers for practically all of our potatoes. That is not the difficult part.

The difficult part is arriving at the price, and being sure that that price is in relation, in proper relation to the selling price of our finished product at the time we sell it.

Mr. HARDING. My question was simply this: In Idaho a potato producer will go into one of our processors and contract for potatoes at \$1.15 or \$1.20 or some other firm price per hundredweight for his potatoes. There will be provisions for storage, and for bonuses or dockage for a high grade or lower grade potato.

The processor will have the potatoes available any time he wants at the contracted price. Don't make that type of a contract in Maine?

Mr. BAXTER. We do not make a firm price contract. There are firm price contracts made in Maine now.

Mr. HARDING. I might just suggest that as an alternative means of obtaining fresh potatoes at a stable price throughout a processing season.

Mr. BAXTER. Of course, one of the answers to that is the potato market certainly in recent history has been selling substantially below the cost of production.

If you need to have your raw potato prices in line with the market, you cannot contract with a grower at below his cost of production. It doesn't make sense to go out and ask him to contract with you at the price that you, in the spring, think potatoes probably will be worth next year, which would leave him broke.

Mr. HARDING. I agree, Mr. Baxter. But then you go on in your second point here and say:

Processed potato products are often produced under firm price contracts, the manufacturer to be carried out over a 10-month period, delivery to be carried out over a 12-month period.

Well, you are certainly not going to make firm price contracts on your processed products at a price that is going to force you to pay below cost of production to the producer, are you?

Mr. BAXTER. No. But on the other hand we can, when we make the price for our contract—we can immediately establish the raw material cost of that by purchases.

If it takes a hundred carloads to manufacture a certain contract, we can, with board quotations in the months in which we are going to produce this contract, immediately peg that price specifically.

Mr. HARDING. Then you can use the mercantile exchange to force down the price of your raw materials. Is that what you are saying?

Mr. BAXTER. Well, that, as you know, is the mechanics of a hedge. Now, the words "force down the price," and so forth, is not quite the way I would describe a hedge. When you have a hedge, you lose or gain on your board transaction, whether it is potatoes or soybeans or wheat or anything else, and you lose or gain on your actual purchase. So these work out.

Mr. FINDLEY. One more question, please. This is prompted by a telegram I received.

How can we keep those who desire to shoot craps or play blackjack from the commodity exchange, so that responsible, conservative growers who want price protection can still have the advantage of it. Would it be misused, as this telegram expresses it, by those who desire to shoot craps and play blackjack?

Mr. BAXTER. Well, as I am sure you all realize, the speculator is an essential ingredient in any market, whether it be the stock market, potato market, fats or oils, or anything.

The speculator is the leavening agent in the market. People automatically believe that speculators are dishonest, as this indicates, and can rig the market. This I do not believe is the case. This is what the commodity exchange authority is for.

So, therefore, I say—he is speaking of the speculator. And if you take the speculator out, you have no market. He is the man who provides the grower with the opportunity to sell short. The speculator, you will notice in your information, is generally long.

Mr. FINDLEY. So you see no need to take action to curb the activities of the speculator on the market?

Mr. BAXTER. No—provided they are normal activities in line with the law of the land.

Mr. FINDLEY. I also have a communication from someone in Chicago, in the commodity business, who says that as a clearing member of the New York Mercantile Exchange:

We have handled a large volume of futures trading in potatoes for the past several years. Of this volume, approximately 50 percent has been from individuals and firms in the potato trade who have used the Maine futures market for hedging purposes despite the fact that potatoes are grown in States other than Maine.

Is it true that Maine potatoes have been used for hedging purposes for potatoes across the country?

Mr. BAXTER. My knowledge of this would be limited. I know of specific cases where people in the potato industry outside of Maine have used the Maine market as a hedge, including a processor.

Mr. FINDLEY. Is it your belief that this practice is widespread and common?

Mr. BAXTER. Really, I am not competent to answer the question.

Mr. GRANT. Thank you very much for your testimony.

It is very evident that this testimony cannot be completed. Off the record.

(Discussion off the record.)

Mr. GRANT. The committee will come to order.

I think we can hear one witness before adjourning for today. I would like to call Mr. Findlen. Mr. Findlen, have a seat, sir.

Just let me state this: The House is in session this afternoon. We are going to have to necessarily adjourn after this witness testifies. There are some of you who are down as witnesses, but I understand this list of approximately 41 witnesses has been consolidated to approximately 10. We are going to see that each of these 10 are heard from.

Now, perhaps some of you will want to go back home this afternoon and immediately, after Mr. Findlen's testimony, if you wish to make your names known to the reporter, give him your name and address, then you may, within the next 10 days, send your statement in to the committee, and it will be received and published in the hearings of the committee.

So, immediately upon the end of this testimony, feel free to do that. That is for those who are not going to stay over and testify tomorrow. We will be glad to hear from you.

STATEMENT OF THOMAS J. FINDLEN, FORT FAIRFIELD, MAINE

Mr. FINDLEN. My name is Tom Findlen. I farm 300 acres of potatoes in the town of Fort Fairfield, Aroostook County, Maine.

Running my farm is a full-time job, but I am here today because of an issue which greatly affects the operation of my business.

I am here to explain why I think futures trading in Irish potatoes is of vast importance to every potato farmer, and to explain why futures trading should not be eliminated.

In order to view the farmer's problem in futures trading today in the proper perspective, I think a brief knowledge of the history of the industry would be helpful.

During the depression years of the thirties, market prices suffered due to the fact of the depression itself, and due to an oversupply of potatoes produced for the market.

Overproduction continued to be a vital factor in determining market prices in almost every year up to an including this present year.

During the thirties the selling price for a barrel of potatoes fluctuated between 35 cents to \$4. This price gyration—as our opponents choose to call it—existed during those years long before futures trading came into being, yet today, futures trading is blamed for the wide variation in market prices.

Obviously there is a flaw in the reasoning which produces the conclusion that futures trading causes price gyration.

In the period from 1940 to 1950, with the help of acreage control and price support programs, we had a very stable price structure.

In 1950 Congress swiftly acted to abolish Government price support and acreage control in the potato industry.

The withdrawal of the Government from the scene resulted in a return to the free market which had existed before World War II.

Curiously enough, the individual farmer anticipated a possible overproduction and for 2 years after withdrawal of acreage control, purposely limited the number of acres he planted each year.

This decreased supply could not satisfy the national demand during those years, therefore we had profitable prices. The following year potato farmers throughout the country, not having any means of predicting the number of acres which would be planted nor the amount of the yield which would result, planted far too many acres and harvested far too many potatoes to be consumed in the American market.

The old problem of overproduction was back with renewed consequences for the farmer. Prices on the market fell far below the cost of production.

During 1953 the cost of growing a barrel of potatoes was about \$2. From November 1953 to May 1954—the market period—the price for a barrel of potatoes selling on the market did not rise above \$1.

That year I had grown 54,000 barrels of potatoes and lost \$1 per barrel.

That year I lost \$54,000. I was not going to take a loss like that again, if I could help it.

I began to study records of futures trading of Irish potatoes on the New York Merchantile Exchange and discovered that there are times during the year when a grower can sell his potatoes on the exchange and make a profit.

Records of exchange transactions show that every year since 1955 potatoes have been traded for the March contract (New York prices) at \$2.70 per hundredweight, for the April contract at least \$2.80, and for May have traded at \$3 or above.

Maine prices are determined by subtracting the New York freight rate of 76 cents from the quoted prices. This gives a Maine price of \$1.94 per hundredweight for March, \$2.04 in April, and \$2.24 for May.

Clearly the practice of hedging potatoes on the New York Mercantile Exchange offers the potato farmer a reasonable guarantee on market prices once he takes the time to understand how the exchange operates and then uses a little commonsense in his judgment concerning it.

Thus it can be shown that the practice of futures trading of Irish potatoes provides a practical solution to the farmer's problem of marketing his potatoes at a profit once he has been educated to its use.

The profit margin may be shown by considering the cost to the grower on a per-acre basis. Roughly the cost of production and handling of 1 acre of potatoes is \$400.

A rule of thumb is that it requires 2 acres of potatoes to produce one carlot of 500 hundredweight of U.S. No. 1 potatoes.

If a grower sells on the market at \$2 per hundredweight, he received \$1,000 per carlot or \$500 per acre. Hence he can realize a profit of \$100 per acre.

To put it simple, gentlemen, you just can't go broke taking a profit. On the other hand, if a farmer markets his potatoes at the average loaded or street price, and not through futures trading he may receive \$0.50 or \$5 depending upon the supply of potatoes at the time of marketing.

Among those of us who have come down from Maine to oppose the bill on elimination, many of us are family farmers. In order to help move the hearings along, I have been asked to speak for the 22 other farmers sitting here in this room who want to oppose the bill and I speak for a great many more, naturally, who were unable to come down here to speak for themselves.

Let me develop the need for the board because this is the reason of its extensive use by farmers in Maine:

(a) The board will not exist if only speculators trade upon it.

(b) If growers did not need the board because of stable prices, they would not hedge upon it.

(c) But when prices are cheap due to overproduction, the need arises for farmers to hedge potatoes when the prices are profitable.

(d) If farmers do not need the board and therefore do not use it, the board will not exist. There have to be farmers selling on the board for it to stay in existence.

(e) I think the best argument on the need for the board is demonstrated by the extent to which the board is being used this year by farmers.

Farmers sell potatoes on the board to get fertilizer and other supplies. We sell also to get credit and to protect the investment we have in our potatoes that are in the ground or in our storage against low prices.

This is the way we operate on financing and protecting our money, farms, and homes.

Banks and other credit institutions in all parts of Maine have learned to work with us on hedging and like this kind of financing.

I would like to say that for many farmers the best price they have gotten for potatoes in the past few years has been on the part of the crop they sold on the board.

For example, I sold potatoes on the board last June at \$2.70 per hundredweight. In March of this year I bought back the hedge at \$2.25 and sold the potatoes on the cash market at \$2.25 delivered New York.

I had a hedge profit of \$225 on the car.

Whether the market is higher or lower when I sell I can get the actual amount that I have the car hedged for.

All we are trying to say is we are conducting our business so that we can get a living.

An important consideration is that the small farmer on America's family size farm is in a position to bargain effectively and profitably through futures trading.

A popular misconception is that only large farmers are able to profit by trading through the exchange. However, the actual case is that the small farmer and the larger farmer are given an equal opportunity to market potatoes through futures trading.

By hedging potatoes on the exchange every farmer is given the opportunity to take advantage of the bargaining power of the big buyers.

This bargaining power of large buyers is a factor in determining the market price of potatoes.

The small farmer can watch the exchange prices and elect to sell his potatoes at a price which will guarantee him a profit.

This profit factor is the essential consideration to that small farmer who had to plan for the welfare of his family and the education of his children.

Horace D. Godfrey, Administrator of the Commodity Stabilization Service and a Director and Vice President of the Commodity Credit Corporation, said in a speech that I heard him make in Fort Fairfield, my hometown, that:

The family farm is a basic part of our way of life and it must never depart from the American scene.

The small farmer can remain on the scene by hedging potatoes on the exchange. This transaction takes place in the following manner.

Dues to large capital requirements which may develop from price variations, a bank or production credit association is a necessary part of the operation.

The bank loans money to the grower to finance a joint sale on the board. Initially a \$200 deposit per carlot of potatoes is required to sell the car.

If additional money is required to maintain the margin, the bank furnishes the extra capital.

When the contract is terminated by delivery, all the margin money is returned to the bank.

Since this is a joint agreement, a grower must secure the permission of the bank before buying back potatoes he has hedged on the exchange.

For example, I participate with the First National Bank to hedge potatoes on the board. As an actual fact I have never delivered potatoes on the futures board.

Without any such means of stabilizing income, growing potatoes in this free economy would be even more hazardous than it already is.

Overproduction, not futures trading on the New York Mercantile Exchange, is the basic reason for cheap prices. Godfrey stated in the speech I heard in Fort Fairfield, and I quote:

The only salvation to the sick Aroostook spud industry is to cut production. He further went on to say, "Overproduction must be stopped."

Eventually this country shall require a program of acreage control and quota plans in order to regulate the overproduction of potatoes.

With such regulation supply will more nearly equal demand and prices will become more stabilized.

When supply and demand are in balance, the potato farmer will be able to market his crop at a profit.

In August I was asked to serve on the Advisory Committee of the New York Mercantile Exchange. I am not a member of the exchange, by the way.

I accepted this challenge because I thought there should be some basic changes made in the trading rules and also the contract.

I agreed to serve on the committee without pay only if some necessary and progressive changes could be explored.

This committee is made up of people from the various businesses in the county, but most of the members are farmers.

The whole group, under the able direction of Jack Baxter, took the progressive attitude that changes should be made. After several meetings we decided to work on a point-of-origin delivery.

Obviously with the changes in packaging, procurement, and trade conditions, contracts had to be changed from time to time. The exchange has made such changes over the years as the need arose to improve the usefulness of the contract.

Our committee took the attitude to make changes in the contract instead of eliminating the trading. It took us nearly 4 months to work out all the technical rules to make a contract with State of Maine delivery.

We had very good cooperation from the board of governors of the New York Mercantile Exchange. Jack Baxter, a member of the board of governors, whom we meet with each meeting, took our ideas and discussed them with the board.

I found that if the idea we asked for was just and fair and there was a need for it, the gentlemen from New York helped us in every way to transfer the idea into a practical part of the contract.

You see, we as farmers could think only in general terms and then had to have the assistance of professionals in the field of futures trading to make the technical changes.

I would like to explain to you in very general terms the new State of Maine contract and also the differences between the two. Under the new contract the buyer orders the car of potatoes out of Maine to either Boston or New York for reinspection and then reconsigns the car to the city in which he does business, thereby eliminating, under this new contract, the congestion of cars at one point.

The seller in the old contract shipped the cars to New York making a congestion of potatoes at one point.

Not only does this new point-of-origin contract eliminate congestion, but it also gives to the buyer a fresh car of potatoes which he can bill to any destination by the most rapid route.

I think our committee will have to be constantly aware of changing conditions and will have to make changes in this contract as experience shows that changes are needed.

Our committee tried at various times to meet with the Maine Potato Council to get their suggestions to make the futures trading contract a better one.

Their attitude has been, "we just don't want to talk."

All they seem to want to talk about is price gyration, fluctuation, and manipulation.

In relation to futures trading, there has not been any progressive or constructive thinking by the Maine Potato Council during this entire past year.

I have felt that we should be using the best brains in Aroostook County to develop all phases of the industry.

I think the Maine Potato Council has misrepresented the vote taken last spring to eliminate futures trading.

The Maine Potato Council conducted a survey to determine the consensus of Aroostook potato farmers concerning futures trading. Only 63.6 percent of the ballots were returned.

Of this 63.6 percent reporting, 88 percent of the votes were in favor of eliminating futures trading of Irish potatoes on the New York Mercantile Exchange. The Maine Potato Council then announced that 90 percent of the Aroostook farmers favored elimination of futures trading.

They even raise it sometimes, in print, to 95 percent. The true fact is that only 56 percent of all the Maine potato farmers favored elimination of futures trading.

This group of people have tried to create the illusion that to be for futures trading is to be for sin.

We of the advisory committee are aware that constant change is a fact of life in the dynamic potato industry. It is the heritage of progress in America that constant changes to improve unsatisfactory conditions are progressive, beneficial measures in any industry.

I would like to think that all segments of the potato industry might work together for the common good of the potato farmers.

Mr. GRANT. Thank you very much for your statement.

Any questions?

Mr. McINTIRE. Mr. Chairman, I would just like to ask one or two exploratory questions.

One is, for the record, because of your reference here that you speak for 22 other farmers—would you supply the clerk with a record of their names and addresses, so the record would include the names of those whom you are speaking for, so that the record will be complete on that?

Mr. FINDLEN. I will get that and put it in.

I don't remember all their names. But they are all right here in the room.

Mr. McINTIRE. Well, you have made reference that you are speaking for 22 besides yourself.

I thought perhaps you had a list of those for whom you are speaking.

Mr. FINDLEN. I didn't prepare it.

Mr. WATTS. My name is Llewellyn Watts, Jr. I am chairman of the board of the New York Mercantile Exchange.

We have 29 or more witnesses here who at great inconvenience have come here to be heard.

In the interests of the time element for the committee, and consideration of the fact that you are busy, I have a list of these statements made by these people, who have come down, mostly from Maine.

I will read off, if I may—with your permission—read off their names.

Would it be out of order to show them the courtesy to have them stand up as I read the names?

Mr. GRANT. That is all right.

We were going to do that as soon as we finished this testimony.

Mr. WATTS. I beg your pardon. I thought you wanted it now.

Mr. GRANT. All right. Go ahead.

Mr. WATTS. I have here a statement from Mr. Gilman Albair, Caribou, Maine. He is a grower and shipper of potatoes.

I have a statement from Mr. Ralph A. Burke, of Fort Fairfield, Maine.

A statement from Pat Chasse, Caribou, Maine.

A statement from Mr. Raymond W. Dow, Caribou, Maine, 215 acres.

A statement of John J. Edmunds, Caribou, Maine—no, this is Bridgewater, Maine.

Statement of Mr. Roger Flannery, who is a grower, shipper of potatoes.

Statement of William Hurt, Fort Fairfield, Maine, grows 70 acres of potatoes.

Statement of Mr. Philip Jacobs, Caribou, Maine.

A statement of Carl Moskowitz, shipper.

A statement of Alvah Pangburn, farmer, 125 acres.

A statement of Mr. Lester E. Rand, Fort Fairfield, Maine, shipper.

Statement of Mr. George M. Raymond, Caribou, Maine, shipper, producer of potatoes.

Statement of Mr. Ralph G. Smith, Corinna, Maine, 140 acres.

Statement of Mr. Joseph Solomon, Fort Fairfield, Maine, shipper and dealer.

Statement of Louis Solomon, Caribou, Maine.

Statement of Mr. Albert Theriault, Caribou, Maine, 250 acres.

Statement of Louis Wesnoffske, Hicksville, Long Island.

Statement of Mr. Myron J. Turner, Garfield, Maine, farmer.

Statement of Mr. Harris Whited, Fort Fairfield, Maine.

Statement of Matt J. Williams, New Sweden, Maine, grower.

Statement of Otis Wright, Fort Fairfield, Maine.

Statement of Mr. Francis J. Reardon, a grower, 2,000 acres, dealer.

Statement of Mr. Bernard Smith, Mars Hill, Maine. He is a grower.

Those are the one who have filed statements so far with us. And we thank you very much.

(The statements referred to follow:)

STATEMENT OF GILMAN ALBAIR, CARIBOU, MAINE

My name is Gilman Albair. I live in Caribou, Maine. I am a grower and shipper of potatoes and have been in the potato business for the past 22 years. I harvest 115 acres of Certified Foundation Seed potatoes yearly.

For the past several years, I have hedged 85 percent of my production on the New York Mercantile Exchange, as a protection against price decline. In this manner, I know what I would receive if I delivered to the board and can liquidate at any time I see fit. This kind of hedging I consider the best possible business practice.

The passing of time has seen many changes in the potato industry. Naturally, many of us resist change but to take our rightful place in the market, we must face up to such changes. I feel the industry should learn more about the use and benefits of futures.

A grower or shipper with a bona fide hedge has no difficulties in getting his contracts financed by practically any bank in the area. They are keen to realize the importance of insuring the investment of the grower with whom they are doing business, and having their loans insured.

In all seriousness, I believe that the New York Mercantile Exchange is a necessary tool of the industry. If we are to continue to stay in business we must become better businessmen, not just good farmers. I, therefore, urge the committee to oppose the bill to eliminate futures trading on the New York Mercantile Exchange. The elimination of futures trading would deprive many good farmers of a valued financial tool and I cannot see how elimination would help anyone.

STATEMENT OF RALPH A. BURKE, FORT FAIRFIELD, MAINE

I am Ralph A. Burke of Fort Fairfield, Maine. I am a dealer in lumber and building materials and was born and raised on a potato farm. I have been a

potato grower for 29 years. Due to the economic conditions now existing in Aroostook County, I believe that we need the futures contracts of the mercantile exchange on potatoes more than ever. The cost of producing potatoes has reached a very high level and the farmer's equity in his farm, which he uses for credit in most cases, is decreasing every year due to the low prices which he receives for the product which he raises.

I am a director of the First National Bank of Fort Fairfield and I can tell you that at the bank we feel that any farmer who has hedged on the mercantile exchange is able to borrow more money because he has security for his loan. Thus with the New York Mercantile Exchange futures trading board in operation, we are able to service more loans during this period of low prices which is helping the industry weather a critical period. I do not think that these farmers should be deprived of an opportunity to grow potatoes through the elimination of futures trading.

STATEMENT OF PAT CHASSE, CARIBOU, MAINE

My name is Pat Chasse, of Caribou, Maine. I was born, raised, and worked on a farm all my life. I have been in business for myself for 30 years and I am now growing 60 acres of potatoes a year. For the past 10 years I have hedged my crop on the New York Mercantile Exchange to protect the investment in my crop each year against loss due to falling prices. The insurance I have had has helped to keep me in the business of growing potatoes because at some time during each year there has been a futures price offering enough money in comparison with the cash market to look very attractive to me. The principle of hedging and insuring yourself a reasonable profit every year has worked out very satisfactorily for me and I am happy to say that after 10 years of careful hedging I am now in a financial position where I do not have to sell potatoes for a fertilizer contract. I can do my own hedging for myself, purchase my own fertilizer and hedge regularly.

I think the boom-and-bust theory of holding unhedged potatoes until late in the year, every season, hoping against hope for a great big price somewhere along the way is most unbusinesslike and unsatisfactory and I feel my experience has proved my judgment to be correct. If more growers would use the futures market for hedging, Aroostook County would be in a much better financial condition today. When the price of potatoes is low some farmers blame the futures market of the New York Mercantile Exchange, but board or no board, when we have too many potatoes we have to accept low prices and futures trading is the only way I know to protect yourself against low prices.

STATEMENT OF RAYMOND W. DOW, CARIBOU, MAINE

My name is Raymond W. Dow, of Caribou, Maine. I am a grower and shipper of certified seed potatoes, growing 215 acres and shipping approximately 110-115 cars during the season. I have been in the Maine potato business since 1937, and I find futures trading of greater importance each year.

Since 1952, I have been using the futures market of the New York Mercantile Exchange as a hedge to finance my fertilizer and protect myself on other "out of pocket" costs. I have hedged as many as 60 cars a year to protect my creditors and myself. My broker is willing to finance any hedging over and above my fertilizer contracts, for which I pay a small service charge. By using the futures market I have assured myself that I can stay in the potato growing business by protecting my capital and credit. I definitely feel we need a futures market as an instrument of finance in the potato industry. As yet we have no other program offered to us to take the place of a supervised medium to hedge against falling prices. Many people who claim to be against futures trading continue to use the facilities offered by the New York Mercantile Exchange to sell futures, either directly or indirectly.

Many of our competitive areas in the last several years, through the use of DDT and other insecticides, now raise and merchandise large crops of potatoes and continually supply our markets for a longer and longer season. Futures hedges help us meet this new competition.

Without hedging on the futures market, many growers will be forced to cut acreage or may be put out of business entirely. They will lose credit and competitive ability. This is a one-crop area and we can't afford the losses I foresee. I hope this committee will see that futures trading is not eliminated.

STATEMENT OF JOHN J. EDMUNDS, BRIDGEWATER, MAINE

My name is John J. Edmunds. I have been a Maine potato farmer 46 years and I presently farm 150-175 acres a year in Bridgewater, Maine, and raise and ship 70 to 100 cars a year. I am in favor of futures trading in potatoes because a farmer or dealer can protect himself one way or another by selling or buying potato futures as a hedge. Years ago it was a common thing to sell a given number of cars to seed companies and commercial buyers in advance of the season and receive from them \$100 or \$200 a car. That went out 20 years ago with the growth of chainstores, but in its day it was a form of futures, and it has been replaced by futures hedging on the New York Mercantile Exchange.

With the New York Mercantile Exchange, growers, buyers and sellers all have an open market where they can buy and sell all year at a published price for all to see. Without something like this futures market you don't know if you are buying or selling way above or below your neighbors. We need the exchange to establish this kind of open price and to sell and know that you are going to get the price at which you sold with no quibbling. Every year in the end the board prices always truly reflect the value of our potatoes. It is true this year and was true last year and futures have been a true indicator of value regularly whether high or low, and I have used futures for 15 years, since 1948, and especially since they came to life in 1951 and became active.

The exchange is open and aboveboard and the grower has a price and futures sale he can trust and depend on, set by a whole cross section of the United States. There is no law that says you have to use the board, but it is there to use if you want it, and if you don't want to you still benefit by having that price available for your information. And you know that if you sell 50 cars on the board you can be absolutely sure you have 50 cars sold and will get the exact price you sold at. If the board were done away with you'd have a chaotic market condition with undercover prices. I wouldn't know what my potatoes were worth. Years ago during the depression of the early thirties I sold potatoes as low as 10 cents a barrel and even tore open thousands of bags and dumped the potatoes. During the war we made a lot of money for 10 years. Since then we have had some poor years. In 1953 and 1958 the market price just paid expenses. We were lucky in 1953, we had a lot hedged on the board during the summer at high prices and got a lot of money for what we hedged. Anyone who didn't have them hedged did much worse, I can tell you, and I wish we had used the futures market that way a lot more over the years. We have a good cash market one-third of the time and a poor one two-thirds of the time. The thing is to sell on the board when prices there are good and try to offset some of the poor market periods.

STATEMENT OF ROGER FLANNERY, FORT FAIRFIELD, MAINE

My name is Roger Flannery. I am a grower and shipper of potatoes in Fort Fairfield, Maine. I have been in business for myself for 6 years, growing 100 acres and shipping 45 to 50 cars a year. I was born and raised on a farm and always worked on my father's farm until going into the service. I am married and have four children.

I hedge enough potatoes each year by selling on the futures market to pay for my fertilizer and spray materials. I also hedge more potatoes to cover my out-of-pocket expenses. My basic investment is then protected. The Northern National Bank, Fort Fairfield branch, finances my hedging position. By hedging potatoes on the New York Mercantile Exchange, I am limiting my risk of financial loss, and assuring myself of being able to stay in business. If I had hedged more potatoes last year on the New York Mercantile Exchange it would have meant a profit for me instead of a loss. The board price was the best one we had. This present year the New York Mercantile Exchange paid \$3.27 per barrel. To my knowledge no other contract is that good. The futures price was tops for us all year, just like last year. Without a futures market growers will have to take whatever price the large buying interests will pay. If

the futures market is eliminated some growers will be put out of business. Idle farms will depreciate all other farms.

Therefore, I ask this committee "please do not eliminate futures trading in potatoes." The result of this bill, if passed, would be a loss to all concerned and higher taxes for those farmers who could stay in business. The acreage we lose would be picked up at once by other areas and this production and these customers lost to us forever.

STATEMENT OF WILLIAM HURT, FORT FAIRFIELD, MAINE

My name is William Hurt of Fort Fairfield, Maine. I am a farmer and grow 70 acres of potatoes. I am one of the many who received a ballot but did not vote in the referendum on the elimination of futures trading in Irish potatoes. I have always hauled potatoes by the load to dealers and I have found through the past few years the crop has averaged below cost of production. The reason for this low average price is overproduction year after year. I have been watching the futures prices of the contracts on the New York Mercantile Exchange and I know I would have been better off every year if I had sold hedges against my production on the futures board of the mercantile exchange. With these hedge sales I would have had my price protected and could have gone right on moving out my potatoes in the same way. For this reason I wish to state that I am very much in favor of continuing futures trading and against any legislation that would abolish it.

STATEMENT OF PHILIP JACOBS, CARIBOU, MAINE

My name is Philip Jacobs and I was born and raised in Caribou, Maine. I started potato farming for myself in 1939, and this has been my occupation since that time. During the past season I grew 110 acres of potatoes, approximately 56 carlots. I handled these potatoes in three ways, I sold some to processors, some to dealers and others I hedged on the futures market of the New York Mercantile Exchange. The highest prices that I received have been on the hedged sales that I made through the exchange.

I believe the futures market to be of great value to myself and to any other farmer who is willing to study it and learn how to use it as a hedge to protect profits. For one thing, it helps get better credit arrangements with banks, fertilizer companies, and all the other people we go to for financing. Secondly, the futures board is the only way I can sell potatoes at any time during the year I see fit. Without it I am in the marketplace rushing around to sell potatoes at the same time everybody else is selling them. The futures board gives us a way to sell if we don't think the cash market is favorable at the moment and don't wish to hold for selling later in the year without some kind of protection. The way things turned out, this year and last year both, the best prices I received for my potatoes were the returns I got on the potatoes I hedged through the New York Mercantile Exchange.

I have not heard of any plan for something to take the place of the futures market and without something of this sort I think we would be very seriously hampered in the potato business in Maine. I most sincerely urge this honorable committee to act unfavorably on the bill to eliminate futures trading in potatoes.

STATEMENT OF CARL MOSKOWITZ, MAINE STATE POTATO CO., INC.,
PRESQUE ISLE, MAINE

My name is Carl Moskowitz. I operate the Maine State Potato Co., Inc., of Presque Isle, Maine, in partnership with Max Meltzer, of Philadelphia, Pa. We ship an average of 2,000 carlots of Maine potatoes and have done so for 5 years. Last year we shipped approximately 2,500 carlot equivalents, or about 5 percent of the total shipment of Maine potatoes, which run about 50,000 carlots a year. We have been farmers but in the past 2 years have not operated in this capacity.

In our operation we finance several hundred growers on seed and fertilizer as well as operating cash, in return for which they compensate us in potatoes. We make our contracts with growers on the basis of the March futures price on the New York Mercantile Exchange, and once the contract is signed we either hedge the potatoes on the mercantile exchange or sell them to a processor. Over the past 10 years we have hedged up to 500 cars a season on the mercantile

exchange. Thus the potato futures contracts available to us make our contracts with growers economically feasible.

In recent years the best price available during the season has been that on the futures boards of the New York Mercantile Exchange, as a result of which we have sold a large number of carlots on the futures market. It is our normal operation to ship our potatoes to actual customers and to lift our hedges simultaneously, using the board as an economic tool for hedging to protect our capital. The board is not a merchandising method and those who think that selling on the board is enough effort to put into the potato deal are hurting themselves and the industry. We very seldom if ever deliver to the board.

It is my considered opinion that those who oppose futures trading do not understand its benefits and that the elimination of futures trading would do great damage to hundreds of growers as well as to those who finance them and supply them with seed and fertilizer. The reason for the problems of our industry is the fact that for 10 years Maine has sat back and not shipped until the last minute, waiting for the misfortunes of other areas such as frost and shortages to improve market conditions. We should hedge our potatoes and ship all season, not just the last couple of months. The exchange does not set prices, they are set by supply and demand. Supply and demand set prices. I learned this in school and I have never forgotten it. We keep too great a supply too long and do too little to stimulate and encourage demand.

In my opinion if futures trading in potatoes is eliminated the acreage in Aroostook County, Maine's potato-growing area, would be reduced by one-third and other areas would pick up the difference immediately and the total production in the 26 fall States would stay the same. Aroostook County would have an unforgettable depression in terms of overall income to the county that would ruin many people including a large number of the proponents of the bill to eliminate futures trading.

STATEMENT OF ALVAH PANGBURN, CARIBOU, MAINE

I am Alvah Pangburn, of Caribou, Maine. I was born, raised, and lived on a farm all my life and I have been a grower and shipper of Maine potatoes for 15 years. I grow 125 acres of potatoes and ship 50 cars of potatoes a year. I have used the futures board as a hedge to cover my fertilizer bill by selling enough potatoes to cover the cost. I also hedge potatoes to cover 50 to 75 percent of my expenses other than fertilizer. In my opinion this is the proper way to handle my potato operation. My broker makes all necessary financial arrangements for which I pay a small charge.

The futures board has shown a much better price structure than dealing with individuals such as we did 20 to 25 years ago. When I make a sale on the futures market I collect my money for the potatoes as soon as the contract is liquidated. When dealing with individuals I might have to wait many weeks to receive payment. Also when I sell on the New York Mercantile Exchange as a hedge I have a bona fide contract handled under the supervision of the Commodity Exchange Authority of the U.S. Department of Agriculture.

Everything in life today is insured—our lives, health, cars, equipment, and buildings. Futures trading gives us a chance to insure our investment in our potato crops. I do not think the elimination committee has the right to break down what we have built up without offering a better way of financing and insuring our potato crops.

STATEMENT OF LESTER E. RAND, FORT FAIRFIELD, MAINE

My name is Lester E. Rand, of Fort Fairfield, Maine. I am a potato buyer, shipper, and broker. I have been in the potato business for 15 years and handle 2,000 cars of potatoes a year on behalf of 100 to 150 potato growers. We hedge on a regular basis to protect ourselves and our growers against loss. In 13 years of handling potato futures I have made very few deliveries. I usually buy back the hedges and merchandise the actual potatoes into the cash market. During this time I have been pleased to note that the board of the New York Mercantile Exchange has done everything possible to make futures trading suit the needs of growers and shippers better and better. For example, the present point of origin delivery to start next fall I think is a most important advance.

Our hedges are financed through the Fort Fairfield branch of the Northern National Bank of Presque Isle, the First National Bank of Fort Fairfield, and

Fort Fairfield Production Credit Association. The Farmers Home Administration releases mortgaged potatoes to banks for financing through potato hedges. If futures trading is eliminated, many growers of 100 acres or less will be put out of business. The family farmer will start disappearing rapidly from the Maine scene and financial institutions and fertilizer companies will contract at much less attractive prices. They will have to do this because they will have no futures boards on which to hedge accounts receivables.

Because of the above statements, I urge you sincerely to act unfavorably toward the bill to eliminate potato futures trading.

STATEMENT OF GEORGE M. RAYMOND, CARIBOU, MAINE

I am George M. Raymond, Caribou, Maine, a grower and shipper of potatoes. I farmed 4 years prior to entering the service and when I returned from active duty I continued my farming operation of growing 150 acres of potatoes and shipping 75 cars per season.

I have used the New York Mercantile Exchange since 1954 as investment insurance. I sell as a hedge on the New York Mercantile Exchange a portion of my crop each year for protection against a price decline while I own potatoes. I plan to hedge 50 percent of my crop next year as in other years. It is the only way I know of to take the gamble out of growing potatoes. The contracts now run from November through May. I would like to see a June contract on the New York Mercantile Exchange where I could hedge potatoes treated with sprout inhibitor. Our shipping season gets longer each year. I think the Commodity Exchange Authority of the USDA is doing a very good job of supervising trading on the New York Mercantile Exchange and I hope the directors of the exchange will continue to improve trading rules for the advantage of the potato growers. The new point of origin contract is a tremendous advantage to growers and a very progressive step. It prevents piling up at delivery and permits the widest possible distribution of our potatoes.

The Aroostook Trust Co. participates with me in all my hedge sales. The banks are happy to finance hedges. Without a futures market many farmers will be forced out of business, through loss of credit, fertilizer, and dealer help.

I therefore ask this committee not to let this happen by voting not to eliminate futures trading.

STATEMENT OF RALPH G. SMITH, CORINNA, MAINE

I am Ralph G. Smith of Corinna, Maine. I grow and ship about 140 acres of potatoes a year. This, together with a small broiler operation has been my occupation since I returned from the Navy in 1946.

This is a family-size operation carried on by myself and my family with the aid of three regular men. Our farm is located in central Maine about 150 miles south of the large Aroostook County producing area.

We have in the last few years built up a market for high quality special sized Russet Burbanks. The remainder, or about 50 percent, of our crop helps supply the needs of a frozen french-fry potato plant in our area.

We have used the New York Mercantile Exchange for the past 5 years as a means of pricing a portion of our unharvested crop. In using the board as a hedge we simply figure a price at which we are reasonably sure of a profit—when and if the future trading prices reach that point, the contract is made. We have never attempted to gamble on the board nor do we try to hit the top price.

We have never lost money on that portion of our crop which was hedged—unfortunately we have on several occasions lost money on that portion of our crop which was sold on the market price at time of delivery.

We would no doubt be able to continue in the potato business if future trading was eliminated—just as we would be able to continue if the use of tractors or some other essential tool was prohibited.

I maintain that future trading or hedging is the most important single factor which allows a family-size operation, such as ours, to compete with the large commercial units.

In view of the above-mentioned reasons, I respectfully urge this committee to vote unfavorably on any bill that would prohibit future trading of potatoes.

STATEMENT OF JOSEPH SOLOMON, FORT FAIRFIELD, MAINE

I am Joseph Solomon, shipper and dealer, at Fort Fairfield, Maine. I believe that hedging potatoes on the New York Mercantile Exchange is a good business practice, as most years there is a chance to hedge potatoes at a profit.

I realize the farmers are fearful of selling before they have harvested their crop, but they are surely gambling when they plant them in the spring with no assurance of anything except the great possibility of overproduction.

I am a potato buyer and shipper and the practice that I usually use is that most times I hedge at least half of my purchases in the summer and fall months if any one of the months of March, April, or May are at \$2.75 per hundred-weight delivered New York City.

As a Maine businessman I firmly believe that eliminating futures trading in potatoes will be a financial blow to Maine.

STATEMENT OF LOUIS SOLOMON, CARIBOU, MAINE

I am Louis Solomon of Caribou, Maine. I have been in the potato business for 30 years as a grower and shipper. At the present time I am growing 340 acres of potatoes and ship 150 cars. I use the New York Mercantile Exchange potato futures boards for selling my potatoes as a hedge against falling prices and to help in my financial operations. If I could not hedge a part of my crop to help the financial part of my activities, I would not want to be growing potatoes as at the present time expenses are very high, the margin of profit is very small, and the risk of loss would be too much for me and for many others.

I know the directors of the New York Mercantile Exchange have made the contracts better suited to the needs of the Maine potato industry and they will continually try for improvements as changing conditions require. Many changes have been made over the past 5 or 6 years that have made the contract increasingly useful.

The futures market is a free and open marketplace where prices are arrived at publicly. Nobody is compelled to use it but those of us who do would suffer without it. The family farmer would be at the mercy of a few large corporations. I urgently ask that this honorable committee act favorably on the McIntire bill.

STATEMENT OF ALBERT THERIAULT, CARIBOU, MAINE

I am Albert Theriault of Caribou, Maine. I have been a potato farmer for over 20 years and plant 250 acres of potatoes. I use futures trading for both hedging and for a guidepost when I sell. It is important to my farming operation and I would say that without the benefits of futures trading for obtaining fertilizer, credit, and price protection, I would find the business of raising potatoes very perilous.

I feel that futures trading has been a tremendous stabilizer of our industry. Last year is a good example of the value of futures trading to a farmer. The board price was the best one available just about all year and because there was so little demand in the cash market most of the year, I even ended up shipping a great many potatoes to the board, although I do not like to do that unless it is necessary. Last May, for example, I had 35 cars sold on the board at good prices. I sold 10 cars in the cash market and found that it served my purposes as a farmer best to deliver 25 cars. This year I have been buying back my hedges and selling on the cash market. Today I still have 20 cars sold on the board at good prices and I do not know if I will ship to the board or sell on the cash market. Naturally I will do whichever works out better for me.

As you can see, futures trading is really an intimate part of the way I run my family farming business. It would hurt me to lose it.

STATEMENT OF LOUIS WESNOFSKE, HICKSVILLE, LONG ISLAND, N.Y.

I am Louis Wesnofske of New York. I want to give my reasons why futures trading is of great importance to the potato industry.

Over the past years, a farmer hedging in potatoes near the \$3 level could have become one of the most financially successful farmers today. Had it not been for

the pressure against the New York Mercantile Exchange I would have gone to Maine to farm for myself, but I have not done so because I am fearful of losing the advantages of futures trading.

For the last few years, according to my records, I have hedged potatoes for firms in Maine because the futures price was the best one available to them. The cash market offers lower prices and requires 2 months for collections. On the New York Mercantile Exchange you can get cash with no jeopardy of receivable accounts.

The decisions of large companies such as U.S. Steel, American Telephone & Telegraph, and General Motors are made not by a single individual, but rather by a board of directors. If the country uses 5 million automobiles a year, General Motors would not think of producing 10 million cars. You can look at our potato problem in two ways—overproduction or underconsumption by an average of 10 percent a year. If too many people are producing, this stems from an accumulation of thoughts of single individuals and while I can sympathize with the farmer's plight, once having been a farmer myself, some farmers must fall because a 10-percent overproduction means a 35-percent price drop.

Going back to the law of nature, overproduction means survival of the fittest—a horse coming in last should not be entitled to any prize money. Any reflection of the farmers' plight should not be construed as originating from the New York Mercantile Exchange, but from overproduction, with futures as the farmer's only means of protection against it. How the New York Mercantile Exchange fluctuates is a result, not a cause for depressed prices, when the market drops, and meanwhile the growers are protected. When the market goes down the dealer is condemned by the farmer for depressing the price level, but if you ask a farmer to plant 25 acres less of potatoes in the spring, he might ask you if you were out of your mind. Overplanting is his way of life.

I cannot see how the New York Mercantile Exchange can be controlled by a single individual or a group of individuals. The field of trading is far too broad. It is a vast national market, like the grain markets, under constant exchange and CEA scrutiny and review. Assuming a group might start to sell, immediately buying comes in from another group just as in any commodity or securities market. If the market rose, hedging would come in from the farm country which would be the desired medicine and the psychological time to hedge. If a farmer marks time and waits for this hedging opportunity it would be the greatest asset he could have for his business.

You can go to any part of the country and find both successful and unsuccessful farmers in the same area, both having the same opportunities. Example: I have a brother who is the largest potato grower in New York State. He started farming in 1929 literally owning only his shirt on his back. Since that time many growers have gone financially bankrupt. Today my brother is one of the most financially successful growers in the United States. It depends on the individual. My brother started in a depression, through good times, bad times, war years, nonwar years, etc. At the time of his beginnings the New York Mercantile Exchange was not a factor. The board later came into existence and has been a great asset to him. It is not the New York Mercantile Exchange but rather the individual himself. Those who understand and use the futures market seem to prosper steadily and seem to be the progressive, thoughtful men in our industry.

STATEMENT OF MYRON J. TURNER, GARFIELD, MAINE

I am Myron J. Turner, 32-year-old Maine farmer from Garfield, Maine. I grow 140 acres of potatoes in partnership with my father, Clayton S. Turner, of Ashland, Maine. We ship about 75 to 80 cars of potatoes yearly.

We have used the potato futures contract of the New York Mercantile Exchange as a hedge as part of our sales program to our advantage successfully to guarantee cost of production with a marginal profit when possible. I firmly believe this tool of our industry needs improvement, but without it my sales program will be at a definite disadvantage without a ready market made available through the New York Mercantile Exchange.

The North National Bank of Presque Isle, Maine, has always backed the hedge and selling program which we try to follow. Trying to compete with other potato-growing areas, I definitely feel that we need a futures market. I therefore urgently request that this committee vote against the passage of this bill to eliminate futures trading in Irish potatoes.

STATEMENT OF HARRIS WHITED, FORT FAIRFIELD, MAINE

I am Harris Whited of Fort Fairfield, Maine. I grow 240 acres of potatoes and 300 acres of peas and I ship 150 to 200 carlots of potatoes a year. I have been growing potatoes since 1946, and since 1953, I have been using the futures market systematically as a hedge. I hedge enough of my crop each season to cover all the costs of raising the crop so that I am completely insured in case of a great drop in prices then at least I will get my investment back and be able to grow another crop the next year.

When I need additional money to help finance my hedge position the First National Bank of Fort Fairfield and the Production Credit Association of Fort Fairfield are always happy to step in and help me out. Since my futures contracts have an actual cash value these financial agencies are taking no risk and give me excellent terms. When I sell potatoes I lift my hedges by buying back the contracts. I happen to sell in a consumer package and merchandise my potatoes out on the cash market.

The futures board is not a merchandising method but a financial help and those who think that it has something to do with merchandising do not understand futures trading or its importance. The only reason I have stayed in business without a crop mortgage is through hedge selling on the New York Mercantile Exchange.

I wish to urge this committee not to abolish futures trading in potatoes. If they act favorably on this bill they will be depriving the family farmer of his financial stability.

STATEMENT OF MATT J. WILLIAMS, NEW SWEDEN, MAINE

My name is Matt J. Williams of New Sweden, Maine. I have been growing potatoes and peas since 1948. I grow 175 acres of potatoes and ship 50 to 60 cars per year. I use the potato futures market of the New York Mercantile Exchange strictly as a hedge to cover my cost of operation. I plan on hedging as a sale 50 percent of my crop each year. I did last year and this year, and hope to next year. A direct sale for future delivery is no good to me. If the price is high when the contract is made the buyer will only take delivery if the market goes in his favor.

A few years ago I had 15 cars sold as a futures contract to an individual at a high price. The market went down and he told me to keep the \$200 per car deposit and the potatoes which cost me a considerable loss and also discouraged me from selling in that manner. Therefore I find hedging on the New York Mercantile Exchange at a price I am satisfied with guarantees my price. Also I have a choice of lifting my hedge and selling in the cash market if I find it profitable. I do not know whether futures trading on the New York Mercantile Exchange is helping or hurting the potato market, but as of now it would be a problem for me to operate without a futures market.

Up to now my property holdings eliminate me from getting FHA loans. I have to finance myself and I find that hedging on the mercantile exchange takes care of that problem.

STATEMENT OF OTIS WRIGHT, FORT FAIRFIELD, MAINE

My name is Otis Wright of Fort Fairfield, Maine. I operate two farms, one of 110 acres, the other 150 acres. I plant 150 acres in potatoes and the balance in grain and ship 75 to 80 cars of potatoes. I am here to express my opposition to the bill to eliminate futures.

I have used the futures market on the New York Mercantile Exchange for 10 years, sometimes without discretion perhaps, but with increasing knowledge of what it is really for. This past year I have sold some of my potatoes as a hedge on the futures market of the exchange and benefited greatly. I have made no deliveries to the board but always bought back my contract and merchandised in the cash market.

I am a director of the Fort Fairfield Production Credit Association, and I now serve on the advisory committee of the Production Credit Association of Springfield, Mass. As far as the PCA is concerned they take no position in the controversial issue of futures trading but are more than willing to help farmers finance hedge sales, since a futures contract is firm collateral.

I feel that if the futures trading is eliminated a lot of deserving family farmers will be out of business. I prophesy it will cut the acreage 25 percent due to loss of credit and great instability in Maine.

The new rules which the directors of the New York Mercantile Exchange have formulated make futures of more benefit to the growers of Maine. The point of origin delivery makes this really a farmer's contract.

I urgently request this committee not to eliminate futures trading in potatoes.

STATEMENT OF FRANCIS J. REARDON, PRESIDENT, MAINE SEED POTATO GROWERS

I am Francis J. Reardon and operate various corporations in the potato business in Maine and other areas. I am president of the Maine Seed Potato Growers and have been in the Maine potato business since the 1920's. I have over 2,000 acres of land in Maine and 16 warehouses that I own and have interests in, but without the futures board I do not see how I can operate successfully in Maine, although I prefer to operate in this area. The board gives a very important stability and protection to our potato operations in Maine and I consider futures trading the only salvation of Maine as a potato growing area—to give people a job and a chance to make a living. Without futures, I honestly believe, potato growing in Maine will become a lost art.

Let me say that at one time I virtually operated as a futures market myself, in Maine during World War II, I was the principal supplier of potatoes out of Maine to the Army and Navy. I think Mr. Mercker will vouch for that. I could very well oppose the board right now and profit enormously by the great advantage I would gain over the grower. Prior to futures trading on the exchange I had purchased potatoes in up to 5,000 barrel lots in the spring of the year, before they were planted, at from \$1 to \$1.10 a barrel U.S. No. 1, bag tagged and loaded, fully insured for winter delivery. This is about 50 cents a barrel coming out of the field which is far below what they could hope to grow them for. The fertilizer companies gave me waivers of over five times their investment in these potatoes because they had no sales outlet for them and wished to protect their investment; but I do not wish to see this situation again. Through the futures board the smallest farmer in Maine, at all times, can be posted on the market as well as any operator no matter how large and he and his neighbors can all command the same price. This is an invaluable advantage to the small family farmer and one without which he would be in a sad plight indeed. I will tell you why.

In Maine they blame the futures board for their present difficulties but their problems are truly of their own making. They have passed a self-imposed regulation that they will ship only 2¼-inch minimum or better potato as a No. 1. Their competitors in the Northeast and elsewhere are shipping a regular U.S. No. 1, 1½-inch minimum, against them, also commercials and B size, and charging less, and less can be as little as a penny per 100 pounds, and I have lost business to the U.S. Government for as little as a penny a hundred pounds this past month. They are getting Maine's customers early in the season and keeping them. Maine is sitting back month after month waiting for the other areas to be cleaned up which means that Maine has to hold the umbrella for all these areas which gives other areas courage to plant more potatoes. So they have turned what should be a 9-month selling season into a 3- or 4-month season for themselves. Long Island and other Northeastern and Middle Atlantic areas in recent years, with the use of improved high-test fertilizers, insecticides, weed killers, improved varieties and sprout inhibitors have found ways to grow and sell very good potatoes all season. Gone is the time when Long Island was sold out by the first of the year. This year Long Island and other areas will be shipping into markets right into May, and Maine will be sitting back waiting and waiting for them to clean up and be out of the deal. Maine has paid over and over again for every storage warehouse in these areas. Maine's grading and shipping regulations are putting them out of business. I, myself, have curtailed my growing operations in Maine, going to Delaware, Virginia, and North Carolina, to grow potatoes. The freight rate from Long Island to New York is 10 cents a hundredweight, from Maine to New York, 76 cents a hundredweight. When they get the same street price in New York, who is going to make more money?

Futures trading is in no way responsible for Maine's troubles. Futures trading is a financial tool that can help Maine farmers live through their present crisis. If they do away with it, they will be helping to do away with their

industry which could cost them their homes and their farms. With the Exchange they have the ability to get seed and supplies and financing on good terms, to protect themselves against prices dropping, and to know what is the going price for Maine potatoes, which protects their homes and farms. I sincerely hope that Maine will solve its problems realistically in the marketplace and not cut its own throat by doing away with its financial salvation, futures trading.

STATEMENT OF BERNARD R. SMITH, MARS HILL, MAINE

My name is Bernard R. Smith. I am a potato grower in the town of Mars Hill in the center of Aroostook County. I grow approximately 200 acres of potatoes and 100 acres of peas each year. I have farmed for 15 years or more since World War II by myself and prior to the war with my father. During these years I do not recall many high priced potatoes with the exception of 2 or 3 years after World War II, when I enjoyed along with others profitable potato growing under the sponsorship of Uncle Sam. Since that time, however, farming has become a considerable gamble, with a large initial investment followed by continual Government reports as to the production, dispersal and disposal of my crop; these facts causing wide fluctuations in the value of my product (potatoes).

Part of my financing must necessarily be from other sources since I had not in the past used hedging for my sales as much as I should have. Due to the size of my operation, I cannot secure FHA financing, therefore I must rely on futures sale buyers who can in turn cover their purchases by sales on the Exchange. Since I have been using the exchange for hedging purposes and for covering my fertilizer purchase however, I have been able to treat my farming operation as a business rather than a speculative venture. My sales are firm with the receiver never questioning price or delivery, if necessary to deliver.

Almost without exception, at some time during the year we have had during the course of trading on the exchange an opportunity to sell for a margin of profit.

For these reasons I am wholeheartedly in favor of retaining the New York Mercantile Exchange and I believe that supply and demand cause greater price fluctuations in the potato industry than does the Mercantile Exchange. I have noted in the letter issued by the group for elimination that the farmers in other areas without the exchange enjoy better prices for their potatoes. Perhaps the dealers, but not the farmers.

Mr. HARDING. Mr. Chairman, could I ask unanimous consent to make a statement—being that we seem to have the entire Maine potato industry in here.

This overproduction is hurting our Idaho farmers, and I hope you will all go home and cut back your planting 20 percent this spring.

And I will ask our Idaho producers to do the same thing.

Mr. McINTIRE. Mr. Chairman, could I ask Mr. Findlen just a couple of questions.

In relation to your reference in your statement to the June—you have a reference here to a June contract.

I thought I had it marked here—where you covered this. My point is that there is an inference that is consistently made, and I just want to develop the point a little.

The inference here of your statement is that quite probably at some time in the year there is a time when, if you sold on that particular contract, you can cover your cost of production.

Now, if 400 farmers out of 2,500 in this industry in Maine decided that that was the day they wanted to sell, what would happen to the price?

Mr. FINDLEN. Now, you are asking me a question that would have to be answered by a professional in the trading field.

Mr. McINTIRE. Oh, no it wouldn't either. You know full well what would happen.

Mr. FINDLEN. No, I don't. I am serious when I say that.

Mr. McINTIRE. Well, isn't the relationship of the stability of that price tied to the number of sell orders that goes in on the board?

And the greater volume of sell as against buy would have a tendency to weaken the price structure, would it not?

Mr. FINDLEN. You put that very squarely. But I still say somebody that knows a lot about the number of trades made in each day, the volume of trading, that is. If I said what would happen, I don't know, because I don't know how much volume of trading there is.

Mr. McINTIRE. My point is simply that taking an individual case as you have illustrated in your own work here, that there is that opportunity.

I am thinking in terms of the total industry—how much opportunity there is for the total industry individually and selectively.

I am thinking in terms of how much opportunity there is. And if by chance there were a consensus that this was an opportune time, then what would happen?

Mr. FINDLEN. It would certainly be how many trades there were being traded each day.

Mr. McINTIRE. So the more trades, the more sell orders that went through the broker on that particular contract, the greater volume of interested farmers who wanted to sell at that time when they could protect their cost, the greater the volume and the quicker that market would go down.

Mr. FINDLEN. I think that might be true.

Mr. McINTIRE. Yes.

This is an actuality, or one of the facts of life.

Mr. FINDLEN. But if there also were ample buyers to buy that on the board, speculatively, then it wouldn't necessarily drive it down. It might go up instead.

Mr. McINTIRE. If you had more buyers than sellers.

Mr. FINDLEN. If there were ample buyers there to take the number of cars that are being traded, the price would go up with those people selling.

Mr. McINTIRE. But the normal reaction on the trading floor is that if they are flooded with sell orders, the market surely isn't going to go up.

Mr. FINDLEN. If they are flooded. But we are talking about whether there are ample trades being made in each day.

Mr. McINTIRE. Yes, the extent to which an individual, or the thinking of an individual, serves to cover.

But if the total potato industry in Maine were attempting to use such a cover, it just couldn't work out.

Neither could it in the cash market. If everybody was offering to sell in the spot market it wouldn't protect there, because it would weaken that market.

Mr. FINDLEN. Well, it is a funny thing about the way people sell. Nobody always wants to sell all at the same time. That has never been true. They want to sell when they think the market is there, where there is a profit.

Now, I have seen this work this way. I have seen potatoes at \$6 a hundred. But people don't sell all their potatoes then.

Mr. McINTIRE. Yes, I have sold them at \$6 a hundred, and I have sold them at 25 cents a barrel loaded, too.

Mr. FINDLEN. That is the thing I don't like to do, is sell them at 25 cents.

Mr. McINTIRE. Just one other question. As you have experienced—and you have been in the business all your life—what is your appraisal of the current financial situation in the county as contrasted with the years that have been referred to here in the testimony?

Mr. FINDLEN. In which years—the recent ones?

Mr. McINTIRE. You referred to the thirties, and then through the forties and fifties, and then down through the fifties to the sixties.

Mr. FINDLEN. All right. In the thirties you had a depression. And we know that the banks closed up there, and therefore there wasn't any money. Then in the late thirties—with the war coming on, and various changes—I think in the late years there didn't they have some kind of a payment program or something in the thirties, late thirties? That began to stabilize just a little bit, some places were better in the tail end of the thirties.

Now, in the forties, due to the war, we had good prices. And then due to acreage control, you could actually look up on the wall in any of these brokerage houses, and it was pegged. You could see it. Then in the fifties we came into overproduction again. But even now you can look at a board now, and when the price comes to where you can sell them, as a farmer, you need to do it, because the average prices have been so low that when there comes a time that you can sell potatoes at a profit with this type of overproduction, you need to sell them.

That is the only way I can operate by farm, is in that manner. Why? Because—

Mr. McINTIRE. We have a quorum call, I am sorry.

Mr. BEERMANN. I have one question. Your statement on page 3 says:

Eventually this country shall require a program of acreage control and quota plans in order to regulate the overproduction of potatoes.

By defeating this bill, will you accomplish that objective sooner?

Mr. FINDLEN. I don't think so.

Mr. BEERMANN. You say you don't think so. I hate to cut you off, but we don't want to miss the quorum call. Do you think the ultimate solution is a Federal program rather than a private market program?

Mr. FINDLEN. Would you repeat that?

Mr. BEERMANN. Do you think the ultimate solution for proper marketing of potatoes is through a Federal program rather than a private marketing program?

Mr. FINDLEN. I think you have got to have a Federal program of control over production.

Mr. BEERMANN. I ask unanimous consent, Mr. Chairman, to insert two telegrams in the record.

Mr. GRANT. Yes.

(The telegrams referred to follows:)

WAKEFIELD, NEBR., April 4, 1963.

Representative RALPH BEERMANN,
New House Office Building, Washington, D.C.:

Many of our friends have voiced opposition to bill H.R. 904 prohibiting futures trading on potatoes; we should like to voice our opposition also because futures trading perform many services to the farmer and processor and are often the best market available at the time of sale. Potatoes and eggs are trading simi-

larly and if there are abuses, we are all big boys, we don't have to prohibit it—certainly the CEA and industry should be able to regulate it. Prohibiting futures trading will only limit markets which are getting scarcer.

MILTON G. WALDBAUM Co.
DAN GARDNER.

GRAND ISLAND, NEBR., April 4, 1963.

RALPH F. BEERMANN,
New House Office Building, Washington, D.C.:

I understand your committee will be considering H.R. 904, a bill to prohibit trading in potato futures. I hope you are already planning to vote to kill this bill in committee. Farm product futures markets have become a basic necessity for farmers and processors. They should not be closed down due to irresponsible dealings by a few speculators. Tighter controls on such transactions rather than losing of trading would be more desirable. We fear that the passage of H.R. 904 would likely foredoom other farm product commodity markets and hope you can join in opposing this move to regiment the farmer and farm processor and deprive us of free markets.

TWIN RIVERS Co., INC.
SIDNEY WALDBAUM, President.

Mr. McINTIRE. Mr. Chairman, I have a statement here I would like to make a matter of record.

Mr. GRANT. Yes.

(The statement referred to follows:)

STATEMENT OF HON. CLIFFORD G. McINTIRE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MAINE

Mr. Chairman, just recently the U.S. Department of Agriculture submitted a report on H.R. 904, my legislation designed to eliminate futures trading in Irish potatoes.

Although in this report the Department does not, in any clear-cut fashion, announce either its opposition or support of my legislation, I feel at liberty to consider it at least a qualified endorsement.

But it is interesting to note—aside and apart from this report—that the now Secretary of Agriculture has, in the past, had occasion to make uncomplimentary comment on the function of futures trading. I refer, for instance, to a letter submitted to the August 12, 1957, official record of hearings on onion futures trading by the Honorable Orville L. Freeman, then Governor of the State of Minnesota.

Inasmuch as the circumstances presently prevailing in futures trading in Irish potatoes are essentially the same as those that once prevailed in futures trading of onions, I would like—with the chairman's permission—to introduce the pertinent letter of the then Governor Freeman to the record of these proceedings. This letter is to be found on pages 73 and 74 of the following public document: "Onion Futures Trading," hearing before a subcommittee of the Committee on Agriculture and Forestry, U.S. Senate, 85th Congress, 1st session on S. 778 and S. 1514, bills to amend the Commodity Exchange Act to prohibit trading in onion futures in commodity exchanges.

STATE OF MINNESOTA,
EXECUTIVE OFFICE,
St. Paul, April 4, 1957.

HON. HUBERT H. HUMPHREY,
Senator from Minnesota,
Senate Office Building,
Washington, D.C.

DEAR HUBERT: State Representative Edmond F. Conn, of Freeborn County, and Commissioner of Agriculture Byron G. Allen have discussed with me the contents of S. 778, as introduced by Senator Neuberger for himself and Senator Morse, which has been referred to your Committee on Agriculture and Forestry. I have also learned that three similar measures have been introduced in the House of Representatives.

From my study of the legislation, I find it is intended to amend the Commodity Exchange Act so as to prohibit trading in onion futures on commodity exchanges.

My inquiries among commercial onion growers of Minnesota reveal that this proposed amendment meets with almost universal approval. The Minnesota citizens who last year grew some 3,600 acres of this crop, which had a market value of about \$1,200,000, state that they must be rid of the burden of futures trading, if the industry is to continue at its present level. They further point out the fact that the practice of futures trading to a large measure has established, and will continue to set, the cash market price for this commodity, which nationally is too small in volume and too perishable in nature to be suited to this marketing method.

For a number of years a small group of brokers trading in onions have been able to manipulate the market at will. Their operations have consistently been on the bearish side, since it seems it is easier to turn a profit in that direction. As a result, this practice has continually depressed cash onion markets.

I have had cited to me a very good recent example of this method of operation. During February of 1957, due to supply and demand conditions, the market moved to a high of \$2.20 per 50-pound bag. Immediately thereafter, when the bears assumed control, they decided to take the profits, and in a matter of weeks drove the market down to a low of 85 cents. This low was uncalled for, as evidenced by the fact that the futures market just prior to its close in March went back to \$1.60 and even at that price some commitments remained open because of the shortage.

I am aware that those opposed to this legislation have available large amounts of money for the fight to continue this practice, which has been carried on for the past 15 years and, according to the growers and their spokesmen, has during the past 4 years become increasingly disastrous to growers and shippers in Minnesota and elsewhere. I know, however, that in the interest of the onion producers you can be called upon to exert again your every effort in committee and with your colleagues in the Senate to bring this legislation to a vote before that body.

Sincerely yours,

ORVILLE L. FREEMAN, *Governor.*

Mr. GRANT. And I want to file for the record several letters and telegrams here from proponents and opponents of this legislation.

(The material referred to follows:)

SOUTHLAND FARMS, INC.,
Montgomery, Ala., March 30, 1963.

Hon. GEORGE GRANT,
House of Representatives,
Washington, D.C.

DEAR MR. GRANT: I am writing you with reference to House bill H.R. 940 to prohibit the futures trading in Maine potatoes.

Please support this bill because this futures trading serves no good purpose for the growers and legitimate dealers in potatoes. It is mainly run by speculators and their trading causes unnatural fluctuations in the prices that results in the regular dealers and growers losing money. When these speculators force the futures market up the growers hold back their supplies in storage and this disrupts the regular flow to market which is reflected in the spring with low prices. We have a large oversupply of potatoes on hand in the 26 late States right now, especially Maine and their prices now are the lowest in 6 months. With big crops coming on within the next 60 days in Florida, Alabama, and California these heavy holdings of old crop potatoes in the 26 late States will cause all of us to lose money. If there had been no futures trading the Maine growers would have pushed their sales through the winter and this heavy surplus would not face us now.

Please support this bill. Thanking you and with best wishes, I remain.

Sincerely,

COLE D. BROWN, *President.*

LINCOLNWOOD, ILL., April 6, 1963.

Representative GEORGE MCINVALE GRANT,
Domestic Marketing Committee, House Agricultural Committee,
House of Representatives, Washington, D.C.:

Reference H.R. 904 hearings before House subcommittee April 8 and 9. The abolition of futures potato trading would prove grave injustice to firms like ourselves who have used futures trading as they should be used; namely, price protection. We are growers of potatoes in Wisconsin, Washington, California, and Texas, representing an aggregate total of over 3,000 acres. Price protection on New York Mercantile Exchange has been our salvation. Since 1947 we have used the exchange for which it was intended. Every year since 1947 the exchange has afforded us the security of hedging our crops profitably. Crank and shortsighted growers who are for abolition of futures trading are those who have refused to use the exchange for which it was intended whereas conservative rational growers such as ourselves have used it profitably and for price protection only. Let those who desire to shoot craps or play blackjack spend their time, efforts, and hard earned money at Las Vegas. But please, please do not remove or take from us the security, price protection, and market stabilization the New York Mercantile Exchange has afforded us since 1947. Again I repeat, let the crapshooters and blackjack sharks spend their efforts in Las Vegas but do not abolish or remove the New York Mercantile Exchange and its economic functions from some conservative, and financially responsible growers such as ourselves.

The New York Mercantile Exchange has spent years establishing itself as a recognized marketplace for potatoes such as have wheat, corn, sugar, copper, tin, hides, coffee, eggs, and soybeans on other futures exchanges. The Mercantile Exchange bears absolutely no responsibility whatsoever for crop surpluses that are created by growers and growers alone. This wire is sanctioned and further endorsed by the following growers: Joe Komote, Ontario, Oreg., E. C. Reinauer, Hereford, Tex., Lowell Prevo, Othello, Wash., J. A. Wood, Phoenix, Ariz., Al Brown, Almond, Wis., Harold Ammel, Almond, Wis., Guy Hawkins, Bakersfield, Calif., representing aggregate of over 5,000 acres in addition to our growing operations.

Our country is the greatest and strongest in the world. To destroy or abolish free and open marketplaces such as the New York Mercantile Exchange is taking a step backward. To encourage its proper use and function is taking a step forward. Your support in our behalf is needed and urgently requested.

MURLAS BROS. Co.

MORRIS KARP & SON,
Farmingdale, N.Y., March 22, 1963.

Congressman GRANT,
Washington, D.C.

DEAR CONGRESSMAN GRANT: The members of the LIAMA, who collectively market 70 percent of the potatoes grown on Long Island, have overwhelmingly voted in favor of opposing legislation to eliminate futures trading on potatoes.

The operation of the New York Mercantile Exchange has attracted many outside buyers to the potato business. It has given the farmer a secure insurance program by supplying him with a ready market at all times for sale of his potatoes.

It has made the supplier to the farmer more secure in extending credit because of a ready market to hedging any and all sales to the farmers. It has been an insurance program for the supermarket chains in all their sale promotion on potatoes.

It has made ready supplies for them to pass on good prices to the consumer.

It is our urgent request that this legislation not be acted on favorably.

Very truly yours,

LEE O. KARP,
President, Long Island Agricultural Marketing Association.

JAMESPORT, N.Y., April 6, 1963.

HON. OTIS G. PIKE,
New House Office Building,
Washington, D.C.

DEAR MR. PIKE: I note that the Domestic Marketing Subcommittee of the House Agricultural Committee is to conduct hearings next Monday and Tuesday, April 8 and 9, on H.R. 904, the purpose of which is to prohibit trading in futures contracts in Irish potatoes.

I cannot tell you how much I consider this legislation unnecessary and unwise. I have been involved in futures trading in all commodities since 1905 and know how well they have served the respective industries. Without futures trading the various segments of the industry handling the commodity in question cannot possibly hedge. When you destroy this hedging facility, you perform make such operations in the cash commodity more speculative than they are when hedging is possible.

The idea might be advanced that if it was correct to kill futures trading in onion futures—which occurred a few years ago—it is proper to do the same thing in potatoes. We could continue this thinking so as to encompass cotton and grain futures, futures in coffee, cocoa, and a host of other commodities but in so doing we would be reverting to less enlightened days.

If the Chicago Mercantile Exchange, on which onion futures used to be traded, had adopted some or all of the seven points that some years ago an informal committee in New York, of which I was chairman, had evolved as measures that would eliminate some, if not all, of the objectionable features then obvious in onion futures trading, there would not have been any call for killing off onion futures trading. As a matter of fact, all that needed doing was to have made certain changes in the rules along the lines suggested by the above-mentioned informal committee.

Respectfully submitted.

E. A. BEVERIDGE.

BUSHWICK COMMISSION CO., INC.,
Farmingdale, N.Y., April 5, 1963.

CONGRESSMAN GEORGE M. GRANT,
Subcommittee on Domestic Marketing, Committee on Agriculture, House of
Representatives, Washington, D.C.

DEAR CONGRESSMAN GRANT: As a packer, shipper, and financial factor for a large segment of farmers in Maine, Long Island, and Virginia, I would like to voice a strong protest against H.R. 904. (The bill to prohibit the trading of potato futures on the New York Mercantile Exchange.)

We have been in the potato business since 1903. In the last 23 years, the potato farmer has enjoyed an opportunity to insure the efforts of his labors. Prior to the introduction of futures trading in potatoes, the contractual price of potatoes in Maine for the period of 1923 to 1939 averaged \$1 per barrel compared with \$1.50 per barrel for the period 1941 to 1963. The difference in these two prices was only established due to the assurance that the fertilizer companies could advance materials against a guaranteed sale.

Therefore, packers and shippers were able to project their sales program by hedge selling to the mercantile exchange enabling them to pay higher prices for contracts to the farmers.

It also protects the consumer, since many large chainstore operators have based good long-range potato sales promotions since the mercantile exchange provided them with guaranteed prices.

It would be a serious mistake to prohibit this public form of trading. Before the inception of the mercantile exchange into potatoes, our firm did the same function in a limited way. The exchange has brought many more buyers into view and with more buyers there must be better prices.

Very truly yours,

JACK W. KOONDEL, *President.*

PRESQUE ISLE, MAINE, *March 8, 1963.*

HON. GEORGE GRANT,
House of Representatives,
Washington, D.C.

DEAR MR. GRANT: In reference to H.R. 904 and S. 332, concerning the elimination of potato futures trading on the New York Mercantile Exchange, we would like to go on record as firm believers in futures trading as a most useful hedging instrument.

It is our feeling that the movement to eliminate futures trading on potatoes is a sign of extreme distress in the Maine potato business. We are one of the larger growers of potatoes in Maine with over 1,000 acres and have used the mercantile exchange for hedging our production.

Our main purpose in writing is to ask you to make sure of the true feeling of the potato industry in Maine in regard to futures trading. We trust that full consideration will be given to all the facts regarding futures trading and its advantages.

Sincerely yours,

DONALD C. UMPHREY,
*Representing: Aroostook Potato Growers, Inc., Taterstate Potato Co.,
Taterstate Frozen Foods, Dupram Farms, Bud, Don & Dale, Inc., O.K.
Story Co., and Wade Farms.*

BEAVER BROOK FARMS, INC.,
Caribou, Maine, March 22, 1963.

HON. GEORGE GRANT,
House of Representatives,
Washington, D.C.

DEAR MR. GRANT: We are writing to you in regard to H.R. 904 introduced by Maine Representative Clifford G. McIntire in the House, and S. 332, by Senator Edmund S. Muskie in the Senate, prohibiting futures trading in Irish potatoes.

We wish to state that the potato industry in Maine is by no means unified in desiring these bills passed. We are definitely opposed to such action and would appreciate your considering our views when hearings are held on these bills, or if they should come to the floor of Congress.

You no doubt realize futures trading in potatoes acts exactly the same as futures trading in all commodities. It permits growers to use this medium to transfer price risks and helps them obtain credit which could not be obtained otherwise.

For the past 10 years we have been users of the futures market for potatoes. We have helped finance growers by hedges on the futures board. Smaller growers, particularly, would be hurt by the elimination of the potato futures market. These growers can now rely on a market which publicly arrives at an open competitive price. Without the futures market, the smaller growers would be subjected to private dealings where their financial position would be at a disadvantage.

There is no question that the Maine potato industry suffers from many problems. We, as an industry, cannot afford to eliminate any market, whether future or present. To use the futures board as a scapegoat for these many problems would be a serious mistake.

We trust that full consideration will be given to all the facts as related to the entire Maine potato industry and others who have found this market useful.

Yours very truly,

JACK ROTH, *President.*

SUFFOLK COOPERATIVE G.L.F. SERVICES, INC.,
Riverhead, Long Island, N.Y., April 5, 1963.

HON. GEORGE W. GRANT,
House Office Building,
Washington, D.C.

DEAR SIR: I am informed the Domestic Marketing House Committee is conducting hearings on Monday and Tuesday, April 8 and 9 on a bill, H.R. 904, to prevent trading on Irish potato futures.

It has been our experience that this commodity trading has been very beneficial to our potato growers here on Long Island who have used this service as a hedge for potatoes. There has been several farmers for which this has meant a difference of being a disastrous year or a year where they were able to pay their bills. Therefore, we are strongly in favor of leaving the potato futures where they are on the New York Mercantile Exchange.

W. R. WHEELER, *Manager.*

Mr. GRANT. The committee will stand adjourned until 10 o'clock tomorrow.

(Whereupon, at 12:30 p.m., the committee adjourned, to reconvene at 10 a.m., Wednesday, April 10, 1963.)

PROHIBIT TRADING IN IRISH POTATO FUTURES ON COMMODITY EXCHANGES

WEDNESDAY, APRIL 10, 1963

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

The subcommittee met at 10 a.m., pursuant to recess, in room 1310, Longworth House Office Building, Washington, D.C., Hon. D. R. Matthews presiding.

Present: Representatives Matthews, Harding, Rosenthal, Teague of California, Beermann, and Hutchinson.

Also present: Representative McIntire.

Christine S. Gallagher, clerk; and Robert Bruce, assistant counsel.

Mr. MATTHEWS. The subcommittee will come to order.

Our chairman, Mr. Grant, had to go to the hospital today and he asked me to preside for him. And it is his wish that the opponents of this measure have just as much time as the proponents have taken. I want to promise that we will make every effort to accommodate you.

The first witness on my list is Mr. Sidney Reese of American Falls, Idaho. We will be delighted to have you with us this morning. You may present your testimony.

STATEMENT OF SIDNEY REESE, AMERICAN FALLS, IDAHO

Mr. REESE. Mr. Chairman and members of the committee, I am delighted to be here on such a beautiful day.

I am Sidney Reese of American Falls, Idaho. I am the manager of the fresh sales department of Lamb-Weston, Inc. We handle 1,500,000 hundredweight sacks of potatoes which we process into french fried, dehydrated flakes, and fresh baking potatoes. We have the only integrated operations in Idaho in which we utilize all the potatoes from the growers. The only thing not used is the skin which we sell for cattlefeed. We preseason contract at time of planting about 400,000 hundredweight. The balance is bought at harvest or later on a contract basis or at a definite price.

We traded 19 cars of March potatoes this year on the Chicago Mercantile Exchange. We did it to see if we couldn't build up a futures trading contract in Idaho potatoes. If it worked this year we thought we would try 100 to 150 next year. We operate 9 to 10 months of the year and we feel that if a futures contract in Idaho potatoes could be built up, it would be of great benefit to us and the Idaho potato industry. We have built storage for 500,000 hundred-

weight of potatoes to process in the late spring. With a futures contract we might have been saved this expense.

With this holding area we can buy when prices are low and hold the inventory. With futures we and other processors too could buy on the futures board when prices seem favorable to take delivery in the spring. If you have a high price in January, for example, we could use up our inventory of actual potatoes and replace it with futures contracts for spring delivery.

I have come here to say that we are just getting into the use of futures in Idaho—this is only our second year in the business—and we think it would be protection for us and other Idaho processors to avail ourselves of this marketing tool. We would be very disappointed if any part of the futures trading operation is tampered with. For that reason we take a strong stand against H.R. 904.

Mr. MATTHEWS. Thank you very much, Mr. Reese.

Are there any questions?

Mr. Teague?

Mr. TEAGUE of California. No questions.

Mr. MATTHEWS. Mr. McIntire?

Mr. MCINTIRE. I would like to ask one question. In view of the fact that you have a very substantial agricultural business in Idaho, is it your view that the removal of futures trading on onions was detrimental to the onion industry in Idaho?

Mr. REESE. I do not think that I am qualified to answer that, Mr. McIntire.

Mr. MCINTIRE. Do you deal in onions at all?

Mr. REESE. No; we do not.

Mr. MCINTIRE. The futures contract has been available on the Chicago Mercantile Exchange for many years. How long have you been in the processing business?

Mr. REESE. In the processing of potatoes? This is our second year.

Mr. MCINTIRE. Only in the second year?

Mr. REESE. Right.

Mr. MCINTIRE. Had you been in the potato business in Idaho before?

Mr. REESE. No.

Mr. MCINTIRE. You are a new company?

Mr. REESE. Right.

Mr. MCINTIRE. Are you only in Idaho, or are you affiliated with others?

Mr. REESE. We have other branches in Oregon and Washington, sir.

Mr. MCINTIRE. All in potato processing?

Mr. REESE. No; in other products, fruits and vegetables.

Mr. MCINTIRE. Would it be your opinion that futures contracts should be written for Oregon and Washington, also?

Mr. REESE. I could not speak for them.

Mr. MCINTIRE. You are not processing potatoes in those States?

Mr. REESE. No; we are not.

Mr. MCINTIRE. Thank you. That is all.

Mr. MATTHEWS. Thank you, Mr. Reese.

Mr. REESE. Thank you.

Mr. MATTHEWS. Our next witness is Mr. J. Frederick Donald, Houlton, Maine. We are delighted to have you with us.

STATEMENT OF J. FREDERICK DONALD, HOULTON, MAINE

Mr. DONALD. Mr. Chairman and members of the committee, my name is J. Frederick Donald of Houlton, Maine. I am a director and cashier of the First National Bank of Houlton, Maine. I present this statement with the consent of the board of directors of the bank. I would not defend any procedure or organizational activities that in my opinion or in the opinion of my employer was not in the interest of the Maine potato industry, although they do not know what I am going to say. However, they are aware that I am here.

The First National Bank of Houlton, Maine, which is the oldest commercial bank in Aroostook County, Maine, and now the second largest, began to finance the hedge sale of potatoes on the New York Mercantile Exchange in 1952, the second year after price support was removed. Our early efforts taught us that a written contract with our customer, and its subsequent acceptance by a broker was necessary. Such contracts were drawn in 1953 with the help of John Clapp of Goodbody & Co. and Floyd Ledger, then employed by A. E. Mooers Co. of Houlton.

We presented these contracts, as the need arose, to several brokerage houses included A. E. Mooers Co., Bache & Co., Aroostook Potato Growers, and Beaverbrook Farms, Inc. They noted their acceptance on the contract and returned a copy to the bank. In this contract they were asked by the grower-seller to act only in accordance with the bank's instructions, to segregate and carry in a special account funds deposited here. All brokerage houses have accepted and abided by these terms. Our concern is never with the broker. Our concern is not in that direction. We are sometimes concerned with the opinions of a grower-seller who may wish to lift one leg of the hedge, thereby becoming speculative.

We have been able at times to finance the hedge sale of potatoes for our customers profitably. We have without exception since 1953 been able to obtain for our customers dollar per barrel equivalent of sales made on the exchange at cwt prices delivered in Harlem River. I believe this is a good thing for the customer, for the bank, and for the Maine potato industry.

I believe there is a widespread lack of understanding among growers of the proper function of the New York Mercantile Exchange. Our only interest is to finance hedge sales. I realize that there is a belief that the New York Mercantile Exchange contributes to wide price fluctuations. I do not share this belief. I believe that when the price of potatoes is too low, speculative interest is attracted to the buy side and when the price is too high, speculative interest is attracted to the sell side. Therefore, rather than contributing to wide price fluctuations, such trading levels off the peaks, evening out the price range to conform more nearly to prices warranted by supply and demand.

Because of the widespread lack of understanding of the value of hedge sales, I would like to see an intensified educational program developed, possibly under the supervision of the University of Maine. The hazards of overselling, loss by fire, inadequate source of margin, and above all, breaking a hedge—these are the dangers and cause of trouble. The grower-seller needs to know the answers to these problems.

It is sometimes necessary for the bank to provide to this type of financing more time and care than other types of equally profitable loans require. A volatile market, such as sometimes happens in April and May, or changing onions of grower-seller wishing to lift a leg of the hedge, each contribute to anxiety for the banker.

However, I believe that banks in Aroostock County should continue to finance profitable sales of potatoes on the New York Mercantile Exchange for their customers. I think they will. I believe that the facilities provided by the exchange have in the past, and will in the future, assist us to market our crop of potatoes more profitably. It has, and can in the future, assist banks to finance potato production and also collect old holdover loans.

Mr. MATTHEWS. Thank you, Mr. Donald.

As I understand it, you help potato farmers finance their hedge sales?

Mr. DONALD. That is right.

Mr. MATTHEWS. Mr. Donald, can you give me an idea about how many farmers you do help in your section of the country, the number of them?

Mr. DONALD. To produce potatoes or to finance the sale?

Mr. MATTHEWS. In connection with the sale.

Mr. DONALD. It varies greatly from year to year. I think it was in 1957, or 1956 or 1957, we had 185 or 190 cars that year—we had that many—and that was the year of the frost in the South, in Alabama—it was in 1957. It varies greatly, sir.

Mr. MATTHEWS. Would you say that most of the farmers that you help would have had extreme difficulty in financing—in harvesting their potatoes if it had not been for your particular financial service?

Mr. DONALD. Oh, I do not think that—no, I do not think that that would have been.

Mr. MATTHEWS. What I am trying to get here is this question of how helpful you are in your operations to the potato farmer in the planting and in the harvesting of his potatoes.

Mr. DONALD. Speaking for the bank—that is all I could speak for—it does not have a great deal of influence one way or the other. Perhaps I can explain it in this way: We are looking at two separate types of loans. One is the financing of the sale only and that is a routine, mechanical operation. If the situation is correct, I do not have to go to the board of directors for approval of that type of a thing. On the other hand, the financing of the production of the crop involves an analysis of that gentlemen's net worth.

If he comes to us with, for instance, his real estate free and clear and enough money to buy his seed and fertilizer, we would recognize that in the sale of the potatoes and the exchange at profitable prices and additional collateral, but it would not be a determinant—it would not be what we would look to, primarily, in the determining of whether or not to finance him.

Mr. MATTHEWS. Of course, you are financing his sales, and that is of tremendous help to him in the overall operation?

Mr. DONALD. If it is possible. If that sale—if the price on the exchange is high enough. It distresses us no end to see the sale of potatoes made by farmers below the cost of production. It is of tremendous concern to us.

Mr. MATTHEWS. Could you finance these hedge sales without the mercantile exchange?

Mr. DONALD. I do not know. We never did. I do not know how we would do it.

Mr. MATTHEWS. Are there any further questions?

Mr. Teague?

Mr. TEAGUE of California. No questions.

Mr. MATTHEWS. Mr. Hutchinson.

Mr. HUTCHINSON. No questions.

Mr. MATTHEWS. Mr. McIntire.

Mr. MCINTIRE. First let me say that I m glad to have Mr. Donald here because of his experience in this industry. I am familiar with his work. I have one or two points.

Did I gather from your response to the chairman that primarily this loan to the farmer is for production, or is it to finance the margin for the farmer on the contract? Primarily you look upon this as a credit extension, as one vesting assets and liabilities?

Mr. DONALD. Not quite that, Mr. McIntire. One, the collateral for our loan is the money that we put up. We put up \$200 a car. Of course, as you know, we have no bonded warehouses. There is the possibility of fire, if we loan on the crop before it is underground—all of the different things, but the farmers, as you know, can raise potatoes only too well. There is the danger of price decline in that, too.

The collateral for that type loan is the money that we put up. It goes to Bache & Co., or to A. E. Mooers Co. We have a subordination agreement with them. The grower signs that. We deliver to them. They acknowledge receipt by sending it. And in that, they agree to keep the funds, not to release any, not to liquidate those contracts, except on our instructions.

Mr. MCINTIRE. I appreciate that from the mechanical point of view. Let me ask this: I do not know whether this is information that you wish to divulge or not, but if not, you may feel free to say so. How many production loans were made, that is, how many loans were made for production purposes by the First National Bank in 1962 on that crop?

Mr. DONALD. Very, very few. They are too hazardous for us to take. There is the equity of the farmers. You are very familiar with it—more so than I am.

Mr. MCINTIRE. Well, I was trying to get into perspective the relative interest here.

Mr. DONALD. We say probably not more than one-half a dozen that we have been with over the years, but we take very, very few crop mortgages. The ones that used to finance themselves now come to us for some money and expenses. We loan money.

Mr. MCINTIRE. You say that you have loaned to about half a dozen, is this right?

Mr. DONALD. Yes, not more than that.

Mr. MCINTIRE. The agriculture department of your bank is relatively small in relation to the total banking operation, is it not?

Mr. DONALD. The December 31 call, at that time we had \$1,300,000 loaned to farmers. And less than \$400,000 of that was secured by real estate or carried in that direction.

Mr. McINTIRE. You did loan some in 1962. Of those to whom you made a production loan, how many of them covered some part of their crop production?

Mr. DONALD. Very, very few—none. I do not say none, but very, very few that we financed at that type of an operation. They may have sold us some, I do not know.

Mr. McINTIRE. In other words, if a farmer came to you with a production credit problem—

Mr. DONALD. Yes, sir.

Mr. McINTIRE (continuing). You would feel that a futures contract had some element of security on the merchandising side of the crop?

Mr. DONALD. Yes, I feel that way.

Mr. McINTIRE. Nevertheless, from a credit standpoint, you do not loan him strictly on the fact that he is going to have a futures contract?

Mr. DONALD. No, we do not.

Mr. McINTIRE. You made a loan on the financial standing of the individual, notwithstanding what might be his various relations to trade or production?

Mr. DONALD. Absolutely, that is correct.

Mr. McINTIRE. Has the Aroostook Banking Association ever taken any official position in the past—and I ask you this because I know that you have been very active in the organization—is it currently on record in relation to futures trading?

Mr. DONALD. I do not know—no, not officially—no record has been taken, no action has been taken. It is an entirely new type of financing that was originated in my time.

Mr. McINTIRE. You and I are not exactly new in this.

Mr. DONALD. Unfortunately not, no. Many fellows that I talk with from day to day say that it takes too much time and effort to warrant the time that we have to spend on it. I remember in that spring—and I do not convert hundredweights to barrels readily, I have something else to do—that particular spring I was really very busy.

Mr. McINTIRE. I appreciate that. Thank you.

Mr. MATTHEWS. Thank you very much.

Mr. HARDING, do you have any question?

Mr. HARDING. No questions.

Mr. McINTIRE. I would like unanimous consent to insert in the record of yesterday, in the context of the proponents, a telegram which I received which reads as follows:

The 102 members of the Limestone Caswell Potato Growers Association go on record as favoring the elimination of futures trading on the New York Mercantile.

This is signed by John Irwin, acting president, Limestone Caswell Potato Growers Association. I ask unanimous consent to make that a part of the record.

Mr. MATTHEWS. Without objection, it will be so ordered. (See p. 6.)

Mr. MATTHEWS. Our next witness is Mr. Anthony Zambito of Elba, N.Y. We are delighted to have you with us.

STATEMENT OF ANTHONY ZAMBITO, ELBA, N.Y.

Mr. ZAMBITO. Mr. Chairman and members of the committee, my name is Anthony Zambito. I am a partner with my four brothers in a muckland potato and onion growing and shipping operation at Elba, N.Y. We grow 225 acres of onions, 325 acres of potatoes. We ship our own and buy and ship other potatoes.

Congress should abolish trading on stock exchanges because declining stock prices cause national recessions. Abolish stock trading and eliminate recessions. What a simple solution to one of President Kennedy's most pressing problems. With a similar lack of logic, abolishing potato futures trading is advocated as a means of eliminating potato producers' problems. Unfortunately, the answer is not that simple. Just as stock prices merely reflect existing factors in the Nation's economy, potato futures prices reflect, and do not cause, conditions in the potato industry. Eliminating futures would aggravate, not alleviate, the real problems.

Dynamic technological advances in production practices coupled with decreasing per capita consumption have created a chronic oversupply situation in the potato industry. Concentrated chainstore buying power has weakened the farmer's bargaining position. New potato varieties, labor-saving mechanical harvesters, and a phenomenal expansion of the processed potato industry have further complicated the competitive positions of several old, established potato producing areas.

In today's rapidly changing potato industry, the futures market serves as a valuable and effective marketing tool. However, as with other tools, correct use is essential for optimum results. I would like to add, it is quite obvious from the testimony of some of the proponents that they did not use the market correctly.

Pesticides and fungicides provide protection against insects and diseases. Price, the potato producer's greatest hazard, may be protected by proper use of the futures market. A rational appraisal reveals the constructive role of this marketing medium. But the natural tendency to search for someone or something else to blame for today's depressed potato situation has lead to a wave of protest against futures trading of potatoes.

Heading the list of arguments is the charge that prices are manipulated at the expense of producers. Sympathies are aroused and emotions stirred by this recklessly hurled accusation. The records show that actual attempts at manipulation are few in number. Banks are not abolished because of occasional embezzlements, and automobiles are not banned because of speeding violations. Instead, police forces are maintained to discourage law breakers. The Commodity Exchange Authority is a highly effective police force in discouraging manipulators, and the CEA has also been effective in catching and punishing those not easily discouraged.

Many other arguments are advanced to prove that the potato futures market is responsible for low potato prices. During the past two sea-

sons, in our area alone, thousands of dozens of heads of lettuce have been plowed under because of the lack of buyers and there is no lettuce futures market. Thousands of tons of carrots have been left unharvested because prices were too low and there is no carrot futures market. Cabbage, sweet corn, snap beans, tomatoes, and many other vegetables have been left in the fields to rot because of depressed prices and there are no futures markets for these commodities.

I didn't intend to mention onions, but in view of Monday's testimony on onions and since we are also in the onion business, I feel that some additional comments are in order.

Six years ago hearings were held regarding the ill-fated onion futures market. Congressional action abolishing this market apparently was based upon the persuasiveness of arguments against onion futures trading. Today many of the same arguments are being advanced against the potato futures market. A mistake was made when onions futures were abolished and we now have a 4-year futureless onion history to prove it. Arguments against potato futures must be weighed in the light of what has happened in the onion industry. As a past, illustrious Governor of New York would say: "Let's look at the record."

The 1958 onion crop was the last to be marketed while a futures market was in operation. This proved to be one of the most profitable onion deals on record. Next came the long-awaited onion deal without a futures market. It turned out to be one of the costliest on record for onion growers, with prices averaging well below the cost of production. Average prices received for the 1960 onion crop again were below the cost of production. The first 2 years of an onion industry without a futures market resulted in heavy losses to growers with many being forced out of business. Contrary to the glowing promises of the antifutures crusaders, the onion industry stood at a new economic low.

Sadly disillusioned, the remaining growers reduced onion acreage in 1961. Prices in 1961 started out at \$2 a hundred. This is just about the cost of production.

They moved up to \$4 by January. Because of a freeze in Texas the price jumped quickly to \$8 a hundredweight. We sold onions at \$8 a hundredweight and received a \$4 deposit. At this point, in March of 1962, many other growers also offered onions for sale. The market dropped sharply. Within a few weeks it was impossible to sell onions at any price. The purchaser of our \$8 onions abandoned his deposit resulting in a substantial loss to ourselves. Had there been an opportunity to hedge when prices were high, growers would not have panicked and we would have been assured of payment on our sales.

In 1962 onion production was increased and prices started out at very depressed levels. An unusually large volume of export business plus delays in the Texas crop improved prices to near the break even level. Government reports of intentions to plant indicate a substantial increase in onion acreage for 1963. The history of the onion business during the last 4 years vividly illustrates and conclusively proves that futures trading was not detrimental to the onion industry. And I am sure that if the opportunity were provided, many of the growers who appeared in opposition 6 years ago would gladly return and ask that onion futures trading be reestablished. As onion growers we were hurt by elimination of futures trading. As dealers our

position has been improved because growers are no longer completely informed.

Nearly 200 years ago the early American settlers fought a war to free themselves of the shackles of oppressive Government controls. A new nation was born and under a competitive free enterprise system it prospered and grew into the greatest Nation the world has ever known. Under the market price system, this Nation's agriculture became the envy of the world. But 30 years ago the Nation's economy suffered a severe depression. Government offered agriculture a helping hand in the form of a few temporary emergency farm programs. Since that time the number of Government farm plans has multiplied rapidly and controls over agriculture have become more rigid. Our market-price farm economy is veering more and more in the direction of a Government-planned farm economy. The helping Government hand of the 1930's has turned into a ruling Government fist in the 1960's. Thirty years of Government farm planning has resulted in the creation of a costly, ineffective, bureaucratic, agricultural monstrosity. Complete Government domination of American agriculture looms dangerously near.

Today a few potato farmers, caught in the cost-price squeeze characteristic of many segments of our economy, seek elimination of a legitimate market which we have found extremely useful. Step-by-step Government regulations against which the colonists fought are destroying individual liberties for which they died.

I respectfully urge defeat of bill H.R. 904.

Thank you.

MR. MATTHEWS. Thank you.

MR. ZAMBITO. I would like to make a few additional comments on some of the things that were said earlier, if I may.

MR. MATTHEWS. We will be glad to hear you.

MR. ZAMBITO. Yesterday Mr. Harding asked Mr. Datt of the American Farm Bureau Federation a question concerning the Farm Bureau's position on this issue.

I am president of the Genesee County Farm Bureau, and the farm bureau policy is developed on a local or county basis.

Seven or eight years ago in our county resolution was adopted in favor of abolishing onion futures. This was the original county to adopt that resolution. From our county it went to the State annual meeting of the New York State Farm Bureau Federation and it was here also discussed and debated, and by majority vote of the delegates adopted.

The New York State delegates took it to the annual meeting of the American Farm Bureau Federation where again it went through the same process of discussion and debate, and became the farm bureau policy at this point. Potatoes were added to the resolution.

This has been the farm bureau's policy since then to oppose these two markets.

The point I want to bring out is that this was the procedure. It is a good one establishing policy. The point that I want to bring out is that last fall the issue of potato futures again came up, and Genesee County, which was the original county to adopt the resolution against onion futures—Genesee County is one of the leading onion counties in the whole country—Genesee County where onion growers and other

farmers had an opportunity to observe what has happened to the onion industry since futures were abolished—he resolution to prohibit futures trading in potatoes were defeated.

This resolution came up again at the State annual meeting of the New York State Farm Bureau. It was discussed and debated on the floor of that meeting. And the New York State Farm Bureau, which is the leading onion producing State in the country, where growers have had an opportunity to observe what has happened to the onion industry when futures were abolished—this resolution to abolish futures trading last year in November was defeated.

I attended the annual meeting of the American Farm Bureau Federation in Atlanta last year. On the floor the question of futures trading did not come up.

So the point I am making is that attitudes change toward these things. And maybe the Farm Bureau policy here was not quite up to date.

Another thing, I have been sitting here for a few days——

Mr. HARDING. I should like to ask Mr. Zambito a question at this point. Mr. Datt represented the Farm Bureau yesterday. Is he a member of the Washington office here?

Mr. ZAMBITO. He is on the legislative staff.

Mr. MATTHEWS. Go right ahead.

Mr. MCINTIRE. May I ask a question?

Mr. MATTHEWS. Do you care to finish what you have started to say before we start asking questions? If so, let the witness finish what he would like to say, then we will ask questions later.

Mr. ZAMBITO. In sitting here for two mornings and listening to the proponents of the bill it was quite obvious to me and, probably to some of the members of the committee, that much of the evidence that was presented was not only inconsistent but it was contradictory. For instance, one witness in discussing the potato futures market commented that the commitment was so small that it really could not do the job for the growers in the State of Maine.

The witness who discussed the onion futures complained that there was so much trading, commitments were so large, many more onions were traded than were produced, that it was just a monstrosity that was ineffective. Then a witness said something to the effect that when hedges were made, if the market went up, this created a hardship in meeting margins, and this was bad. And another witness indicated that if the market went down it depressed prices, and this was bad.

So we sat here and listened to them say that the commitment was too small, and then we heard that it was too large, and that if the market went up it was bad, and if it went down it was bad.

Another witness said or indicated that maybe this futures trading might be all right if the farmers had time to pay attention to it. All I would say is that with the investment the farmers have in land, in buildings, in equipment, in the cash outlay that is necessary to grow a crop of potatoes that the farmers had better take time to carry out the most important function of their whole operation, that is, to sell the crop.

In this country we take pride in a law system that holds that an accused is innocent until he is proven guilty. I would say that this hodge-podge of unsubstantiated contradictory evidence does not prove

that the futures trading is detrimental in potatoes and no valid reasons have been given for eliminating potato futures trading.

I have four brothers back home who are busy right now packing and shipping onions, packing and shipping potatoes. They have started growing onions and planting potatoes. I did not come to Washington for a few days vacation. I did not come here to try to protect an exchange in New York or a broker who might happen to be a friend of mine. I came here to try to protect my business, to try to protect the markets that I feel as a grower I need. I do not feel that this market should be denied to me or to anyone of the others who are using it just because of the whims of a group who, obviously do not understand the operation of the exchange and who, apparently, do not recognize their own real problem.

Thank you.

Mr. MATTHEWS. Thank you, Mr. Zambito. You have been a very articulate witness.

Are there any questions, Mr. Teague?

Mr. TEAGUE of California. I would like to make this comment. Mr. Zambito on page 2 of his statement refers to the former illustrious Governor of New York who would say, "let's look at the record." This referred to the Democrats.

On page three of your statement you make a statement which is wonderful Republican philosophy and says, "the helping Government hand of the 1930's has turned into a ruling Government fist in the 1960's."

So you have made a very appealing statement to both Democrats and Republicans. [Laughter.]

Mr. MATTHEWS. Of course, the Democrats will want to rebut a few of those statements. [Laughter.]

Mr. Harding?

Mr. HARDING. No questions.

Mr. MATTHEWS. Mr. McIntire?

Mr. MCINTIRE. One very short question—in view of the efforts made by the Genesee County Farm Bureau and the New York State Farm Bureau in relation to opposing the elimination of a futures trading contract, does that involve potatoes that they are not growing, but to potatoes that some others are growing? In view of the statement in relation to the onion futures, did Genesee County advance a resolution to restore onion futures trading—did anybody do that?

Mr. ZAMBITO. No. It was felt that as long as this resolution—or this effort to abolish potato futures trading is going on that this is not the proper time. Did you say we were concerned with the market for potatoes which we are not growing? We do use this market. We do not have to grow potatoes in Maine to use the New York Merchantile Exchange.

Mr. MCINTIRE. You do not have to grow them, but you can only buy and sell a carload of potatoes produced in Maine and not in the State of New York.

Mr. ZAMBITO. That is right. There is a definite relationship between the price of Maine potatoes and the price of potatoes in New York. And so this can be a useful market.

Mr. MCINTIRE. There is a relationship, indeed. The fact is that you are not trading in your own potato production—you are trading in

a commodity which is produced in another State and using the market simply for the mechanics of it.

Mr. ZAMBITO. That is quite true.

Mr. McINTIRE. In which you cannot participate on the delivery to save your soul out of your own production.

Mr. ZAMBITO. This is correct, but as has been pointed out here, the function of the market was not to have deliveries. There is only a very small percentage of the actual contracts that are traded that are delivered. So it becomes just as useful to a grower in Genesee County as it is to one in Maine.

Mr. MATTHEWS. Thank you.

Mr. McINTIRE. Thank you.

Mr. ZAMBITO. Thank you.

Mr. MATTHEWS. The next witness is Mr. Jack Roth of Caribou, Maine.

We shall be glad to hear from you now.

STATEMENT OF JACK ROTH, CARIBOU, MAINE

Mr. ROTH. Thank you, Mr. Chairman and members.

If I may, after I read my prepared statement, I have a couple of comments regarding my experience in the business relating to some of the previous testimony.

My name is Jack Roth. I work in Caribou, Maine, in three capacities as a potato dealer, as a broker, and as a fertilizer distributor. Beaver Brook Farms, Inc., which I represent, is a potato dealer operation. We handle approximately 1,500 carlots a year of potatoes, about 4 percent of the total shippable potatoes in Aroostook County, Maine. As dealers, we practice hedging so as to protect ourselves against loss on potatoes bought from growers for future delivery. In August of this year we had approximately 900 carlots of potatoes hedged on the futures board of the New York Mercantile Exchange. Beaver Brook Farms, Inc. was organized in 1947 and we have used the facilities of the futures market regularly since it began to be of economic significance as a hedging medium in 1951. Futures trading enables the grower and shipper to protect themselves against loss by transferring the price risk. This is an advantage of great value to those who understand and use it and one sadly underrated and wrongly interpreted by those who do not avail themselves of the advantages it offers.

Every year the futures board has reflected better than cost of production and for the past 3 or 4 years, growers, for long periods of time, could hedge on the board and guarantee themselves a profit. This year is a perfect example. The futures board price was around the \$3 per barrel mark several times with heavy volume, offering farmers a chance to hedge at profitable prices, as compared to selling their potatoes on the cash market for approximately a dollar less.

With the existence of the futures market, even if prices should get disastrously low there would still be a place where a man could sell for some price. In the old days long before formal futures trading was thought of, when prices got low, there would be times when no sales of potatoes could be made, at any price. When I mention "old days," I have been in the business for over 25 years, so I have had considerable experience in some of the effects of low prices during our real hard

days before formal futures trading became a factor. You simply could not sell them when prices became low at any price. The buyers just disappeared. Now, with the futures market there is liquidity and always a price available. If a man decided to take the low price as opposed to dumping his crop it is available to him with liquidity. Many growers who have not been through the mill do not understand the value of the board in terms of an open market to sell potatoes. Opponents of futures trading do not seem to realize that the whole distribution pattern of potatoes has changed radically in recent years. The independent dealers and buyers who used to travel through the county, and make future purchases with \$100 and \$200 deposits have disappeared and mostly gone out of business. Now it is the chainstore and processor who are the major distributors. The old-fashioned way of hedging with an independent buyer is long gone. If the market dropped, the buyer could always find some reason to renege on his contract. The futures board never reneges on a sale, all sales are backed by considerable resources.

In addition to my brokerage and dealer experience I am general manager of Albatros Fertilizers, Inc. We make contracts to supply fertilizer to growers on the basis of futures board potato prices. We supply approximately 10 percent of the fertilizer used on potatoes in Aroostook County. Through the use of the futures board our growers can obtain fertilizer in return for potatoes at prices based on the futures market. This transfers his risk of a lower market where he would have to expend a great percentage of his crop in order to pay for his fertilizer needs. This is only one method in obtaining short-term financing, which without question is one of the desperate needs of the potato business in Maine. In addition to its other attributes the futures market is a tremendous source of market information for the potato industry. This information enables the growers to determine the market value of potatoes at any time. Bids and offers are made openly. There is public registration of all executed contracts. The information is open and accurate.

In conclusion I wish to state that the Maine potato industry can ill afford the elimination of this valuable market. Its aid in obtaining short-term financing, its ability to transfer price risks, its great source of market information, and its integrity as an open public market, with ironclad contracts can only result in benefit to the Maine potato industry.

With your permission, I would like to make just two or three short comments relating to previous testimony.

Mr. MATTHEWS. We will be delighted to hear you.

Mr. ROTH. One of the previous witnesses discussed statistically the difference between Maine potato prices and Idaho potato prices, intimating that Maine potato prices were lower because we had a futures board and Idaho potatoes were higher because they had a board but did not use the board. I do not think the information is correct. We, in the business, know the reasons for Idaho having higher prices. The major variety, the big variety that Maine grows is grown in perhaps 40 other States in the Union. We have no monopoly on the varieties that we grow, although Idaho does not have a monopoly on the variety they grow. They have done a wonderful merchandising job with their variety. And if the comparison was made between the same variety that we grow in Maine, which is the russet and the

variety grown in Idaho, I am sure it would be determined that the prices were not that radically apart.

In much of the discussion that has taken place here there seems to be a fuzzy area as to merchandising, cash market, and futures market. We are discussing the elimination of a futures market.

I realize fully the futures market and the cash market—the futures market which, eventually, must be converted to a cash potato market for the liquidation of that contract—have different problems. We are very large users of this type of thing. We make this conversion from futures contracts to a cash contract.

As I said in my statement, at our peak period we had about 900 carloads of potatoes. At present we are down to about 200 carloads of potatoes. We have liquidated 700 carloads of these potatoes and have converted them.

We have chainstore buyers. We have processors. We have many, many customers of different calibers. The conversion from a futures contract upon maturity to a cash car of potatoes is no big problem for us and it is not any big problem for anybody who is alert to the liquidation, that is, the proper liquidation of his contract and without what we call lifting a leg.

There is liquidity on the futures side. The conversion to the cash sale is very simply and easily made. We have discussed market gyrations. In the many years I have been in the business I have seen particularly spring markets—and there is a saying in the business that we use: "If you walk in one morning and the price is \$2 and within 2 hours the price is \$3"; and the oldtimers always have said: "Remember, we are in a spring market"—these are the natural tendencies or spring markets where there is an effect, which has a tremendous effect on it. My point is that gyrations in the potato market are not new. The futures market has not caused these gyrations.

I have been on the street and bought potatoes for many, many instances where we started out at a \$2 a barrel and wound up at \$3 or \$3.50 a barrel before the day was out. We never had a futures market in those years. So the contention of futures markets causing undue gyrations in the market I do not think is valid.

In some of the previous testimony regarding chainstores being unable to buy potatoes, I do not think that this can be borne out. I do not think that the chainstore would not call our outfit, because we are anxious for their business. We certainly would find a means to supply them whether it is through our own inventory or through purchasing from the growers. I do not think that anybody that seriously wants to buy Maine potatoes goes away empty handed. We are not silly. A market is a market. If some chainstore wants to give potatoes away, I see no reason why we ought to help them give them away, but if they want to pay, the potatoes are obtainable. We can supply them. I think this is true of most large distributors and handlers of Maine potatoes.

Thank you.

Mr. MATTHEWS. Thank you very much.

Mr. Teague, any questions?

Mr. TEAGUE of California. No questions.

Mr. MATTHEWS. Mr. Harding?

Mr. HARDING. I would like to ask Mr. Roth just one question. Getting back to this chainstore buyer, you would have given him a firm bid a few weeks in advance, wouldn't you?

Mr. ROTH. Well, the question of time would have to be related to what we thought of the market. As a rule the chainstores do not look for it many weeks in advance. They do not intend to speculate. Their hope is to tie it into a merchandising program.

Mr. HARDING. My question, Mr. Roth, is, Would you or would you not give him a firm bid on a given amount of potatoes, say, a month in advance?

Mr. ROTH. Probably not a month, but I think that we would give them a firm bid for a reasonable period of time so that we would not be caught in some kind of a market change at the time, but every effort would be made to see that the chainstore got potatoes out of our area if at all possible.

Mr. HARDING. Thank you.

Mr. MATTHEWS. Any questions, Mr. Hutchinson?

Mr. HUTCHINSON. I have one question, Mr. Chairman.

Earlier testimony mentioned the perishability of potatoes. Would you comment on the effect of the perishable product in relation to the futures market? There was some remark made about the fact that the product delivered had deteriorated in quality and so on because of futures handling.

Mr. ROTH. I do not agree. I do not think it is a valid argument, because each contract has its expiration date. That has previously been set up. The possibility of rolling off, as we call it, to a later period is the option of the seller, the grower, whoever may be doing the hedging. The fact that—the fact is that no grower is going to commit his potatoes for a contract later than he thinks the quality and the durability of his potatoes will maintain themselves to that period; in other words, nobody is going to sell a May contract if he does not have potatoes that will last until May and fit into the standard that is set up by the contract.

And if we are discussing standards, Maine has a marketing agreement and an order which presumably sets standards that are higher than the average in the country for white potatoes. The mercantile exchange cannot trade in any potatoes less than the standard set up by the marketing order, so that the standards for contract is identically the same as the standard for the trade, so that the deterioration that is spoken of is and does not in fact occur. The buyer is entitled to a car of potatoes. If he intends to take delivery he is entitled to a car of potatoes that are Government inspected and meet the standards according to the contract. And this is what he gets or else there is no need for him to take them.

But here once again we continue to enter in this discussion as to what happens on the cash market. As was discussed previously, the number of potatoes that are being delivered against the total futures contract that are traded are negligible. There are off periods. There is nothing perfect. I do not know what the proponents of this bill hope for in this situation. We do not say to use the board or that the board is the end of all things or the most perfect device ever devised. This would be silly. We say it is valuable, it is workable, it is usable. Why deprive those that want to use it of the ability to use it?

Mr. MATTHEWS. Are there any more questions?

Mr. HUTCHINSON. No.

Mr. MATTHEWS. Mr. McIntire?

Mr. McINTIRE. No questions.

Mr. BRUCE. Mr. Roth, you make the inference in your statement on page 2 that the potato business has changed to such an extent the last few years that it is such that practically it could not operate without the board. Is that a proper conclusion?

Mr. ROTH. No, I did not intend to infer that. I would put it the other way, that I think the Maine potato business must be looked at from a national potato standpoint, that Maine's position in the potato business is extremely vulnerable because of our freight rate position, and because of many, many other factors. We are in a declining industry and the board and its values will be sorely missed if we eliminate it, because the State of Maine has need of this board, not only from a short-term financial standpoint, but from a marketing standpoint. We do not have the business any more. I think that we have got to continue to use this market.

Mr. MATTHEWS. Mr. Teague.

Mr. TEAGUE of California. All of the members of this subcommittee are very anxious that the proponents will all be able to be heard. After we adjourned yesterday we found that the House would be in session at 11 today. We expect a quorum call in the next few minutes. We are obviously, therefore, going to have about 15 or 20 minutes left in which to hear these witnesses.

I would suggest, because I do not know what else we can do, that the witnesses summarize their statements for the record.

Mr. MATTHEWS. Let us go off the record.

(Discussion off the record.)

Mr. MATTHEWS. On the record.

We will next hear from Colonel L. Brown of Mount Vernon, N.Y. He is our next witness.

We will be glad to hear you now.

STATEMENT OF COLONEL L. BROWN, MOUNT VERNON, N.Y.

Mr. BROWN. Mr. Chairman and members of the committee, I am Colonel L. Brown, of Mount Vernon, N.Y. I am crops and markets editor of the Produce News, a weekly trade paper, food consultant to the New York Herald Tribune and General Foods Corp. I also write a weekly information letter for the large firms in the fruit and vegetable industry.

One of the functions of the New York Mercantile Exchange that is not well understood is that it serves as a center of information for potato growers everywhere. In order to market their crops to the best advantage, growers need all the information they can get. While the exchange does not stress the fact, it is a focus of information for everyone in the potato industry. Even if the exchange accomplished nothing else but disseminate the information it now does, it would be worthwhile.

Brokers and traders search out information pertaining to potatoes, not only in the United States and Canada but in Europe as well. Information developed in connection with trading has a high degree of accuracy since it is subject to a lot of scrutiny, and the truth or falsity

of reports is established quickly. It is much harder for individuals to do this by themselves.

One may well ask why there is any need for information from the exchange when we have the U.S. Department of Agriculture, State departments of agriculture, and various trade papers and services available. The answer is that the information on the exchange becomes quickly available to interested persons everywhere. The grower has a better chance to keep up to the minute because of exchange facilities. The potato industry is undergoing change from year to year.

One of the most noticeable trends is toward greater and greater total production of potatoes throughout the country. Growers are steadily extending their operations so as to get the lowest unit cost of production per hundredweight. They are prepared to operate profitably at comparative low prices. A moderate price with low production costs often works out more favorably than a higher price with higher production costs. When equipment is expensive, it is necessary to get full use out of it.

The present situation must be favorable for maximum operations since there is no inclination to reduce acreage. Maine's indicated acreage for 1963 is 99 percent of last year; Idaho is 101 percent; Michigan 103 percent; Wisconsin 100 percent; and Minnesota 106 percent. If growers were losing money at prevailing prices, they would tend to reduce acreage.

The USDA sets up planting guides for potato growers but the acreages planted are invariably heavier than the planting guides.

The USDA says in Vegetable Situation April 1962, page 28:

In addition to the problem of sharp year-to-year fluctuations in prices and income, potato growers in recent years have been plagued with general overproduction and the consequent depressing influence on the general level of potato prices. Some measure of the estimated overproduction is indicated by comparing actual production with production recommended in the USDA acreage-marketing guide. During each of the last 9 years, actual production exceeded the USDA guide in amounts varying from 7 to 23 percent.

Over the past 10 season, actual production exceeded the guide by an average of 12 percent. This relatively high level of production has frequently resulted in growers moving substantial quantities of potatoes into starch and livestock feed.

According to data prepared by the USDA, the actual quantity of potatoes fed to livestock, lost through shrinkage, and used in starch has exceeded the estimated normal amount in quantities ranging from 4.7 million hundredweight to 37 million hundredweight annually.

In the long run, Government purchases for starch and diversion have had an adverse effect on potato prices. Growers are always hopeful that the Government will bail them out if they have too many potatoes, and do it by taking the lower grades off their hands at some price. If the Government had a consistent policy on diversion purchases which was announced each year prior to planting time, then growers could adjust to it. Unfortunately, there is no such policy. Some years large quantities are purchased and some year not. For example: For the season through March 29, 1963, the diversions from the 1962 fall crop totaled only 3.6 million hundredweight, for the previous comparable period the diversion were 24.5 million hundredweight. How can growers plan operations under conditions like these?

The USDA in Vegetable Situation April 1962 says:

The heavy supplies overhanging the market and the low returns for potatoes going into starch and livestock feed tend to reduce both the average price level and the average net income to growers.

The USDA says further:

The low average level of price and income to growers in recent years has been brought about by frequent overproduction and accompanying low prices. Obviously, any success in alleviating these problems must attack the basic causes of instability and low price levels. Thus, any success in dealing with the problems must necessarily alter either the supply of potatoes, the demand, or both.

Mr. TEAGUE of California. May I interrupt you for a minute? I am neither for nor against the bill at this time, but I do want to point out—maybe I did not make it clear before—that if you read the whole statement it will probably mean that Mr. Watts and the other witnesses will not have any opportunity to present their statements.

Mr. BROWN. I better brief it, then.

Mr. TEAGUE of California. We will only have about 15 minutes.

Mr. BROWN. I will brief it, then.

Maine has more competition than formerly. Maine used to dominate its markets from January through May. Now the Red River Valley, Colorado, Idaho, which used to be nearly finished by April 1, these States now carry on and they interfere with the marketing of Maine potatoes.

Another point that I want to make is that the demand for potatoes is very inelastic. And you cannot do much by putting the prices down. You do not get consumers to come in like they would for a sale on strawberries or peaches. So low prices do not help to move the crop faster.

The market wants about the same amount of potatoes during the marketing season.

If you get a shortage like we had last year, when there was a period when the market advances very quickly, it came right after the end of the May option, and Maine farmers had been delayed in getting into the field, but as soon as the weather was clear, they moved into the field, and at the same time the Florida deal finished about 2 weeks earlier. They had a period of 2 weeks in there in which the market advanced quite sharply. Then a little while after that they went down again. This rise in price was brought about by the fact that there was a shortage in the flow of potatoes to the market.

Just as you cannot force more potatoes onto the people, at the same time they want a certain amount. And any time that there is any shortage, why, the market will react.

I want to comment briefly on a new factor in the potato business; that is, the processing of potatoes which has now become a big industry. One of the things that is of considerable importance in this is the fact that the supply of potatoes in storage, processed potatoes, tends to increase from year to year. We no longer market all of our potato crop in the year in which it is grown. Formerly that was the case. We now have some of last year's potatoes in cold storage, french fries—we have some potato flakes—we have some other potato products, and they tend to build up.

With reference to the french fries alone, using the end of February holdings as the basis for comparison, in 1957 they had 57 million

pounds in storage and this year at the end of February they had 267 million pounds in storage, an increase of 464 percent.

The time may come when the processors may have enough potatoes to carry them for a good part of a season and that will make them tough to deal with when it comes to the growers.

Some growers think that the answer to the potato problem is to abolish trading in potato futures. That is a totally mistaken idea, in my opinion. I do not trade in potatoes at all, but it is my opinion that it would be a poor thing to do.

For one thing, growers would not be able to hedge their crops, and I have noted that there are substantial numbers of growers who want to hedge. For another reason, the growers would be left in the dark on a good deal of potato information that they now gain. Actually, the exchange does originate a lot of potato information. My business is getting information together. And the exchange automatically does produce a lot of information. They disseminate it so rapidly that it is a big help.

So to say that abolishing the futures trading in potatoes will guarantee better potato prices is like saying that if you smashed all of the thermometers, you would never have any more cold winters or hot summers.

The whole trouble is that the potato industry is growing 10 to 15 percent more potatoes than can be marketed readily.

I point out that the U.S. Department of Agriculture estimates that over a period of years the total rise in production will be or has been about 12 percent. At the same time there has been no concerted effort on the part of the fresh potato industry to induce the consumers to use more potatoes.

There is no big effort being made to do that. And since the potato consumption is inelastic, you would have to lay out an awful lot of money to make any impression on the consumer's buying habits. It would be very difficult.

A better way would be to get this production down, somewhere in line with what is actually needed.

I cannot for the life of me see any reason for abolishing this exchange, because I do not see where that will help you; you destroy something and you create nothing.

Mr. MATTHEWS. Is Colonel a title or your name?

Mr. BROWN. Colonel is the first name.

Mr. MATTHEWS. Thank you very much, sir.

Mr. BROWN. May I submit this for the record?

Mr. MATTHEWS. Without objection, they will be received for the files of the record. And your complete statement will be made a part of the record at this point.

Mr. BROWN. Thank you.

(The documents referred to will be found in the files of the committee.)

(The prepared statement of Colonel L. Brown follows:)

STATEMENT OF COLONEL L. BROWN, MOUNT VERNON, N.Y., IN OPPOSITION TO H.R. 904 BEFORE HOUSE SUBCOMMITTEE ON DOMESTIC MARKETING, APRIL 9, 1963

I am Colonel L. Brown of Mount Vernon, N.Y. I am crops and markets editor of the Produce News, a weekly trade paper, food consultant to the New York Herald Tribune and General Foods Corp. I also write a weekly information letter for large firms in the fruit and vegetable industry.

One of the functions of the New York Mercantile Exchange that is not well understood is that it serves as a center of information for potato growers everywhere. In order to market their crops to the best advantage, growers need all the information they can get. While the exchange does not stress the fact, it is a focus of information for everyone in the potato industry. Even if the exchange accomplished nothing else but disseminate the information it now does, it would be worthwhile.

Brokers and traders search out information pertaining to potatoes, not only in the United States and Canada but in Europe as well. Information developed in connection with trading has a high degree of accuracy since it is subject to a lot of scrutiny, and the truth or falsity of reports is established quickly. It is much harder for individuals to do this by themselves.

One may well ask why there is any need for information from the exchange when we have the U.S. Department of Agriculture, State departments of agriculture, and various trade papers and services available. The answer is that the information on the exchange becomes quickly available to interested persons everywhere. The grower has a better chance to keep up to the minute because of exchange facilities. The potato industry is undergoing change from year to year.

One of the most noticeable trends is toward greater and greater total production of potatoes throughout the country. Growers are steadily extending their operations so as to get the lowest unit cost of production per hundredweight. They are prepared to operate profitably at comparative low prices. A moderate price with low production costs often works out more favorably than a higher price with higher production costs. When equipment is expensive, it is necessary to get full use out of it.

The present situation must be favorable for maximum operations since there is no inclination to reduce acreage. Maine's indicated acreage for 1963 is 99 percent of last year; Idaho is 101 percent; Michigan, 103 percent; Wisconsin, 100 percent; and Minnesota, 106 percent. If growers were losing money at prevailing prices, they would tend to reduce acreage.

The USDA sets up planting guides for potato growers but the acreages planted are invariably heavier than the planting guides.

The USDA says in Vegetable Situation April 1962, page 28: "In addition to the problem of sharp year-to-year fluctuations in prices and income, potato growers in recent years have been plagued with general overproduction and the consequent depressing influence on the general level of potato prices. Some measure of the estimated overproduction is indicated by comparing actual production with production recommended in the USDA acreage-marketing guide. During each of the last 9 years, actual production exceeded the USDA guide in amounts varying from 7 to 23 percent.

"Over the past 10 seasons, actual production exceeded the guide by an average of 12 percent. This relatively high level of production has frequently resulted in growers moving substantial quantities of potatoes into starch and livestock feed."

According to data prepared by the USDA, the actual quantity of potatoes fed to livestock, lost through shrinkage, and used in starch has exceeded the estimated normal amount in quantities ranging from 4.7 million hundredweight to 37 million hundredweight annually.

In the long run, Government purchases for starch and diversion have had an adverse effect on potato prices. Growers are always hopeful that the Government will bail them out if they have too many potatoes, and do it by taking the lower grades off their hands at some price. If the Government had a consistent policy on diversion purchases, which was announced each year prior to planting time, then growers could adjust to it. Unfortunately, there is no such policy. Some years large quantities are purchased and some years not. For example: For the season through March 29, 1963, the diversion from the 1962 fall crop totaled only 3.6 million hundredweight, for the previous comparable period the diversions were 24.5 million hundredweight. How can growers plan operations under conditions like these?

The USDA in Vegetable Situation, April 1962, says: "The heavy supplies overhanging the market and the low returns for potatoes going into starch and livestock feed tend to reduce both the average price level and the average net income to growers." The USDA says further: "The low average level of price and income to growers in recent years has been brought about by frequent overproduction and accompanying low prices. Obviously, any success in alleviating these problems must attack the basic causes of instability and low price levels. Thus, any success in dealing with the problems must necessarily alter either the supply of potatoes, the demand, or both."

There has been a steady rise in the production of fall potatoes during the past 10 or 12 years. In 1951 the fall production was 125.7 million hundredweight. In 1961 the production was 204.6 million hundredweight, an increase of 63 percent. This is faster than the increase in population despite the low prices and there has been no important change in consumer demand for potatoes during this period.

The steady production rise has resulted in potato prices being depressed. So many potatoes are grown that more and more of the crop is being held late into the season. Maine has been marketing a higher percentage of its crop after March 1 with each passing season. At one time this policy worked quite well but no more. Other areas with better fertilizer and insecticides, weedkillers and sprout inhibitors, are shipping more and more against Maine.

A number of States that formerly marketed earlier have been increasing their production and adding to their storage space. Long Island formerly marketed most of its potatoes by February 1 but now finishes about April 15. New Jersey was formerly a summer State, but in the last year or two has built a number of storages and has potatoes until midwinter. Pennsylvania ships well into March and April now. The Red River Valley, Colorado, and Idaho used to be nearly finished by April 1 but now continue until the middle of May. Maine used to dominate its markets from January 1 through May. Now it must compete heavily right to the end of its marketing season.

One of the potato marketing problems is that the demand for potatoes is very inelastic. People use about the same amount regardless of the size of the crop or the price. A reduction in retail prices does not bring any noticeable increase in consumption. It would be fortunate if low prices brought increased demand. The low prices which have prevailed for some time would have been overcome. Unfortunately consumers do not respond to low prices in potatoes with increased purchases the way they do with strawberries and peaches. In the past few years the futures price has been the best a grower could obtain. I wish to submit in evidence this comparison of Presque Isle free on board street prices and the futures prices available the same day for the various contracts then being traded. You will see that day by day and month by month the seller had a higher price offered on the board than in the cash market. Obviously a hedge sale was a most useful and profitable alternative for the seller in Maine over long periods of time.

The fresh market wants about the same amount of potatoes right along during the marketing season. If too many potatoes are offered, prices decline and supplies accumulate. If there is a temporary shortage of potatoes by reason of bad weather or other factors, prices will go up even in years of heavy supplies. Remember, the demand for potatoes is inelastic and hence an even flow to market is wanted.

An advance occurred last May when there was a reduction in potato offerings for about 2 weeks. Bad weather had retarded Maine plantings and with the first good weather, most Maine growers stopped hauling potatoes and went into the fields to plant. Shipments from Maine dropped sharply. At the same time the Hastings (Fla.) deal finished early and had very few potatoes to offer after May 15, whereas Hastings usually continues until the end of May. This reduction in supplies caused a sharp rise for a period of 2 or 3 weeks. After that, supplies increased again and prices settled back.

The advance in price came about the time the May option closed, so some growers thought the price rose because the option was closed. This is just too much to believe. What chainstore, for example, would wait around and then pay more just because the May option had ended? I would like to place in evidence this weekly shipment report and notes to substantiate the above.

A few factor has been introduced into the potato deal in recent years. This is the processing of potatoes in quantity. It is quite possible that the increasing use of processed potato products will increase the per capita consumption of potatoes. However, information on this point is not clear. At least some of the gain in processed potatoes has been at the expense of fresh potatoes.

Processed potato products keep much longer than fresh potatoes, so we now have a new situation where potatoes are not all consumed during their regular crop season. There is a tendency for storage reserves to build up. As they do, they threaten the price of the oncoming fresh crop. It is conceivable that in a few years, reserves will be heavy enough to depress the price of fresh potatoes, even below present levels.

Statistics are made available by the USDA concerning the monthly holdings of frozen french-fried potatoes. Using the end of February holdings as a basis for

comparison, they totaled 57.6 million pounds in 1957. They have increased every year since then and at the end of February this year, they totaled 267.7 million pounds, an increase of 464 percent. The time may come when processors have enough reserves to carry them for months. In that case, potato growers will be worse off than they are now. Processors are tough people to bargain with. The cream has already been skimmed off the potato processing business, and as new firms enter the business, competition become greater. The main inducement a new firm can give to get their product on the shelves is a cut in price. This has already happened in some degree and prices are lower than a year or two ago.

And so we are still looking for a way to get better prices for potatoes. Some growers think the answer is to abolish trading in potato futures. It is a mistaken idea and prices would certainly not improve for that reason. They might, in fact, be lower. For one thing growers would not be able to hedge their crops. For another, the growers would be left in the dark on a good deal of potato information and would not be able to bargain so effectively. After all, futures trading does perform important economic functions for potato growers, shippers, and processors.

To say that abolishing futures trading in potatoes would guarantee better potato prices is like saying that if we smashed all the thermometers there would be no more cold winters and hot summers. The whole trouble with the potato industry today is that it is growing about 10 to 15 percent more potatoes annually than needed. As previously stated, the USDA estimates that chronic overproduction is about 12 percent. At the same time there is no concerted effort on the part of the fresh potato industry to induce consumers to use more potatoes. Since potato consumption is relatively inelastic, it should be pointed out that a large expenditure would be needed to bring any important per capita consumption increase.

There is no way that high prices can be guaranteed, nor any way to keep prices from fluctuating. Nor is there any way to guard against price decline when supplies are too heavy. The industry can thrash about and blame futures or anything else, but until overproduction is curbed, the potato industry will continue to suffer economic problems. I would like to offer in evidence the April 1962 issue of "Vegetable Situation" prepared by Economic Research Service of USDA.

Mr. MATTHEWS. Now our next witness is Mr. Seth Bradstreet from Newport, Maine.

We are delighted to have you with us, Mr. Bradstreet, and we will be glad to hear your testimony at this time.

STATEMENT OF SETH BRADSTREET, NEWPORT, MAINE

Mr. BRADSTREET. Mr. Chairman and members of the committee, I am Seth Bradstreet of Newport, Maine, which is located in the central part of the State, 200 miles south of Aroostook County. I am 30 years of age, married, and have four children. I am a graduate of University of Maine College of Agriculture.

Before entering farming I was a teacher of vocational agriculture. My operation today consists of raising 90 to 100 acres of potatoes plus 60 to 75 acres of grain. My family size operation is carried on by myself and my family, hiring help only during planting and harvesting seasons.

There are risks involved in raising potatoes as we all know. The most important of these risks are crop failure and price failure. Crop failure can be controlled by management and scientific know-how. However, as an individual I have very little control over price failure.

For the past 5 years I have used the New York Mercantile Exchange for hedging a portion of my crop. There have been times when a sale through the exchange gave me \$300 per carload more than the cash market for that particular delivery month. I feel that hedging through the exchange is like an insurance policy, protecting me from a financial catastrophe. Prices on the exchange have always been, at

one time or another within the crop year, high enough to realize a profit. When prices on the exchange reach a point that I feel is satisfactory to me, I have the opportunity to sell a one-car lot or my entire crop. If I were selling my entire crop through a private sale the buyer could take advantage of me, pricewise. To me, the daily price quotations on the exchange represents the feeling and thinking of a cross-section of people connected with potatoes, buyers and sellers, both large and small.

If it were not for the exchange I feel that a lot of information affecting prices of potatoes could be kept confidential among buyer groups, thus keeping it from small family-size farmers. The exchange gives everyone a chance to know the price instantaneously.

I have chosen growing potatoes as my life career and with this business and its many price fluctuations and competition from large syndicates, I need future trading to help guarantee me success.

For the reasons I have given, I hope you deeply consider to not report out bill H.R. 904.

Mr. MATTHEWS. Thank you very much, Mr. Bradstreet.

Are there any questions?

Mr. TEAGUE of California. Off the record.

Mr. MATTHEWS. Yes.

(Discussion off the record.)

Mr. MATTHEWS. On the record.

Our next witness is George McCluskey of Monticello, Maine. We will be glad to hear you now. We are glad to have you with us, sir.

Mr. TEAGUE of California. Let me say that the 15 minutes has not started to run, because the bells have not started to ring, and it will be 15 minutes from then.

STATEMENT OF GEORGE MCCLUSKEY, MONTICELLO, MAINE

Mr. MCCLUSKEY. Mr. Chairman and members of the committee, I am George McCluskey of Monticello, Maine, and I operate a farming operation under the name of George McCluskey, Inc. We grow 125 acres of potatoes and sell 250 to 300 cars a year, and each year I hedge some cars as a means of protection or price insurance. In my opinion the futures board and the opportunity to hedge are of real value to those who use them and they do no harm to those who don't use them or oppose them. I cannot see what harm futures trading does to those who oppose it.

Why destroy something that so many people find useful? It is not compulsory to use it, but we who do use it and need it should not be deprived of futures trading. Besides being a hedge, futures trading gives you the comfort of a real, dependable agreement. I know for sure how many cars are sold and how much I will get. When we sell for later delivery in other ways, everyone has a firm contract but us, the farmers. We worry right through the deal about what will happen between now and the time the deal is supposed to be completed.

I have some changes in futures trading I'd like to see made even though a lot of important changes have been made in the past 5 years. I'd like to see every month of the potato season traded instead of 5 months only, and I'd like to see the futures trading period extended into June instead of ending in May. We could deliver sprout-

inhibited potatoes on a June contract and make a good contract out of it and extend the trading year.

Those who want to eliminate futures trading think acreage will be reduced and farmers put out of business, but this will not work out to their benefit, as they seem to believe. It will not help prices, but just cause a lot of harm to everyone. Without futures I would still be able to raise potatoes so I do not say this out of selfishness. I just do not want to see our country's agriculture hurt and the tax burden thrown onto fewer people.

Mr. MATTHEWS. Thank you very much, sir.

The committee will be in recess until 11:45, and then we are going to come back. Mr. Harding wants to ask Mr. McCluskey some questions. And we want to give you ample time, Mr. Watts, to present your testimony. So we shall be in recess until 11:45.

Mr. McINTIRE. Before we go into recess, may I ask unanimous consent to put into the record a telegram from proponents of this legislation of Northampton, Mass., and also a letter addressed to Mr. Grant as chairman, which I was going to deliver to him; however, in view of his absence I ask unanimous consent that this letter be made a part of the record, too. It is a letter from the United Fresh Fruit & Vegetable Association in support of this legislation.

Mr. MATTHEWS. Without objection the letter and the telegram will be received for the record.

(The documents referred to follow:)

NORTHAMPTON, MASS., April 4, 1963.

Dr. MERCKER,
National Potato Council,
Washington, D.C.:

Hearing in Washington April 5 on continuation of potato futures trading on New York Commodity Exchange. Futures trading a serious deterrent to orderly pricing and marketing. Last year over 179,000 cars traded on exchange. Irony is Maine has 40,000 cars. Total \$83 million in commissions paid to commodity brokers. Statistics show that professional people gamble with no intent of taking delivery. As sales agents and spokesmen for Massachusetts potato growers we beseech you to take steps to abolish this anathema—the futures trading of potatoes on New York Commodity.

BILL DRIZDAL.

UNITED FRESH FRUIT & VEGETABLE ASSOCIATION,
Washington, D.C., April 9, 1963.

Hon. GEORGE GRANT,
Chairman, Subcommittee on Domestic Marketing, Committee on Agriculture,
House of Representatives, Washington, D.C.

DEAR Mr. GRANT: The United Fresh Fruit & Vegetable Association is a national organization representing all factors in the fresh produce industry, including potato growers, shippers, brokers, and distributors. Its approximately 2,600 members handle about 75 percent of all commercial marketing of fresh fruits and vegetables in the United States. Its headquarters are in Washington, D.C.

This association has a policy which favors legislation that would require the permanent removal of perishable fruits or vegetables from futures trading on commodity exchanges. This policy has been expressed by resolutions adopted unanimously by the membership at annual conventions, the last such resolution having been passed in San Francisco, January 30, 1958, and it reads as follows:

"The United Fresh Fruit & Vegetable Association reaffirms its position with respect to the speculative buying and selling of contracts for the delivery of perishable agricultural commodities before they have been produced, as tending to encourage artificial pricing and confusions as to actual supplies of such commodities available to established dealers and the consuming public.

"Therefore, we favor the enactment by Congress of pending legislation that would exclude from futures trading on commodity exchanges of agricultural products which are historically included in the category of fresh fruits and vegetables * * *"

In reviewing H.R. 904, this association's advisory board, meeting in Washington, D.C., April 5 and 6, 1963, by unanimous action directed me to express to the Subcommittee on Domestic Marketing of the House Agriculture Committee the long standing policy of this association in this matter.

We respectfully request you include this letter in the records of the subcommittee hearings on H.R. 904.

Sincerely,

ALAN T. RAINS,
Executive Vice President.

(Short recess.)

Mr. MATTHEWS. The subcommittee will come to order. We will proceed with the hearing.

Mr. Harding would like to ask you a question, please, Mr. McCloskey.

Mr. HARDING. I have just one quick question that I have been wanting to ask a grower who is using futures trading to his advantage.

When the futures market reaches a price where you are assured of a reasonable profit, you sell on the market or the board? If the price never again rises above what you sold for on the board, you deliver your potatoes and get that price for them, is that correct?

Mr. McCLOSKEY. It depends on how the commercial market is.

Mr. HARDING. If the commercial market never again rises above what you sold them for on the board, you deliver them and receive that price?

Mr. McCLOSKEY. That is right.

Mr. HARDING. To your knowledge has a farmer who sold on the board in this manner to protect himself ever been denied the opportunity of receiving the full sales price?

Mr. McCLOSKEY. Never.

Mr. HARDING. That is all.

Mr. MATTHEWS. Are there any questions, Mr. Rosenthal?

Mr. ROSENTHAL. No questions.

Mr. MATTHEWS. Mr. Teague?

Mr. TEAGUE of California. No questions.

Mr. MATTHEWS. Thank you very much, Mr. McCloskey.

Now, our next witness is Mr. Llewellyn Watts, Jr., chairman of the board of governors of the New York Mercantile Exchange.

We are delighted to have you with us. You may proceed now, sir.

**STATEMENT OF LLEWELLYN WATTS, JR., CHAIRMAN OF THE
BOARD OF GOVERNORS, NEW YORK MERCANTILE EXCHANGE,
NEW YORK, N.Y.**

Mr. WATTS. Thank you very much, Mr. Chairman and gentlemen, I was afraid for a while as I looked at the expression on your faces when it was suggested that I summarize my statement, and I knew that you would be distressed if I did not.

Mr. MATTHEWS. We want you to take all of the time that you desire.

Mr. WATTS. Thank you very much.

Mr. MATTHEWS. And we will be delighted to hear you.

Mr. WATTS. In this connection, before I make or present my statement, Mr. McIntire spoke of a lecture from the United Fresh Fruit & Vegetable Association. We are members of the United Fresh Fruit & Vegetable Association. In their convention this year in February at Los Angeles, I attended, and a resolution was proposed in support of this bill and presented to the resolutions committee, and they turned it down. So I do not know what their position was in 1958 when this resolution passed, but I do know what it is in 1963, and I think that maybe Mr. McIntire can confirm that.

Mr. MATTHEWS. We will be delighted to have that statement for the record.

Mr. WATTS. Thank you very much.

Mr. BRUCE. But it never got to the floor of the convention?

Mr. WATTS. No, it did not, because the resolutions committee turned it down.

Now, with your kind permission, we have a group consisting of six of our members who were here yesterday and whose testimony or whose statements I did not have in hand at the time, and I would like to submit them at this time for the record.

Mr. MATTHEWS. Are these gentlemen here?

Mr. WATTS. No, they had to leave.

Mr. MATTHEWS. Without objection their testimony will be received for the record.

(The statements referred to follow:)

STATEMENT OF RENIS H. LEVASSEUR, FORT FAIRFIELD, MAINE

My name is Renis H. LeVasseur of Fort Fairfield, Maine. I grow 140 acres of potatoes. I also buy and ship approximately 250 to 300 cars of potatoes yearly. I have used the Maine potato futures market of the New York Mercantile Exchange as a hedge for my business as a Maine potato grower and shipper.

Our low price for potatoes is definitely not created by the New York Mercantile Exchange but rather through overproduction. The proponents of this bill claim that hedging creates overproduction. This is not true because previous to trading in futures, the farmer was forced to contract for fertilizer below the cost of production.

I have found the First National Bank of Fort Fairfield has been more than willing to finance my hedge sales.

In conclusion, I respectfully urge that this subcommittee vote against passage of H.R. 904 as I feel that eliminating trading in Maine potato futures would result in biting the hand that feeds us.

STATEMENT OF NORMAN OUELLETTE, CYR PLANTATION, MAINE

I am Norman Ouellette of Cyr Plantation, Maine. I grow about 125 acres of potatoes annually and for the past several years I have been using the New York Mercantile Exchange very successfully. I studied the financial situation of our industry and became convinced that the best way to come out with a profit at the end of the year was not by holding potatoes indefinitely and waiting for prices to go up. They do not do that every year and the longer you hold the more shrinkage and other loss you are likely to suffer.

I figured out that the futures market offers a set price each year at some date and that by hedging on the futures market I could assure myself of a certain amount of income which would be my protection. It has certainly worked out that way.

The elimination of futures trading for Maine potatoes would definitely be a handicap to me because as I have pointed out, it has helped me be a more successful farmer.

STATEMENT OF RAYMOND CYR, VAN BUREN, MAINE

I am Raymond Cyr, of Van Buren, Maine. I plant 100 acres of potatoes and protect my investment by hedging part of my crop through the futures contracts of the New York Mercantile Exchange. Futures trading is an important part of the business side of my farming operation. It is important especially for a good credit rating because the contracts have an actual cash value. Potatoes do not have a cash value until they are sold. Therefore I wish to ask the committee respectfully not to look favorably on the bill to eliminate futures trading in Irish potatoes.

I think the New York Mercantile Exchange is a good efficiently run commodity exchange and all potato futures trading is under the supervision of the Commodity Exchange Authority of the U.S. Department of Agriculture. As far as I am concerned its operations are most successful and beneficial. To me the loss of the futures trading facilities of the New York Mercantile Exchange would be like losing any other important part of my farming operation. It would be a very serious blow to my way of earning a living through raising potatoes. The insurance value of futures trading is just as important to me as the kind of insurance I take out on my buildings, my car, and my life.

STATEMENT OF RONALD MARTIN, HAMLIN, MAINE

My name is Ronald Martin of Hamlin, Maine. I am a potato grower and in partnership with my brother I grow 175 acres of potatoes. For the past several years we have started hedging part of our crop on the futures market and have found that it gives us very good protection against falling prices. In fact, for 2 years now the board prices have been ahead of the cash market just about all year and the hedged cars were about the only profitable ones that a lot of people shipped.

Besides protection against low prices we also like the board because it gives us excellent market information. When we are dealing with buyers who try to knock the price down we can always back up our stand for a better price by pointing to the higher price of the distant futures months. This gives us on the family farm the strength to stand up against some fairly powerful buying organizations.

The abolishment of futures trading would be a real handicap to our farming operation and would take away our price insurance and this market information that we need so badly when it comes to selling our potatoes.

STATEMENT OF GERALD LAPIERRE, HAMLIN, MAINE

My name is Gerald LaPierre of Hamlin, Maine, and I grow 75 acres of potatoes. For the past 5 years I have been using the New York Mercantile Exchange for hedging potatoes and, frankly speaking, I wouldn't wish to plant a crop of potatoes without the price insurance I have been enjoying these past few years through the futures market.

Holding potatoes for delivery in the spring, to my way of thinking, is an extremely serious gamble for any farmer to take. It was for this reason that I first decided that hedging on the board would be the intelligent way to protect myself during the long months when my potatoes are in storage and have no assured value. I have found from my experience that this works extremely well. For the past 2 years the board price has been ahead of the cash price virtually all year, and those of us who were fortunate enough to be hedging came out way ahead. If futures trading is eliminated the farmers of Maine will have lost a very valuable asset and I cannot see that we have anything to gain by its elimination.

STATEMENT OF ALBERT CYR, VAN BUREN, MAINE

My name is Albert Cyr of Van Buren, Maine. I am a potato grower and shipper. I grow about 125 carloads of potatoes a year and handle a total of 500 during the entire season. I use the futures trading facilities of the New York Mercantile Exchange in two ways. I use it as a hedge to protect my investment in my growing operation. It is also very important to me as a

guide for my family sales activities. Without the prices of the various futures months to go by a small operator such as myself would have difficulty from day to day establishing a price for his potatoes. I have been using the board for some years in both of these ways and have found it extremely reliable and especially helpful in informing me of any sudden change in price. These changes come about as the result of the opinions of a very large number of people in the potato business in all sections of the country and I know of no other way in which I could get such important information so quickly and on such a regular basis. If we lose futures trading in potatoes the average farmer will not just be losing his chance to insure himself against losses, but he will be losing his only reliable source of up-to-the-minute market information.

Mr. WATTS. I do not like to clutter up the record, but these people have been rather insistent, and there are statements from about 26 others who were not able to come to Washington at all because of the press of business. They are statements by Yale Adelman, of Mars Hill, Maine, a farmer, shipper, and fertilizer dealer; one from Robert Bare, of Lancaster, Pa., a farmer and shipper—

Mr. ROSENTHAL. Perhaps we can put them all in the record and save time by doing that, rather than reading off the list.

Mr. MATTHEWS. Thank you, Mr. Rosenthal, for that suggestion.

What we will do is have the record show the gentlemen have presented their statements, and we will include those statements in the record.

Mr. WATTS. Thank you very much.

(The statements follow:)

STATEMENT OF YALE ADELMAN, MARS HILL, MAINE

I am Yale Adelman, one of the partners of Adelman Bros., of Mars Hill, Maine, growers, shippers, and brokers of potatoes. We grow 275 acres and contract for about the same amount from family growers. I am also one of the principals of a farm merchandising business. It is my opinion that we could not do business without a futures market to hedge and protect profits, both on what we grow ourselves and what we contract for.

In this day and age no one would think of putting up an expensive building without covering it with insurance. We feel that the New York Mercantile Exchange is in the same class with the insurance companies. By hedging our crops on the New York Mercantile Exchange we have the opportunity of eliminating a major portion of the risk of loss on the many thousands of dollars we put into the ground each year.

We have used the futures market for many years and would be most hurt by its elimination. I cannot see how anybody could profit by having the growers deprived of this important tool for insuring their financial risk. For this reason we ask the House Subcommittee on Domestic Marketing to act unfavorably on the bill to eliminate potato futures trading.

STATEMENT OF E. ROBERT BARE, LANCASTER, PA.

I am E. Robert Bare of Milport Road, Lancaster, Pa. I wish to express very strong opposition to the bill aimed at eliminating potato futures trading on the New York Mercantile Exchange.

I am a potato farmer and a potato broker. In both of our operations it is very helpful and profitable to use the futures contracts of the exchange as a hedge when we are either buying or selling seed potatoes for spring delivery. When we are planning to buy we can prevent a loss in case of rising prices; when we have a crop in the ground or inventory we can protect ourselves against falling prices.

We have used the exchange for several years and plan on using it in the year ahead as insurance against a loss on the money and effort we put into the potato deal.

I hope that you will not eliminate this very important and progressive addition to our potato activities.

STATEMENT OF ANTHONY CARPENTER, WATER MILL, LONG ISLAND, N.Y.

My name is Anthony Carpenter. I am a farmer basically and I started out in 1930 with 80 acres of rented potato land on Long Island. Over the past 3 decades I have expanded my operation steadily. It now includes 1,250 acres in Florida, 180 in upstate New York, 800 in North Carolina, 600 in Virginia, and 280 in Delaware. In addition I have financed approximately 3,000 acres. The growers that I finance are unable to get production credit financing and need help each year on seed, fertilizer, and the out-of-pocket expenses to get their crops off the ground.

Futures trading is vitally important to me in both aspects of my operation. As a farmer, I need futures in order to hedge myself against losses due to a sudden drop in the price of potatoes. In my dealings with those whom I finance I need futures in order to protect my accounts receivable. If it were not for the futures board I would have to eliminate 60 to 70 percent of the financing arrangements I make with family farmers. Whether they are aware of it or not, these men would be without financial assistance and without the means of earning a living in the potato business if it were not for the futures trading board. I am sure that a number of these men have no conception of the fact that their existence as potato farmers depends on futures trading.

Many small potato growers in Maine do not understand futures trading because they do not sell or merchandise their own crops. This operation is carried out for them by shippers or cooperatives which are heavily reliant on futures trading. I am sure when you have heard the testimony of the responsible individuals in the shipping organizations and cooperatives, you will understand how important futures trading is to the Maine potato deal. If the small grower understood what futures trading is doing for him both in marketing and financing, he would be as thankful for its existence as I am. I can assure you that if Maine doesn't want futures trading in its potatoes any more, other areas would jump at the chance.

Before the advent of futures trading, many farmers had to sell their future crop to an individual buyer at the cost of production in order to get financing. I remember these unhappy days all too well as do my neighbors on Long Island. By selling to the board instead of an individual they can sell at a profit often far in advance of the season. This is a great boon to potato growers and if it is eliminated I am sure the growers would soon realize the seriousness of their mistake and be petitioning to get futures trading back.

In the past few years most of the growers in Maine who have come out with a profit have been those who understood and practiced hedging, because in every year the futures price has been on the whole far more advantageous than what the cash market ever turned out to offer. The futures board brings great stability to the potato deal. It greatly improves the grower's chance of getting good financing. It is an invaluable guidepost to the whole industry on prices. Those who practice futures trading seem to flourish and those who oppose it, in my estimation, do not thoroughly understand it and are ill advised.

STATEMENT OF JOSEPH H. COLEMAN, RIVERHEAD, N.Y.

My name is Joseph H. Coleman, of Riverhead, Long Island, N.Y. I am manager of I. M. Young & Co., packers and shippers of Long Island potatoes. We operate packing sheds in 6 areas of Long Island and move about 5,000 carlots or carlot equivalents a year.

I wish to express my very strong desire that futures trading not be eliminated. It is an important part of our operation and of the operation of many of the finest farmers in the potato business.

We use the futures board, for example, to hedge our seed potato requirements. In this way if the price of seed advances sharply before we have made our purchases we are protected against any loss. Used in the proper manner as a hedge, potato futures trading is like the insurance that a farmer has on his barn. Without it he is running a great risk of unnecessary loss.

When I sell on the board at a price that satisfies me as a hedge, I am guaranteed an income in return for the very large amount of work and the ever-increasing investments necessary for raising a crop of potatoes. I cannot see where

the elimination of potato futures trading would be to anyone's advantage and its loss would be a serious disadvantage to those who have learned how to take advantage of the protection futures trading offers our industry.

STATEMENT OF JOSEPH COLEMAN, FLORIDA, N.Y.

I am sorry that I cannot be present at these hearings in person, but I would like to give you a brief rundown on how things have gone in our onion-raising area here since the elimination of onion futures trading.

Let me start out by saying that I was a dedicated opponent of onion futures trading and a proponent of the bill to eliminate such trading. I should like to say that I am very sorry indeed for my attitude at that time. The result has been to make life increasingly difficult for the family sized farm and to give chainstores and other mass buyers a better chance than ever to buy at a great advantage over the small grower. We need speculators, I can now see, in order to get prices up. The public always buys and this helps take the risk from the farmers' shoulders.

Operating with better hindsight than foresight, I can now say that what is needed primarily is education so that farmers will know how to use the futures market. I believe that Cornell and the other agricultural colleges should teach farmers, bankers, and all other factors in our agriculture how to hedge. The Government tells people how to use chemicals, fertilizer, insecticides, and other new products and services. I think that futures should be included among those things taught to the farmer.

STATEMENT OF JULES DeLORENZO, HASTINGS, FLA.

I am Jules DeLorenzo of Hastings, Fla. We are growers and shippers of potatoes. We farm 1,000 acres in our growing operation and as shippers handle about 2,500 cars a year from Florida, North Carolina, and Virginia. We also raise seed potatoes in New York State.

The existence of futures trading is of great importance to us both as growers and shippers. In the first place futures gives an actual market price to work by so that we have a good idea of present and future values in our sales operation. Thus the existence of the futures board gives a good deal of stability and solidarity to our activities and gives us the knowledge necessary for creating a practical market program for our potatoes.

One way in which we use the board is for hedging our seed potato requirements. We use 25,000 bags of seed. Last year, for example, we bought January potatoes on the futures board as a hedge against a possible rise in the price of seed potatoes. Thus if seed potatoes had gone up in price sharply, our board hedge would have protected us.

In another phase of our activities we make sales contracts to shippers on a great many potatoes and with a variety of types of contracts. As we make these contracts we place hedges on the board in order to protect ourselves against a price change that would hurt us at delivery time.

If the futures board is eliminated, it will be a serious blow to our entire operation as growers and shippers. I do not see how people in Maine can afford to grow potatoes without the board as a hedge and if it is eliminated, I can foresee a slow death of the industry there. It is my fervent desire that we not be deprived of the economic advantages we derive from futures trading.

STATEMENT OF LAWRENCE DEY, PRINCETON, N.J.

I am Lawrence Dey of Princeton Junction, N.J. I have an interest in 110 acres of potato land. It is my belief that futures trading is of definite benefit to New Jersey potato men who use them as hedges. In New Jersey potatoes are grown on small, family-type farms. We are not big operators and we need some sort of protection such as futures trading offers us, as well as the price information available to us through the board price when we come to sell our potatoes. In New Jersey we are acquainted with egg futures trading and perhaps for that reason we accept and understand futures trading fairly readily.

In my opinion education about how to trade futures is a real need. It is lack of understanding and mistrust of something not understood, I think, that has generated much of the opposition to futures trading in potatoes. Growers must understand that a hedge must be placed on potatoes either while they are in the ground or when they are harvested, if possible. And in the past number of years this has been possible, at a profit. Then the hedge must be lifted as the potatoes are shipped, thus completing the operation and protecting profits.

STATEMENT OF FELIX ENDICO, MOUNT VERNON, N.Y.

I am Felix Endico of United Prepared Products Corp. United is a major operator of prepared potatoes and potato products and we use over 500 cars of potatoes a year in our operation. It is our practice to hedge some or all of these cars on the board of the New York Mercantile Exchange each year in order to protect our inventory against falling prices. We also grow 100 acres of potatoes in Madawaska, Maine, through the Bestgrown Potato Corp. We use futures trading in our growing operation in a typical farmer's hedge operation against falling prices. We have storage facilities for 10,000 barrels on our farm so that we can store our own potatoes and use them for our processing activities when prices are high. When prices are low we might well buy in potatoes and fill up our storage again. As you can see, with our growing operation storage capacity and the advantages of futures trading, we have a highly flexible operation and can continue operating with some expectation of profit whether prices are rising or falling. If, however, potato futures were eliminated, we would be in a much more vulnerable position and would be left wide open to the dangers of price fluctuations both as growers and processors. I cannot understand why we should be hurt in this way when I cannot see that eliminating futures trading would actually help anybody or solve any problems whatsoever.

STATEMENT OF MAX ETSCHOVITZ, HOULTON, MAINE

I am Max Etschovitz, Houlton Motors, Houlton, Maine. In 1958 I testified before this subcommittee that I approved of futures trading in potatoes and that I made contracts with growers for machinery on the basis of futures contracts and that the growers benefited greatly by this operation. I still believe in futures trading as much as ever but I do very little of this sort of business at present with potato men because they operate all wrong financially and do not handle their business activities properly. They wait until they are badly off enough to get a Farmers Home Association loan, then they take the cash and go out and buy things, but the number who can do this of course is limited.

Farmers should hedge and ship and get their potatoes out of the county and off to market—and the board is a wonderful financial assistance to those who understand the economy of our county and know how to make a profit. But most farmers hold their potatoes much too long, fail to hedge them properly on the board, and then go out and buy more potatoes or buy futures long, which is the opposite of a hedge. Then if the market goes against them they cry and say the board should be done away with. The truth is that they should hedge and ship and be willing to take reasonable profits each year and build themselves up little by little, but you can't stop them from holding their potatoes and gambling on the cash market.

This year is a perfect example. The growers who didn't hedge at high prices all fall and winter, when they could get \$2.85 to \$3 are sitting back now holding far too many potatoes far too late in the year and this creates disrupted marketing and a spring surplus that depresses the entire industry and the economy of the county. Eliminating futures trading will simply remove from the good farmer a priceless economic help, and it will not help the other farmers. Nothing will help them but learning that marketing and merchandising are just as important as growing good potatoes, and they won't prosper until they learn to hedge and to market properly and to merchandise their crops and not sit on them forever.

STATEMENT OF NORMAN GUY, FORT KENT, MAINE

My name is Norman Guy. I have been a grower and shipper of potatoes for the past 15 years and for the past 2 years I have been general manager of the Fort Kent Seed Growers' Association, representing 50 growers who grow 5,000 acres of seed and table stock potatoes. Our membership ship 700 to 800 carlots of potatoes a year. I am of the opinion that futures trading as a hedge against price loss is most valuable to Maine potato growers. It is insurance against losses. I believe that farmers should use the board strictly as a hedge and not as a speculating device. I am happy to see changes being made constantly to improve the contract from the grower's and shipper's point of view. Over the past 5 years a number of important revisions have been made.

If the New York Mercantile Exchange is prohibited from conducting futures trading, farmers will be forced to cut acreage and in many cases they will go out of business due to lack of credit.

This statement reflects my personal opinion and is in no way the opinion of the Fort Kent Seed Growers' Association.

STATEMENT OF MAX MELZER, I. MELZER & Co., PHILADELPHIA, PA.

We are wholesale carlot distributors of potatoes and handle 6,000 cars a year for distribution to chains, processors, and other buyers in most States of the United States. I wish to apologize for being unable to attend these important hearings in person but, because these are the high holy days for persons of my faith, I cannot attend in person. However I do not want these hearings to go by without registering my opinion on futures trading because I feel very strongly about it.

We buy and carry extremely large inventories of potatoes and because of the existence of potato futures trading we are able to do this without unwarranted risk to ourselves. Also, because we can hedge, we are able to deal with the grower on the basis of the board price which gives us an excellent working arrangement advantageous to both parties.

Without the existence of potato futures trading, we would be deprived of two important advantages. First, we could no longer hedge our inventory and thus we would have to cut inventories drastically; Secondly, without a known price we would be forced back to the old-fashioned method of buying from hand to mouth as we needed potatoes and with no agreed price basis, we would be forever bickering with suppliers over prices with the feeling on both sides that the basis of discussion was unsatisfactory. As you can see this would seriously upset our purchasing program and make it very difficult for us to work with our customers on a long-term basis. At the present time we can quote them prices well into the future and then buy futures contracts to protect our position. If this financial advantage is eliminated through passage of H.R. 904, we will no longer be able to make these long-term commitments and this will be disruptive both to us and other processors and chainstores whom we supply. In my opinion the net result will be lower prices for the growers, higher prices to consumers, and certainly a much more difficult and hazardous operation for those of us who try to channel supplies on a logical and equitable basis.

STATEMENT OF GEORGE METZLER, EAST PETERSBURG, PA.

I am George Metzler of East Petersburg, Pa. I am a potato dealer and broker and handle about 1,500 cars a year up and down the east coast from Maine to Florida. To me futures trading is an accepted and highly important phase of my potato business.

One of my important functions is obtaining supplies of chipping potatoes, and because of the existence of potato futures I can make a price with the chipper based on the present board price. Then I go ahead and buy enough cars to protect myself, find the potatoes, deliver them to the chipper, and simultaneously lift my hedge. The chipper gets the supplies he wants, I make a reasonable profit, and both of us are protected against unwarranted loss through a sudden price change.

I believe futures trading came into existence because of the increasing power of buyers and the fact that supplies in large part still originate at small family farms where the grower is unable to collect enough supplies enough of the time

to supply the wants of the new mass purchasing power. Because of futures trading, the grower knows what his potatoes are worth, he can hedge them if he likes the price, and he knows he won't be beaten down when he sells them because we buyers insure our profits on the board and make our markup no matter what the price to the grower. In the end we all gain including the chipper and, last but not least, the public who get lower prices because we are all relieved of the sad duty of jacking up prices to protect ourselves from price-change losses. Futures do it for us. Without futures our business would be much more speculative, profits would often be lower, and consumer prices would undoubtedly have to go up some to let us protect ourselves.

STATEMENT OF IVAN MILLER, CORY, PA.

I am Ivan Miller of Cory, Pa. I am a potato grower and we grow 500 acres of potatoes. I am also the treasurer of the Pennsylvania Cooperative Farmers Association but I am here as an individual testifying as to my personal opinion and not representing my organization.

We ship approximately 200,000 bushels a year from our farm and for the past 4 or 5 years we have been doing some hedging principally during the winter months. I have found the hedging value of futures trading to offer distinct advantages to a potato farmer in protecting his profits. I must say that I have been increasingly enthusiastic about futures trading as the trading rules and the contract have been improved and updated over the years to meet the needs of the industry better and better. The new point of origin delivery rule that went into effect on April 1, and which will be effective on all contracts after the first of the year, is a highly revolutionary and progressive step taken by the exchange and one which is not yet fully appreciated in any way by the potato industry. I think when the industry finally comes to understand what this contract means, the exchange will find it has many new friends in the potato industry throughout the country.

STATEMENT OF JERE G. MOYNIHAN, MANAGER, SUMMERS FERTILIZER Co., INC.,
PRESQUE ISLE, MAINE

My name is Jere G. Moynihan, Maine manager of Summers Fertilizer Co., Inc., Presque Isle, Maine. Our main office is in the Totman Building, Baltimore, Md. I wish to support potato futures trading strongly and to oppose any legislation designed to limit or abolish it.

We handle about 6,000 acres through the New York Mercantile Exchange in Maine, and this year, for example, we had a total of 500 cars contracted, 400 hedged on the futures board and 100 placed with a single customer. We contract with growers at \$2.50 a barrel for U.S. No. 1's loaded. We supply bags. We can give these terms because for 5 years there has always been a time when we could hedge potatoes on the futures board at that price. If there were no exchange I don't know what we would do, but we'd have to drop our contract price as low as \$1.50 to start with and have some sort of pool basis and settle up with the grower at the end of the year if we made money and give him some more money, hurting the 130 growers we deal with.

To show you this problem from another angle, a farmer now pledges 20 percent of his potatoes to get the fertilizer he needs. Without the board and the ease of paying \$2.50 a barrel, I estimate a grower would have to pledge 40 percent of his crop to obtain fertilizer, because of the lower price range at which we would be forced to operate. And it could get worse for him. Oddly enough some of our customers are for getting rid of futures trading but they are delighted to get our \$2.50 contract which is only available to them because of the futures board and the fact that we can hedge on it on their behalf. This year we traded our 400 cars by March 1 at good prices and cleaned up our deal in good shape. On the cash market these men would only have gotten \$1.65 or \$1.75 instead of the \$2.50 we could pay them because of our hedges.

One great error of futures trading opponents is to consider the futures board a merchandising mechanism. It is a financial mechanism, streamlined and adapted to the modern way of doing business. To eliminate it would be to go back to the horse-and-buggy days of potato financing. We merchandise our potatoes ourselves into the cash market and lift our hedges as the cars go out.

The Farm Home Administration can't help farmers of over 65 acres, who are the efficient potato farmers. Production Credit Administration in recent years

has recommended that farmers contract with us because they get more for their potatoes due to our hedging activities and they can keep their cash free for labor.

We work with good farmers who can prove to us they are able to carry on through the summer and fall and harvest their crop. They need about \$200 an acre and they have split financing with us for fertilizer and the banks, FHA, and PCA for the rest. Farmers who are in a higher financial position can afford to do their own hedging and do so, buying their supplies and paying for their labor.

During the war, Maine farmers got \$3 for their potatoes no matter what they shipped, and they lowered their standards and dropped their merchandising efforts and promotional programs. As a result they lost in every way, especially in customer interest and loyalty, and we have been paying heavily ever since for those easy years. The years of ceiling prices led directly to the present predicament of the Maine potato industry. People in Aroostook County are good, efficient potato growers but poor merchandisers. They have lost their markets, and they are blaming the handlers and the mercantile exchange and every possible private and public program designed to offer assistance. The real problem is one of merchandising, and getting rid of futures trading would be cutting off their noses to spite their faces—it would hurt them terribly and do no possible good.

STATEMENT OF THOMAS C. NORMAN, SR., NORMAN FARMS, SARANAC LAKE, N.Y.

I am Thomas C. Norman, Sr., Norman Farms, Saranac Lake, N.Y. I have a 2,000-acre farm of which 90 acres are devoted to raising potatoes. In addition I am town supervisor of Saint Armand. We ship about 35 cars of potatoes a year, and we hedge them on the futures boards of the New York Mercantile Exchange when we find the price attractive. I feel that this ability to hedge and insure profits is the way for the small farmer to stay in business successfully.

In addition to hedging, potato futures offer another invaluable financial asset. Through watching futures prices you can get a pretty good idea of the supply and demand situation. They act as a barometer of values and the various contracts tell you what a great many people think potatoes will be worth next month, the month after, and as much as a year from now. Even if the prices don't tempt us to sell on the board as a hedge, they do give us a reliable feeling about what we as farmers should do with our potatoes. This is something of great importance to potato farmers and we would be hurt by its loss.

STATEMENT OF GEORGE OSGOOD, HIGHTSTOWN, N.J.

I am George Osgood of Hightstown, N.J., and a native of Fort Fairfield, Maine. I am with Bennett Mount Potato Co., Inc. We handle about 2,000 cars of potatoes a year including 400 to 500 cars a year out of Maine, both seed and table stock. We also handle potatoes out of New Jersey, Virginia, Delaware, Long Island, Connecticut, and Massachusetts. In our particular operation we use the hedging facilities of the futures contracts of the New York Mercantile Exchange primarily for hedging seed sales. We feel at the time we want to buy seed potatoes they are usually at a different price level from that at which we will sell them. When we have these cars hedged on the board, we know that we can operate without danger of a loss.

If farmers and shippers learn to use futures trading as it should be used, it will be of great advantage to them for price protection. In addition the prices of the various contracts have proven to be a very reliable indication of what we can expect to have take place in the coming months.

I think the entire industry, and Maine especially, would be very much hurt by the loss of hedging facilities and the loss of the important marketing information available through futures. I sincerely hope that H.R. 904 will not be reported out favorably.

STATEMENT OF CLARENCE PERKINS, McBRIDES, MICH.

Mr. Chairman, I am Clarence Perkins, McBrides, Mich. With my three sons I have a family-operated potato farm. We grow about 250 acres. I want to say that potato futures trading for us in Michigan is crop insurance. We sell on the

exchange when the price is favorable and let speculators hold the other end of the hedge, taking the financial worry from our shoulders. I hope this financial protection will not be taken away from us. To lose futures would be to walk the potato industry backward for 20 years.

While farmers have taken generations to accept the steel plow, commercial fertilizer, insecticides, and new varieties of potatoes, they have yet to accept new approaches to marketing and financing, and to develop their skills in this area. One of our possible but little-used skills is potato futures trading. If such trading is of use and benefit in cowhides, eggs, frozen turkeys, cotton, grains, and other things, why should the poor potato farmer be deprived of the assistance futures can provide for his industry?

There used to be a kind of futures trading in potatoes long before the existence of the New York Mercantile Exchange's potato futures boards. And if trading should cease in New York, it would not mean the end of potato futures trading. It would simply mean a return to the disorganized sort of futures trading done without a published price, with delivery conditions that work against the grower, and where secrecy is the word. The potato buyers today are far bigger and more powerful than they were before the war and the family farmer has no way of dealing with such vast organizations unless he has something like the board price to hold up to these powers as an alternative. Growers are scattered widely throughout the whole country and would lose their best means of immediate defense against a buyer's price-depressing tactics.

The careful farmer watches the board price and when it reaches an attractive, profitable level he should sell. This is his protection and often his best way to realize a profit for the year in an industry that 9 years out of 10 or even 10 years out of 10 overproduces. The board should not be condemned if its prices at some period of the year are low. This is a reflection of the overproduction on the farms.

In my estimation the futures board has brought some much-needed stability and reason into the potato industry, and incidentally given the Maine growers a lot of free advertising that they seem to underrate.

STATEMENT OF JULES SALZBANK, POTATO SERVICES, INC., PRESQUE ISLE, MAINE

I am Jules Salzbank, of Potato Service, Inc., Presque Isle, Maine. We are probably the largest processors of frozen french-fried potatoes in Maine. We use the potato futures board as a basis of our contracts with the buyers and growers who supply us with potatoes. Otherwise, if prices ran away, we would have no source of supply at reasonable prices. With the futures price to operate from as a base we can afford to make deals ahead through the season and hedge to prevent inventory losses and loss due to rising cost of supplies.

It is important for us to be able to put out prices early in the season and extend them out over the entire marketing period. This gives us a chance to get and hold customers for ourselves and thus for the many growers who supply us. With the board we can put out firm prices to customers and begin selling and hedging, assuring ourselves of steady supplies with some profit margin.

Without the advantages inherent in a futures trading operation such as that supplied by the New York Mercantile Exchange, we would have great difficulty operating at all in Aroostook County. We would go at once to a hand-to-mouth buying policy and we would be greatly hampered in our sales and leave ourselves exposed either to turning down sales or taking the risk of selling at a loss when delivery time arrived.

I am sure you will find that, with the advent of processing, futures trading takes on vastly greater importance in the Maine potato industry. As I see the potato industry from the grower's viewpoint, futures trading as a hedge against falling prices is an invaluable aid to him in insuring him against loss. Futures are equally important to me to help protect me against rising prices and the losses they would mean for me. I hope our industry will not be deprived of this highly flexible, equitable, and beneficial instrument of self-preservation.

STATEMENT OF JACOB SHUR, ISLAND FALLS, MAINE

My name is Jacob Shur, I am a farmer and grow or contract 500 acres of potatoes in Island Falls, Maine, and handle 150 to 200 cars of potatoes a year.

I feel very strongly that futures trading should not be eliminated. If growers and shippers of potatoes in the State of Maine are to stay in business, they must hedge their investment in their crop and settle for a reasonable profit each year. Over the past several years there has always been a time when you could hedge at a profit because the futures prices were, for long periods, well above the available cash price, if there was a cash price at that time of the year. When there is an opportunity to hedge at prices insuring a profit, the hedge should be placed then and there to help guarantee the farmer's profit and continued ability to stay in the potato business. This is only logical and good business sense.

Unfortunately the potato growers in Maine are not businessmen enough to be willing to settle for a reasonable annual profit. They seem to operate on a boom-and-bust theory, hoping each year for a killing but more often waiting too long and killing their market instead. They seem to insist on gambling with their potatoes instead of being willing to take reasonable profits each year when the board price rose to profitable levels, because the opportunity to make a profit through hedging has been there every year.

I know that hedging pays because I practice it on a regular basis. This year, for example, all of us who hedged have been very happy. We sold for prices up to \$3 a hundredweight, while cash market prices have never anywhere nearly approached these levels. The average farmer after all these years is not willing to settle for a fair price and a profit when it is there.

The banks help by loaning on a crop if it is hedged. I know because I am a director of the Katahdin Bank. Many banks will finance the hedge completely when they make the loan. The hedge assures the bank that it will get its money back, allowing the bank to be much more liberal with the farmer. For this reason the Farmers Home Association encourages growers to hedge to insure profits.

Without futures trading the banks would back away from financing potato men. Small growers especially would be lost when it came time to look for financing, the very small growers who seem to want futures eliminated. If our acreage should drop from 150,000 to 120,000 acres or less for lack of financing, other areas will pick up the production difference at once. We will not get a better price, but our markets will shrink even more as others take them over. Aroostook County will suffer a total income loss that will affect the lives not just of farmers but all those who supply goods and services to farmers and to their families.

STATEMENT OF DAVID H. SLINGER, RANDOLPH, WIS.

Gentlemen, it occurs to me that you might be interested in how onion growers are doing without futures trading. Here are my observations:

(1) Growers who used to speculate in onions are now hedging by growing at least one other crop despite the fact that this is uneconomical and requires two lines of machinery and two kinds of know-how. They have to do this because they do not have a futures board as a hedge.

(2) Onion prices, over the past 4 years, have been a feast-or-famine proposition. Growers are unable to defer income to the following year without great risk.

(3) It is now much more difficult to finance an onion-growing deal. Onions in the field or in storage have absolutely no measurable value on which to base a loan. It is now becoming a deal only for growers who have the blue chips. The smaller grower is finding it difficult or impossible to stay with onions.

(4) There has been no beneficial effect on the price, and growers have dumped onions in each of the 4 years in which we have operated without futures trading.

STATEMENT OF FRANK H. TOTMAN, HOULTON, MAINE

I am Frank H. Totman, of Houlton, Maine. I am president of A. E. Mooers Co., Houlton, growers, buyers, and shippers of potatoes, and I also have my own growing operation of 300 acres. My private operation generates about 200 cars

and my company about 750 a year, making me responsible for handling about 1,000 cars a year, or 2 to 3 percent of the Maine potato crop.

As a grower and shipper I feel the mercantile exchange is a vehicle by which an individual can protect himself through a hedging operation on his out-of-pocket costs. I compare it to insurance. No farmer today could be properly financed if he did not have adequate insurance on his buildings and equipment. Why not take one logical further step and insure invested capital through a hedging operation? The New York Mercantile Exchange offers this invaluable opportunity.

Government lending agencies—Production Credit Administration and Farm Home Administration—allow farmers to protect themselves by hedging operations and they give waivers on bona fide hedges. These important Government institutions recognize the stabilizing effect of futures trading. Supplies of spray materials, machinery, and other farm supplies finance their deals with growers through hedging, a mechanism that greatly benefits the farmer although in many cases he does not know about how he received the help from his dealer or supplier.

I am a member of the New York Mercantile Exchange, and was the first man from Maine to serve on the board of the exchange. I was a board member for 5 years, from 1957 to 1962, and during my tenure I kept in close touch with the Maine potato committee of the exchange and with Congressman McIntire. I am proud of the fact that the potato futures contract improved steadily during my tenure of office, and, though I am now retired, I find the changes continuing under my successor from Maine on the board, Mr. Baxter. I brought down numerous suggested changes from Maine to board meetings, and we in Maine had a great success in getting our changes adopted.

I hate to try to foresee the results of the loss of futures trading, which is of such wide value in our industry. But if such should become the case, financing will be at a premium in Aroostook County and unavailable to many good farmers. Acreage will be severely cut, which, in the end, will be picked up by our competitors in other areas, and Maine will be gradually forced out of many present markets. Growers do not understand the implications of their act, if they oppose futures trading, and do not understand how it will impair their credit with financing institutions and seed and fertilizer suppliers. Today seed and fertilizer are obtained by a direct futures hedge or by a contract with a dealer that is based on the board. I foresee grave difficulties and losses for our State, and I hope they are prevented by a failure of this subcommittee to act favorably on legislation intended to abolish futures trading in Irish potatoes.

STATEMENT OF ERNEST F. TARK, FREEHOLD, N.J.

My name is Ernest F. Tark. I operate as Battleground Farms in Freehold, N.J. I have been in the potato business since 1934. Growing and shipping potatoes is my principal business today. At times I have also been an exporter of potatoes. I am here to express the opinion that futures trading is of benefit to those of us who grow potatoes. I do not believe that the futures market controls the Maine potato deal as would be indicated by the remarks of some opponents of the futures market. The backbone of the futures market is supply and demand just as supply and demand is the basis of the cash market. It is my belief that the market for fresh potatoes is shrinking rapidly, and will continue to do so. Consumers increasingly seem to prefer to buy prepared or processed potatoes and they do so for many reasons. The primary reason is that there is less work and less waste. The retail outlets of all kinds do not like to handle fresh potatoes because of the waste. They prefer to handle packaged goods. Fresh potatoes decay and the manner in which they are handled today makes for a short life on display and in a week they have lost their appeal. As long as the fresh market plays second fiddle to the processed market, there seems to be little hope that we will ever see the kind of potato market of the kind we had years back. In other words, the marketing of fresh potatoes as we have known it seems to be a lost cause because of changes in the marketing picture and not because of the futures market. A few years back there were thousands and thousands of buyers. Now each year there are fewer and fewer of them. The buying is getting to be highly concentrated today and the purchasing power is being concentrated in fewer hands. This makes for a buyer's market which in turn hurts the family farmer. There is no way for him to deal with this huge new purchasing power except with the aid of some sort of large financial institution such as the mercantile

exchange. In my opinion, the Maine potatogrower can benefit by using the futures market to hedge his crop or part of it and make a profit by doing so. All he needs to do is sell when the market shows a profit above his cost of production. In the past few years I believe most of the Maine farmers who have shown a profit have done so through the help of the futures market.

STATEMENT OF LIONEL THERIAULT, CARIBOU, MAINE

I am Lionel Theriault, of Caribou, Maine, I have been in the potato business for 20 years. I am a grower, shipper, and broker. I grow 150 acres of potatoes, finance 2,000 acres, and ship 1,200 to 1,500 carlot equivalents a year. I sell fertilizer and spray materials to growers on a contract basis, using the futures price as a way of arriving at a contract price by hedging on the New York Mercantile Exchange. I can, in this way, give growers more money than on a contract for I would not hedge the accounts receivable. In actual practice, I buy back my hedge contracts as I sell the actual potatoes on the cash market and seldom deliver on the board. Last spring, for instance, I sold many cars of potatoes for myself and for other farmer accounts for as much as \$200 a car over the spot market for delivery on the New York Mercantile Exchange 2 weeks later. Without the exchange, we would not have the opportunity to sell so advantageously. The Aroostook Trust Co. and the First National Bank of Houlton work with me helping me finance the sale of potatoes as a hedge on the New York Mercantile Exchange. One of the great advantages of futures trading is that it makes the market price known to the farmer and public. If speculators are willing to pay a price at which the grower can sell for a profit, this is good business.

Another advantage, as far as I am concerned, is the fact that the New York Mercantile Exchange guarantees that I will receive my money immediately after the contract is liquidated. This assurance is a great comfort to anyone who is in the business of selling potatoes.

STATEMENT OF WINFIELD TUCKER, SLOCUM, R.I.

I am Winfield Tucker, of Slocum, R.I. I grow 850 acres of potatoes and handle 2,000 cars in all, the balance as a shipper. In my opinion potatoes futures trading is of utmost importance to Rhode Island farmers to protect us against the ups and downs of day-to-day cash prices. If it were not for futures trading I would find it impossible to handle my responsibilities as a grower and shipper and my operations would be seriously threatened because I would be left at the mercy of the vagaries of the cash market.

Gentlemen, I do not believe in boom and bust. I have built up this business on my own through careful years of protecting myself against loss and taking out profit insurance in the form of futures hedges on the New York Mercantile Exchange. I use hedges for buying seed, I contract with processors on the basis of the board price, and I hedge those potatoes I carry as inventory. It is my sincere hope that these safeguards and profit potentials in futures trading that have helped me and my neighbors build up our business during the past decade will not be taken from us.

STATEMENT OF DONALD C. UMPHREY, PRESIDENT, TATERSTATE POTATO CO.,
WASHBURN, MAINE

My name is Donald C. Umphrey and I am president of Taterstate Potato Co. My residence is at Washburn, Maine.

My place of business is Presque Isle, Maine.

I was born in Washburn, Maine, and have been in the potato business since 1939. I come from a potato-growing family. My father, Harry E. Umphrey is presently growing potatoes, as well as processing frozen potato products. He has been associated with the potato industry since 1912. My grandfather, George R. Umphrey, grew potatoes in Maine for over 50 years on the same farm, which was originally taken up by his father, my great-grandfather, William Umphrey.

I present this information only as evidence to convince the gentlemen on this committee of my sincere desire for the well-being of the potato industry in Maine. In other words, Maine potatoes are in my blood.

My main efforts are spent in merchandising and marketing Maine potatoes for our own farms, along with many other Maine potato growers. We ship approximately 3,500 carloads of Maine seed and table stock potatoes each year.

I am also associated with my dad and two brothers-in-law in several other potato organizations, which include potato growing, potato starch manufacture and sales, and processing of frozen potato products.

In the industry field, I am a past president of the Maine Potato Council, and was its treasurer for many years. I was also on the Maine Potato Commission, serving as its chairman. I am past president and treasurer of the Maine Potato Shippers' Heater Service. I am past director of the Potato Division of the United Fresh Fruit and Vegetable Association. Currently, I am serving on the executive committee of the Northern National Bank of Presque Isle, Maine. These facts are again presented to assure you of my overall interest in Aroostook County, Maine.

Being as brief as possible, and very frank, it is my considered opinion that any law eliminating potato futures trading would be a great disaster to potato growers of Maine, particularly the small grower who is not in a position to keep in touch with current daily markets. He does not have the bargaining power, perhaps of the larger potato grower.

Potato futures trading cannot be eliminated even though this bill is passed. Potato futures trading between individuals was being carried on long before the establishment of the New York Mercantile Exchange. We still trade potato futures direct without the use of the mercantile exchange, particularly seed potatoes. It is not as safe for the grower because in many instances, when delivery time comes, and the market is against the buyer, the grower sometimes has difficulty in making delivery. To be more specific, if the buyer has a loss, he may become very technical with excuses, for example, the car was shipped a day too early; or the car was shipped a day too late; or he used the wrong bags; or even simply, "I have a big loss, can't you help me out?" With the medium of the exchange, the buyer is never known to the seller. If the contract is completed the money becomes available immediately to the seller, either through liquidation or actual delivery.

There is no mystery about the New York Mercantile Exchange as to their place in the market. They are nothing but a pure and simple bookkeeping organization, keeping the records of two people, one the buyer and one the seller. Meanwhile, each party is fully protected by cash being held in a bank under U.S. Government (Commodity Exchange Authority) supervision. What better business arrangement could possibly be made for a grower who wants to insure his risk by selling at least part of his crop, possibly even before planting time. In these days, with extremely high costs, a grower no longer can plant a crop and then hope that prices will go high enough due to a freeze in Florida, or California, that he may make a profit. The inventories of processed potatoes, a new factor in this business, now takes these highs out of the market due to weather difficulties. It seems imperative to me that a grower make some hedge when he is making his planting plans, otherwise, he can be wiped out in 1 year of low prices.

The facilities of the New York Mercantile Exchange are one of the important facets of making this possible. They are able to pick up new speculative customers outside the potato field, who are willing to risk their money. This is a great advantage to us since there just is not the outlet in the pure potato field for enough volume so that many growers could hedge.

We sincerely feel, in our organization, that the New York Mercantile Exchange is a much needed merchandising outlet in this ever-changing potato picture. It has been wonderfully helpful in aiding financing for growers in Maine. For example, only this year, my own company paid a grower \$3.50 a barrel for 35 carloads of seed potatoes. This was possible by the use of the New York Mercantile Exchange. We also marketed 209 cars for a group of growers paying them on the basis of \$2.65 a barrel up to \$3.06 a barrel over any futures we could find in the actual potato trade. These were sold on the exchange and when shipping time came, were liquidated and potatoes channeled into regular marketing outlets.

In our opinion, anyone in the industry who is against futures trading must be prejudiced, that is, have a preconceived judgment or opinion without sufficient knowledge rather than pure business perception, and therefore, I recommend most heartily that the bill to eliminate potato futures trading be defeated.

STATEMENT OF JON VAILLANCOURT, FORT KENT, MAINE

My name is Jon Vaillancourt of Fort Kent, Maine. I am the general manager of the Esco Potato Co., Inc., in Fort Kent. We are growers, shippers, dealers, and brokers in potatoes. I have been associated with Esco Potato Co. for 19 years. At the present time we are growing about 200 acres of table stock and seed potatoes and shipping approximately 100 cars of potatoes. We hedge our potatoes on the New York Mercantile Exchange as part of good farm practice to protect ourselves against losses if the market price should drop. We also give financial aid to growers who are interested in selling potatoes as a hedge against falling prices since this is insurance for the grower.

One of the advantages of futures trading is that when the price is low there is no necessity for using the market. At those times it is useful primarily as an indicator of conditions, but when futures prices are good and they have been much better than cash prices, for example, most of the past 2 years, the futures market gives the grower an excellent chance at making a profit.

If futures trading is eliminated growers will certainly lose an important instrument whereby they can hedge to protect their investment.

STATEMENT OF REMI WESNOFSKE, BRIDGEHAMPTON, N.Y.

I am Remi Wesnofske, of Bridgehampton, Long Island, N.Y. I have been growing potatoes since 1928 and have an experience of growing and selling potatoes that takes in the entire depression era, the wartime period, and the postwar marketing era. I presently farm 840 acres on Long Island and 300 acres in Crescent City, Fla., 30 miles from Hastings.

I wish to take a very strong stand in opposition to H.R. 904, the bill to eliminate potato futures trading. I have used the futures market steadily since 1952 and have found it an increasingly important part of the business management side of my potato-growing efforts. As you gentlemen are undoubtedly aware, the potato business requires a very great amount of good business management. In addition to good farm management, our financing, merchandising, selling, and other financial operations should be given a good deal more thought, I believe, than they are. If during the past 20 years we had enjoyed a program in these aspects of our business equal in scope to those affecting the growing side of the potato business, we would be far more favorably situated today than we are.

To my way of thinking, futures trading is one of the very few highly effective and valuable financial aids offered to our industry in this postwar phase of our development. We are constantly being offered better pesticides, better fertilizers, sprout inhibitors and every possible aid to growing more and more potatoes and to being able to ship them over a longer period of the year. In addition, the number of buyers is rapidly shrinking and the purchasing power of those who remain becomes ever augmented. The farmer has no way of accumulating supplies and marketing power that make him equal in strength and bargaining force with these big buying interests. Futures trading not only gives us the information we need for better marketing, but it allows us to hedge for protection our very sizable annual investment in the potato growing business.

I cannot see how anyone will benefit by the elimination of potato futures trading and I wish to assure this distinguished committee that many of us who put our lives into trying to do a good job of growing and marketing potatoes will be hurt very badly indeed if we lose the futures trading contracts now available on the New York Mercantile Exchange.

Mr. MATTHEWS. We would be glad to have them stand up if they were present, but we understand that they could not come.

Mr. WATTS. They are not here.

Mr. MATTHEWS. There is one gentleman back in the room. Give us your name.

Mr. LEVASSEUR. My name is Renis H. LeVasseur, of Fort Fairfield, Maine.

Mr. MATTHEWS. Let the record show that he is present and his statement will be inserted into the record along with the others as previously mentioned.

Mr. WATTS. I shall now present my statement.

My name is Llewellyn Watts, Jr., and I am chairman of the board of governors of the New York Mercantile Exchange, elected by the organization's 401 members from among their number. The New York Mercantile Exchange, a commodity exchange, is a nonprofit membership corporation chartered in 1872 by New York State and under regulatory supervision by the Commodity Exchange Authority.

My own business is wholesale produce specializing in dairy and poultry products. My firm is a family enterprise which has persisted through five generations, and in connection with this business I have been a member of the New York Mercantile Exchange for over 40 years. In the distribution of farm products, our firm has found it imperative to use the various futures markets of the Nation to minimize the risks inherent in the efficient conduct of the business of getting goods to customers. I am firmly and sincerely convinced that this bill, if enacted, will seriously and adversely affect the potato industry and do especial harm to the small and moderate sized family farm.

First, the value of futures trading on a commodity exchange:

Mr. Justice Holmes, in an opinion on futures trading, observed that—

people will endeavor to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices, and providing for periods of want.

I am convinced of the logic of this observation.

The great value of futures trading on a commodity exchange is that it is a public market place for the exercise of that competence referred to and that it offers constant and daily information to all concerned. It is a meeting of the minds of all facets of the business and contracts thus arrived at are the consensus of the entire industry. These contracts on the exchange have the validity of absolute guarantee. The exchange polices the transaction and the contract is inviolate. The Commodity Exchange Authority, as the enforcement agency of the Commodity Exchange Act, regulates the exchanges.

Prices at which contracts are traded are published daily. No grower, shipper, dealer, supplier, or processor need be in the dark as to value of his commodity. His market knowledge is correct whatever his financial position may be. He can avoid being hurt.

There is general concern among producers that buying power is gradually moving into fewer hands. The futures market on the other hand has brought increasing numbers of traders into the market. The latest survey published by the Commodity Exchange Authority, "Trading in Maine Potato Futures, June–December 1962," lists 1,563 traders. We wish to offer this publication for your consideration with special reference in this connection to tables 8 and 9.

Mr. MATTHEWS. That may be submitted for the files of the committee.

Mr. WATTS. That will be fine. I will give it to the reporter.

(The document referred to will be found in the files of the committee.)

Mr. WATTS. They show percentage distribution of traders and gross positions by classification and size of position and the distribution of traders and open contracts by geographic areas. This will give you an idea of importance, size, and interest in this market. An interest

which continues and grows. To prohibit this interest we submit will be an incalculable hardship for the industry.

You have been given evidence of the necessity of futures contracts by financial interests, by shippers, producers, processors, and fertilizer suppliers and the value of this market for price insurance. I shall not add to it in this regard. In short, the responsible people in the industry find it a vital factor for needed stability. May I now present for your information the USDA, CEA publication, "Futures Trading in the Marketing of Maine Potatoes."

Mr. MATTHEWS. It will be received if you so desire.

Mr. WATTS. I think that it is already in the record.

Mr. MATTHEWS. It will be received for the files of the committee.

(The document referred to will be found in the files of the committee.)

Mr. WATTS. Second, the value to the potato industry:

Potatoes are loosely classified as a perishable commodity, but we submit that as handlers of other commodities classified as perishable that a product harvested in October and capable of passing USDA No. 1 grade in May and June is not very perishable and can properly be considered quite rugged. We are therefore convinced by all experience that potatoes are extremely well fitted for futures trading. Therefore the advantages of futures trading on commodity exchanges previously outlined apply to potatoes.

We cannot pass without pointing out the disadvantage under which the moderate size family farm would have to operate without the exchange futures contract market. His shipper, whether independent or a cooperative, would have uncertainty of future value and necessarily operate with caution and on a restricted basis. It is possible that returns would make survival difficult if at all possible in an era of fewer and more powerful buyers. The added armament of the futures market gives me more muscle. And it is my conviction and seems to be the experience of other and different economic systems that if a nation is to be fed, the independent farmer must do it.

Important opponents of futures trading have a great preference for private, not public pricing. Their advantage shouldn't be hard to guess, nor their reasons. I would like to offer for your consideration Marketing Research Report No. 241 of the USDA showing the economic importance of futures trading in potatoes.

Mr. MATTHEWS. It may be received for the files of the committee.

(The document referred to will be found in the files of the committee.)

Mr. WATTS. Third, acreage allotment and its need for the futures market:

It is proposed—and without commitment to others or the exchange, I favor the proposal—that a system of acreage allotment be enacted for potatoes. This I believe and hope would return the major production of potatoes to the areas historically and best fitted for them. Under such a system a futures market would be vitally important and needed. The added stability, the price insurance factor and discipline would come into play and the vagaries of weather and growing conditions mitigated. It would be of greater use than it is today and still an invaluable protection to production and consumption. In fact any system of marketing actual potatoes that can be devised needs the futures market.

Fourth, the value of exchange supervision and Commodity Exchange Authority regulation:

Contracts made on the Mercantile Exchange are strictly policed and rigidly performed. No sale or purchase can be abandoned nor canceled out. The deal is made and that's it. Buyer and seller and the exchange are protected by margin requirements and firm enforcement of the rules. Deliveries are officially inspected by USDA graders. Trading and position limits are enforced, trading practices are carefully supervised and Commodity Exchange Authority personnel in attendance.

Fifth, the exchange's endeavor to improve its contracts:

We have sought at all times the advice of the various segments of the industry in our efforts better to serve producer, shipper, supplier, and processor. In particular we have stressed the importance of the industry in Maine. Every practical and equitable suggestion has been acted upon and put into effect so that our contracts be of greater service to the industry. We have now an able committee in Maine, not exchange but public members. Their most recent suggestion has been to establish a contract calling for f.o.b. Maine delivery. This has been enacted and trading opened April 1 in the March option. Such a change has been long contemplated but our Maine committee has helped us attain it. We seek consultation with all those engaged in the industry in the effort to benefit and be of better service to it. Unless a proposal lacks equity or is impractical, we certainly give it serious and sincere consideration.

Here may we include in the record the exchange's rules governing the current contracts and a copy of our new f.o.b. contract rules for delivery beginning January 1964.

Mr. MATTHEWS. Without objection, that will be included in the record at this point.

(The exchange's rules governing current contracts and a copy of the f.o.b. contract rules for delivery, January 1964, follow:)

MAINE POTATO FUTURES CONTRACT

CHAPTER 1.—TRADING RULES

51.01—SCOPE

The provisions of this rule (or, the rules in this chapter) apply to Maine grown potatoes bought or sold for future delivery on the Exchange.

51.02—CONTRACT UNIT

50,000 pounds (1,000 bags) but in no event less than 950 nor more than 1,000 bags.

51.03—GRADE STANDARDS

United States Standards for potatoes promulgated by the Secretary of Agriculture in effect on the day of delivery.

51.04—CONTRACT GRADE

Maine grown Katahdin, Katahdin-Chippewa type, or Kennebec grading U.S. No. 1, size A, 2-inch minimum, in straight carloads with substitutions permitted as follows:

(a) Straight carloads of Maine grown Green Mountain, U.S. No. 1, size A, 2-inch minimum at a discount to the buyer of 10 percent from previous settling price.

(b) On April and May contracts only, straight carloads of U.S. Commercial type, size A, Maine grown Katahdin, Katahdin-Chippewa, or Kennebec, at a discount of 75 cents per 100 pounds.

(c) On April and May contracts only, straight carloads of U.S. Commercial type, size A, Maine grown Green Mountain, at a discount of 75 cents per 100 pounds, plus an additional discount of 10 percent of previous settling price.

(d) Potatoes of contract grade and of substitutions described in this section, delivered in bags that are plain except for weight markings, are subject to an allowance by the seller to the buyer of 10 cents per 100 pounds.

51.05—PACKAGING

New burlap 50 pound bags or new paper 50 pound bags of at least three-wall construction with the outer and inner plies treated for high wet strength; all bags branded alike. Except as provided in Section 4 hereof the seller must close or re-sew any bag that has been opened or cut and must repack in new bags any potatoes in bags that have been torn or broken. If governmental action or existing conditions beyond the control of the seller prevent the use of the new burlap or new paper bags as provided herein, delivery may be made in straight or mixed cars in good clean secondhand burlap, paper, or cotton bags, paper or other packages of suitable uniform size and/or type as determined by the President.

51.06—PRICES AND FLUCTUATIONS

Prices shall be quoted in dollars and cents per 100 pounds; the minimum fluctuation shall be one cent per 100 pounds; the maximum permissible price variation in any one day shall be 35 cents per 100 pounds above or below the preceding day's settling price, except that during the delivery month the maximum shall be 50 cents per 100 pounds above or below such settling price, with no limit on price fluctuation for trading on the last day of the delivery month.

51.07—CONTRACT MONTHS

Trading shall be conducted in and be confined to contracts providing for delivery in the months of November, January, March, April and May. The President or the Clearing House Committee shall decide when trading in the various delivery months shall be opened.

51.08—TERMINATION OF TRADING

Trading in the current delivery month shall cease at the close of the 14th calendar day of the month, unless the 14th falls on an Exchange nonbusiness day in which case the trading shall cease at the close of the first Exchange business day prior to the 14th.

51.09—INITIATION OF DELIVERIES

Notice of delivery may be given by the seller on the first Exchange business day subsequent to the 14th calendar day of the delivery month or on any subsequent Exchange business day during the remainder of the delivery month.

51.10—DELIVERY NOTICES

(a) Delivery shall be made by the presentation to the Clearing House before 9:45 a.m. of a signed delivery notice, in triplicate, on the form prescribed by the Clearing House containing the information required thereon and accompanied by the official inspection certificate. The last settling price shall be the basis of delivery. On receiving the delivery notice the Clearing House shall pass it on promptly to the oldest buyer as shown on its records.

(b) The buyer who thus receives a delivery notice from the Clearing House shall accept the delivery.

(c) The buyer who receives a delivery notice shall present it before 12 noon of the following business day at the office of the seller by whom it was issued with a certified check for the amount due as shown in the delivery notice, and shall receive in return from the seller, the negotiable warehouse receipt, order bill of lading or delivery order as the case may be, and the corresponding inspection certificate. However, when the buyer receives a delivery notice on the last exchange business day of the delivery month he may accept delivery and pay for the same on or before 12 noon of the following Exchange business day herein provided.

51.11—DELIVERY

(a) Deliveries on the November and January contracts shall be made only in refrigerated cars on track in Boston and Maine Railroad Yards, Charlestown, Mass., with an allowance to the buyer of an amount equal to the difference between the freight rate from the point of origin to New York City and the freight rate from the point of origin to Charlestown, Mass.

(b) Deliveries on the March, April, and May contracts shall be made in a refrigerated car on track at New Haven, Hartford Railroad Harlem River Yards, New York City, or in an Exchange approved cold storage warehouse in Greater New York (excluding Staten Island) or in Jersey City, New Jersey.

(c) Deliveries, made on track, during April and May shall be made within 15 days after the date of the completion of their initial inspection at the point of their initial loading.

(d) Every delivery made pursuant to subsections (a) and (b) shall carry storage-in-transit privileges as permitted by the railroad concerned. Delivery shall be made by the seller free of freight, storage and other charges up to and including the day following tender of delivery notice. When delivery is made on track at either the Boston & Maine Railroad Yards at Charlestown, Mass., or the New Haven, Hartford Railroad Harlem River Yards, New York City, New York, the seller shall make available to the buyer one reconsignment thereof at the through freight rate as published by the originating railroad from those yards. In the event the seller is unable to make available to the buyer such reconsignment privileges at the through rate published by the originating railroad the seller shall pay or allow to the buyer an amount equal to the difference between the through freight rate and the local freight rate from the aforementioned yards to the first point of destination selected by the buyer to which a through rate is allowable, provided the buyer reconsigns the potatoes not later than the next business day after the day of tender and supplies the seller with documentary proof thereof at the same time reconsignment instructions are issued to the railroad. If reconsignment is not made in accordance with the above conditions, the seller shall have no obligation to make available to the buyer the through freight rate hereinbefore provided. Any reconsignment charge imposed by the railroad on a reconsignment ordered by the buyer shall be borne by the buyer.

(e) All deliveries made in warehouse shall be at an allowance by the seller to the buyer of 25 cents per 100 pounds, notwithstanding any storage-in-transit privileges which may be available to the buyer, but the seller is in no event required to furnish such privileges or any equivalent thereof, if the storage-in-transit privileges, as permitted by the railroad, have been voided because of the manner in which the car was handled by the seller.

51.12—WEIGHT

Under no circumstances shall the weight delivered and invoiced be less than 47,500 pounds or more than 50,000 pounds. A buyer may inspect a carload for weight at delivery point provided he notifies the Exchange in writing before 3:30 p.m. on the day of tender. Such notice shall show the car number, location, and identification of the lot to be weighed. The weighing shall be done by a weighmaster appointed by the President of the Exchange. No car shall be weighed if partially unloaded or if the contents have been disturbed except as the result of an official inspection or reinspection. The buyer shall furnish all necessary transportation vehicles and labor required to make the weight tests. The weighmaster shall weigh at least ten bags taken at random out of the car but he shall not take any bags that were previously inspected and the bags he weighs must be part of the original lot delivered. In case the weight test shows the average weight to be not more than 2 percent net below the marked weight of the bags, the car shall be a good delivery and the entire cost of the weight test shall be borne by the person requesting the test. If the weight test shows an average of more than 2 percent net, below the marked weight of the bags, the car shall not be a good delivery and the seller shall bear the full cost of the weight test. The average gross weight of the bags weighed by the weighmaster shall be the basis of settlement for the whole car. A certificate of weight shall be issued by the Exchange.

51.13—DEFAULT

(a) Except in an emergency which has been officially proclaimed by the Exchange, any seller who fails to make delivery and any buyer who fails to accept delivery pursuant to Exchange By-Laws and Rules shall be in default and shall be subject to the Exchange By-Laws and Rules applicable to defaults. The objective shall be to protect the aggrieved party at the expense of the offending party and to impose such penalty, including possible suspension or expulsion, as may be warranted by the facts and circumstances involved in the default.

(b) When there is a default in delivery by a seller, the President or a broker appointed by him shall buy in the cash market for the account of the delinquent and deliver to the buyer an amount of potatoes equal to the quantity in default. If the cost of such purchase is in excess of the contract delivery price, the difference shall be paid by the delinquent through the Clearing House, and in all cases the delinquent shall pay to the Clearing House a penalty of at least \$100 per contract plus any brokerage charge and/or expenses incurred by the Clearing House on the purchase and delivery, plus a penalty to be paid to the buyer

of an amount sufficient to reimburse him for any proven loss occasioned by the default.

(c) When there is a default by a buyer in failing to accept delivery and make payment therefor, the President or a broker appointed by him shall sell in the cash market for the account of the delinquent the potatoes which the delinquent failed to accept. The President shall notify both the seller and the delinquent of the resale price, whereupon the seller shall be paid the amount of the delivery price at which the potatoes were tendered. If the amount realized from such resale is less than the amount of such delivery price, the difference shall be paid by the delinquent through the Clearing House to the seller, and in all cases the delinquent shall pay to the Clearing House a penalty of at least \$100 per contract plus any brokerage charge and/or expenses incurred by the Clearing House on the sale and delivery, plus a penalty to be paid to the seller of an amount sufficient to reimburse him for any proven loss occasioned by the default.

(d) In the event that the delinquent, whether a seller or a buyer, is insolvent or for any reason the loss cannot be collected from him, the Clearing House shall be liable for the loss.

51.14—OFFICIAL INSPECTION

(a) Federal-State unrestricted inspection shall be made at the point of origin and Federal restricted inspection shall also be made at the delivery point. On the basis of these inspections at the points of origin and delivery, inspection certificates shall be issued, each of which shall show the date, the time of inspection, the car or lot number, the grade and size, and the signature of the inspector. The certificate issued at the delivery point shall be final and shall be good for the four full calendar days immediately following the inspection date. This certificate shall accompany the delivery documents and be good, as aforesaid, up to and including the first Exchange business day after the delivery notice is issued. More than one restricted inspection may be made at the delivery point if made in accordance with the above requirements.

(b) Potatoes that have had restricted inspection at the point of origin and no inspection at delivery point within 14 calendar days after their initial arrival in the case of deliveries in November, January and March and within 10 days after their initial arrival thereat in the case of delivery in April and May, can be delivered only after an unrestricted inspection is made at the delivery point. The certificate shall have a life of four full calendar days immediately following the date of inspection, however, the inspection certificate must be valid at least one full exchange business day subsequent to the day the delivery notice is rendered.

(c) If evidence is submitted that inspection at the point of origin could not be procured, an unrestricted Federal inspection at the delivery point is required and the party requesting the inspection shall make the potatoes accessible for inspection.

(d) Each time a certificate based on an unrestricted inspection at the delivery point expires, the potatoes shall again have unrestricted inspection to be good for delivery.

(e) When an unrestricted or restricted inspection is made at any time at the delivery point, the seller shall furnish and pay for all equipment and labor necessary to make the inspection and also pay for the cost of the certificate.

(f) In the case of a car of potatoes that had unrestricted inspection at the point of origin and has been stored in transit, it shall undergo unrestricted inspection at said point of storage at the time of reshipment, and also restricted inspection at the point of delivery within 14 calendar days after its initial arrival thereat in the case of delivery in November, January, and March and within ten days after its initial arrival thereat in the case of delivery in April and May.

(g) When potatoes are delivered in an approved cold storage warehouse in the specified delivery district in New York City, New York, or Jersey City, New Jersey, they shall have received unrestricted inspection at the point of origin, and unrestricted inspection by U.S. Department of Agriculture inspectors in warehouse at the delivery point.

(h) In the event that inspection at the point of delivery cannot be made by the method outlined above, the Board of Governors, through the President, may arrange for inspection by one or more persons whom they deem qualified. The President shall then issue an official inspection certificate on the basis of the findings of the person or persons making the inspection.

(i) All requests for inspection at the point of delivery shall be made through the Exchange; the Exchange will, in turn, notify the U.S. Department of Agriculture inspectors at the point of delivery, who shall make an inspection under Fed-

eral regulations and as required by the rules of the Exchange, and who shall furnish three copies of the certificate to the Exchange. The Exchange shall notify the person requesting the inspection of the grade and shall furnish him a copy of the Federal certificate.

Any charges accruing on account of a delay in inspection shall be paid by the person requesting the inspection.

(k) All charges, including the inspection charges, assessed by the U.S. Department of Agriculture, shall be billed to the Exchange. The Exchange, in turn, shall bill and collect the charges from the person requesting the inspection and pay them to the U.S. Department of Agriculture. A fee of 50 cents shall be charged the seller by the Exchange for this service.

51.15—MARGINS

(a) *Clearing Member's Margins.*—Margin rates for Clearing Members shall be recommended by the Clearing Committee and approved by the Board of Governors except as provided in (c) below and may be changed from time to time.

(b) *Initial Customer's Margin.*—Initial margins equal to not less than those fixed for Clearing Members shall be required of all customers, but in no case shall the initial margin requirement be less than that fixed in the table below:

When contract initiating price is—	Minimum original margin
\$3 or less	\$200
Between \$3.01–\$3.50 (both inclusive)	250
Between \$3.51–\$4 (both inclusive)	300
Between \$4.01–\$4.50 (both inclusive)	400
Between \$4.51–\$5 (both inclusive)	500

For each 50 cents increase in price, or fraction thereof, above \$5 per cwt., the initial margin shall be increased \$100 per contract.

(c) *Additional Margins.*—(1) Additional margins shall be required of each Clearing Member and each customer on all open trades in such futures and in such amounts as the President may deem necessary. Such additional margin requirement shall apply to all new as well as all existing trades in such futures.

(2) An additional margin of \$125 per contract over prevailing margin is required during delivery months.

(d) *Maintenance Margins.*—(1) When no additional margins have been set by the President and the customers' margins are impaired to the extent of 30 percent they must be restored to the initial amount required by the foregoing, except that if the requirement at prevailing prices varies from that required when the trades were initiated, either the margin originally deposited or the prevailing margin rate, whichever is lower, may be used as a basis for calculation of the point at which restoration is necessary. Equities in accounts may be withdrawn only to the extent that such equities exceed the margin requirements at the prevailing price level.

(2) When additional margins have been set by the President and the customers' margins are impaired to 30 percent of the prevailing margin rate as set by the President they must be restored to such prevailing margin rate.

*(e) *Straddle Margins.*—A straddle transaction shall require a minimum margin of \$100 to be deposited with the Clearing House, such margin to apply to both House and Customer. A straddle transaction, when carried into the spot month, shall require the customer's margin rate for the delivery month with the usual deposit by the Clearing Member with the Clearing House for the spot month. When one side of the straddle shall be undone the customer shall be required to post the regular margin with the Clearing Member who shall deposit the usual margin with the Clearing House.

(f) *The Deposit of Original Margin.*—Additional margin or the replenishment of original or additional margin may be demanded by a carrying broker on and during any business day, and must be demanded at the close of any business day when debits (exclusive of commissions) so require. Any customer who, for any reason, fails to respond to a call from his carrying broker to deposit required margins will confer upon the broker the right to close out all or such part of the open trades of such customer as will leave any remaining unliquidated contracts fully margined, and the customer shall be liable for any loss or deficiency resulting therefrom. It is the requirement of this rule that the customer's response to a margin call from his broker must be full and complete. Failure of the broker to receive such margin in readily available U.S. funds within a reasonable time, or to be notified that such margin has been sent, shall require the carrying member, without prejudice to his interest, to liquidate or reduce the account or accounts involved to a fully margined basis.

51.16—LIMITATION OF SPECULATIVE POSITION AND DAILY TRADING LIMIT

(a) No one having a speculative account or controlling such accounts shall be long or short more than 400 cars in the November contract, 400 cars in the January contract, 250 cars in the March contract, 200 cars in the April contract, 150 cars in the May contract; moreover, no one shall be long or short a total of over 400 cars in a combination of any number of or all contracts. This provision does not apply to hedging transactions.

** (aa) The limit on the maximum amount of Maine Potatoes which any person may buy and on the maximum amount which any person may sell shall be 400 cars in the November Contract, 400 cars in the January Contract, 250 cars in the March Contract, 200 cars in the April Contract, and 150 cars in the May Contract.

(b) When a member executes or is carrying any futures contracts declared to be a hedge transaction, the member shall immediately obtain from the owner of the contract, and shall keep on file, a written statement signed by the owner certifying that the trade or contract is a hedge. Such statement shall be open to examination at any time by the President of the Exchange.

(c) The Commodity Exchange Act provides in part, that bona fide hedging transactions shall mean sales of any commodity for future delivery on or subject to the rules of any board of trade to the extent that such sales are offset in quantity by the ownership or purchase of the same cash commodity or, conversely, purchases of any commodity for future delivery on or subject to the rules of any board of trade to the extent that such purchases are offset by sales of the same cash commodity. There shall be included in the amount of any commodity which may be hedged by any person—

1. The amount of such commodity such person is raising, or in good faith intends or expects to raise, within the next twelve months, on land (in the United States or its territories) which such person owns or leases;

2. An amount of such commodity the sale of which for future delivery would be a reasonable hedge against the products or byproducts of such commodity owned or purchased by such person, or the purchase of which for future delivery would be a reasonable hedge against the sale of any product or byproducts of such commodity by such person;

3. An amount of such commodity the purchase of which for future delivery shall not exceed such person's unfilled anticipated requirements for processing or manufacturing during a specified operating period not in excess of one year: Provided, that such purchase is made and liquidated in an orderly manner and in accordance with sound commercial practice in conformity with such regulations as the Secretary of Agriculture may prescribe. For the purpose of this rule the above definition of bona fide hedging shall apply.

*51.17—MINIMUM COMMISSION RATES

(a) Except as otherwise provided herein, the minimum rate of commission to be charged by a member for the purchase or sale, or for the purchase and sale, of each carload shall be \$10.50 for a member and \$21 for a nonmember, plus clearing fees in each case.

(b) *Day Trades.*—On two or more carloads bought and sold on the same day for a member, \$6 per carload, for a nonmember \$10.50 per carload, plus clearing fees in each case.

(c) *Day Clearances.*—The commission for a qualified floor trader who buys, sells and offsets on the same day for his personal account, is \$1.75 per carload per round turn, plus the clearing fees in each case.

(d) *Passouts.*—When cleared for a qualified floor trader who buys, and sells on the same day at the same price for his own personal account, the charge shall be \$1 per carload, plus the clearing fees in each case.

(e) *Straddles.*—When a straddle position is initiated and liquidated as a straddle the charge shall be \$10.50 per straddle for a member, \$21 per straddle for a nonmember, plus the clearing fees in each case.

(f) *Floor Brokerage.*—For the purchase or sale by a floor broker for the account of another member the charge shall be \$1.25 per carload.

(g) *Ten Day Brokerage Rate.*—The brokerage rate for any trading member shall be one-half the regular member rate if closed out by the trading member, personally, within a ten (10) day period. This brokerage rate also applies to straddles.

51.18—CLEARING FEES

The clearing fees for customer's trades is \$1 per carload bought and \$1 per carload sold.

The clearing fee for trades initiated and offset the same day for customers' account is 50 cents per carload bought and 50 cents per carload sold.

The clearing fee for trades initiated and offset the same day for Clearing House member accounts and for qualified floor traders is 12½ cents per carload bought and 12½ cents per carload sold.

51.19—SERVICE CHARGE

When a broker makes or takes delivery of a car of potatoes for a client, he shall charge a service fee of \$7.50 per carload.

51.20—FINANCING CHARGE

When a broker furnishes any part of the money to make or take delivery, he shall charge \$15 per carload, if the money is not repaid within two full business days including the day of tender.

51.21—GIVE-UP CHARGE

When a Clearing House member executes an order and gives it up to another Clearing House member, the second clearing member shall pay \$2.50 per carload to the member receiving the order from a nonmember customer. If the transaction is made for account of a member of the Exchange the rate shall be \$1.25 per carload. The give-up charge shall be charged to the customer in addition to the floor brokerage.

NEW YORK MERCANTILE EXCHANGE,
New York, N.Y., March 26, 1963.

To Members of the New York Mercantile Exchange.

GENTLEMEN: The board of governors, at a meeting held today, adopted the following amendments to the rules indicated.

Strike out in their entirety the following sections of the Maine potato futures rules: 51.08, termination of trading, 51.09, initiation of deliveries, 51.10, delivery notices, 51.11, deliveries, and substitute the following therefore:

"51.08 Termination of trading: Trading in the current delivery month shall cease at the close of the 10th calendar day of the month, unless the 10th falls on an exchange nonbusiness day, in which case the trading shall cease at the close of the first exchange business day preceding the 10th.

"51.09 Initiation of deliveries: Notice of delivery may be given by the seller by 9:30 a.m., on the next exchange business day following the last day of trading of a delivery month or on any subsequent exchange business day during the remainder of the delivery month. However, no new deliveries may be initiated from point of origin later than the 25th day of the delivery month.

"51.10 Delivery notices: (a) Deliveries shall be made by the presentation to the clearing house of a signed delivery notice, in triplicate, on the form prescribed by the clearing house, containing the information required thereon and accompanied by the official Federal-State inspection certificate number. The last settling price shall be the basis of delivery and the actual rate of freight from the point of origin to New York City shall be allowed. On receiving the delivery notice the clearing house shall pass it on promptly to the oldest buyer as shown on its records.

"(b) The buyer who thus receives a notice from the clearing house shall accept the delivery and indicate disposition by 4 p.m., the same day that the notice is received, to one of the points of delivery as specified in rule 51.11. Car must roll on the first available freight after notification, if ordered shipped.

"(c) Buyer may notify seller, in writing, with a copy to the clearing house, that he accepts delivery at point of initial delivery in Maine, in which case the initial delivery becomes the final delivery.

"51.11 Deliveries: (a) All contracts may be finally delivered at Boston (Charlestown), Mass., or Harlem River yards, New York City, N.Y., or at the f.o.b. point in the State of Maine, at the buyer's option.

"(b) Deliveries on all contracts shall be made only in refrigerated cars on track, on a delivered basis, freight rate allowed from point of origin to Harlem River yards, New York City, N.Y., grade guaranteed to the following destinations: Boston (Charleston), Mass., Harlem River yards, New York City, N.Y., or as provided in section 51.10(c). In the event reinspection cannot be made at the points outlined above, the Board of Governors, through the President, may designate where the cars shall be delivered at the point of destination.

"(c) If no shipping instructions are given by the buyer before 4 p.m., the day he received delivery notice, November, December, and January contract

cars will be shipped to Boston (Charlestown), Mass., and February, March, April, and May contract cars will be shipped to Harlem River yards, New York City, N.Y., for final inspection and final delivery.

"(d) In the event a car arriving at destination fails to grade, the seller has an option to replace the car with a replacement which meets the terms of this contract, (1) by a new shipment from Maine, (2) purchasing a replacement and delivering it to the point originally designated by the buyer, within 2 business days.

"(e) Every delivery made pursuant to subsections (a), (b), and (c), shall carry storage-in-transit privileges as permitted by the railroad concerned. Delivery shall be made by the seller free of freight and storage charges.

"(f) When delivery is made on track at Boston (Charlestown), Mass., the seller will allow the buyer an amount equal to the freight rate from the point of origin to New York City, N.Y. (Harlem River).

"(g) The seller shall make available to the buyer one reconsignment thereof at the through freight rate as published by the originating railroad from those yards. In the event the seller is unable to make available to the buyer such reconsignment privileges at the through rate published by the originating railroad, the seller shall pay or allow to the buyer an amount equal to the difference between the through freight rate and the local freight rate from the aforementioned yards to the first point of destination selected by the buyer to which a through rate is allowable, if in the tariff, provided the buyer reconsigns the potatoes not later than the next business day after the day of tender and supplies the seller with documentary proof thereof at the same time reconsignment instructions are issued to the railroad. If reconsignment is not made in accordance with the above conditions, the seller shall have no obligation to make available to the buyer the through freight rate hereinbefore provided. Any reconsignment charge imposed by the railroad on a reconsignment ordered by the buyer shall be borne by the buyer.

"(h) After the last trading day of the month the seller shall present to the clearinghouse, car number and official inspection certificate, number of refrigerated car loaded on track at point of origin, inspection certificate not to be over 72 hours old. The clearinghouse shall notify the oldest long and receive shipping instructions to one of the aforementioned destinations. The buyer who receives delivery notice shall present payment for potatoes to the seller by 12 noon following the day of notification that the car has been reinspected and ready for final delivery.

"(i) The original inspection, for a car to be a good delivery, shall not bear a starting date of more than 5 days prior to the last trading day in the delivery month.

"(j) The seller shall allow the buyer 1 free day demurrage from date of final delivery."

The above changes are to be effective April 1, 1963, to commence with the December 1963 and all subsequent contracts provided, of course, it is subsequently decided to have a December 1963 contract.

You will be furnished with new pages containing the aforementioned changes for insertion in your bylaw book just as soon as they are printed. In the meantime, may we suggest that you retain the above for your guidance.

Very truly yours,

JOHN J. SCANLAN, *President.*

NEW YORK MERCANTILE EXCHANGE,
New York, N.Y., April 3, 1963.

To: Members of the New York Mercantile Exchange.

GENTLEMEN: The board of governors, at a meeting held today, adopted the following amendments to the rules indicated.

51.09 Initiation of deliveries: The first line after the word "of" add the word "initial".

This section as thus amended would then read as follows:

"51.09 Initiation of deliveries: Notice of initial delivery may be given by the seller by 9:30 a.m., on the next exchange business day following the last day of trading of a delivery month or on any subsequent exchange business day during the remainder of the delivery month. However, no new deliveries may be initiated from point of origin later than the 25th day of the delivery month."

51.10(b) Delivery Notices: The first line after the word "notice" add the following words: "of initial delivery".

The second and third lines after the word "by" strike out "4 p.m. the same day that", and insert the following in place thereof:

"9:30 a.m. of the next business day after".

This section as thus amended would then read as follows:

"(b) The buyer who thus receives a notice of initial delivery from the clearinghouse shall accept the delivery and indicate disposition by 9:30 a.m. of the next business day, after the notice is received, to one of the points of delivery as specified in section 51.11. The car must roll on the first available freight after notification, if ordered shipped."

51.11(a) Deliveries: Delete in its entirety and substitute the following therefore:

"All initial deliveries must be f.o.b. shipping point Maine, except as provided in section 51.11(d). All contracts may be finally delivered at Boston (Charlestown), Mass., or Harlem River Yards, in New York City, N.Y., or at the f.o.b. point in the State of Maine, at the buyer's option."

51.11(c): The second line after the word "before" strike out the following: "4 p.m. the day he received delivery notice", and substitute the following therefore:

"9:30 a.m. of the next business day after the notice is received."

This section as thus amended would then read as follows:

"If no shipping instructions are given by the buyer before 9:30 a.m. of the next business day after the notice is received, November, December, and January contract cars will be shipped to Boston (Charlestown), Mass., and February, March, April, and May contract cars will be shipped to Harlem River Yards, New York City, N.Y., for final inspection and delivery."

51.11(h). The sixth line, third sentence, between the words "receives" and "delivery" insert the word "final". Then add after the last sentence and as a final sentence, the following:

"When a buyer accepts final delivery at point of origin in Maine he shall make payment for the potatoes to the seller by 12 noon following the day of his notification."

This section as thus amended would then read as follows:

"After the last trading day of the month the seller shall present to the clearing house car number and official inspection certificate, number of refrigerated car loaded on track at point of origin, inspection certificate not to be over 72 hours old. The clearing house shall notify the oldest long and receive shipping instructions to one of the aforementioned destinations. The buyer who receives final delivery notice shall present payment for potatoes to the seller by 12 noon following the day of notification that the car has been reinspected and ready for final delivery. When a buyer accepts final delivery at point of origin in Maine he shall make payment for the potatoes to the seller by 12 noon following the day of his notification."

The above amendments are to become effective immediately. On a subsequent date you will be furnished with new pages containing the aforementioned changes for insertion in your bylaw book. In the meantime, may we suggest that you retain the above for your guidance.

Very truly yours,

JOHN J. SCANLAN, *President.*

Mr. WATTS. This is informative. It informs you as to what the trading is all about.

Sixth, the Exchange has had representations from other potato producing sections asking for an expanded area of supply. In other words, a nationwide contract. Thus far it has seemed to us that our present system was a very practical, pilot contract for the industry as a whole as prices generally move alike in all areas. However, we are giving it careful consideration and if the industry considers it desirable, we will work toward that end.

Seventh, the opponents of the Mercantile Exchange have been few, but persistent. Over the years, constant propaganda has engendered some quasi-disinterested enmity toward the Mercantile Exchange. We are not equipped nor do I believe we are permitted to circularize people with weighted opinion ballots. The charge of price depressing

is not valid as our charts show a seller's advantage in the futures market. The incorrect press releases are not easy to answer and the mild antipathy of the producer for his market can easily result in an offhand unfavorable opinion ballot even though direct or indirect use of the protection of the exchange market is being used. It seems difficult for producers to realize problems of distribution and there is a great deal of misunderstanding by those engaged in distribution for the problems of producers.

Mutual understanding and cooperation is needed and the exchange as the center of interest and information for the entire industry can and should be of invaluable benefit. We welcome constructive criticism but we mostly get fury and prejudice.

Our efforts are sincere and our staff dedicated. We petition the committee that H.R. 904 be not reported favorable nor enacted.

Now, may I in this connection offer two more publications, one of the Department of Agriculture, which is a rather thorough report dating back some time, report No. 6, an economic study of the U.S. potato industry.

Mr. MATTHEWS. Without objection it will be admitted as a part of the record for the files of the committee.

(The document referred to will be found in the files of the committee.)

Mr. WATTS. Also, for further information about trading of potatoes on the New York Mercantile Exchange, although the rules have been changed to fit the desires of various segments of the industry, there is a very interesting publication by Dr. Charles H. Merchant, about trading in potatoes on the New York Mercantile Exchange, published by the Maine Agricultural Experiment Station, University of Maine, in 1958. I should like to offer that for the record.

Mr. MATTHEWS. Without objection that will be admitted as a part of the record for the files of the committee.

(The document referred to will be found in the files of the committee.)

Mr. WATTS. May I say in conclusion that we are grateful for this opportunity to be heard.

I would like very much to pay a compliment to a very dear friend of mine, Mr. Mercker, who yesterday was in opposition to the New York Mercantile Exchange. I am sort of puzzled by it, because I was at the meeting of the National Potato Council, the last 2 years, and in 1961 Mr. Mercker told a meeting in the Washington Hotel that the New York Mercantile Exchange had improved so much that he thought it was a very good thing and he gave credit to our then president, our now past president for it, although he did not include me.

Mr. MATTHEWS. Thank you very much, Mr. Watts. I want to ask one or two questions.

Does the New York Mercantile Exchange deal in other commodities than potatoes?

Mr. WATTS. We have a spot butter and egg market.

The spot butter market is made between 10:05 and 10:20—no, 10:10 and 10:20, and at 10:30 the spot egg board is in operation and the call is open for 15 minutes, at which time a cash market is indicated. We do not quote markets as an exchange, but the value of the product is indicated on the spot and it lasts 15 minutes. And then after that

people have to sell their produce. That is for the day. That is the cash market.

Mr. MATTHEWS. There has been no opposition expressed to that operation, has there?

Mr. WATTS. Mr. Chairman, there is always opposition to an exchange. I have been in this position with the exception of 2 years now since 1950 and I do not know of a time when I have not been screamed at because prices were not right—prices are not high enough for the seller and they are not low enough for the buyer. So I would say without fear of successful contradiction that at no time has the exchange or have I been without complaint.

Mr. MATTHEWS. Here is the point that I am trying to bring out—I know that other exchanges deal with other agricultural commodities. We have forbidden trading in onion futures. If this bill passes and we forbid trading in Maine potato futures what would be the effect on agricultural commodities? Do you think that the passage of this bill would secure the elimination of other exchanges?

Mr. WATTS. I do—I do.

Mr. MATTHEWS. In your opinion, would that be helpful or harmful to the producers?

Mr. WATTS. I think that it would be very harmful to the producer and it would be very harmful to our economic system.

I think, as Justice Holmes pointed out, men endeavor to forecast the future. I think every line of business is a so-called speculation. I think that one must take risks. I think the country has become great on risk taking. I am very fearful that we might be put in a strait-jacket. And I think the importance of this distribution is so paramount, particularly with agricultural products, that anything that tends to restrict it is very dangerous and very bad, because the basis of our wealth comes from the land. I am an agrarian. The only wealth that the United States or the world gets comes from the soil.

Mr. MATTHEWS. Thank you.

I think Mr. Teague has a question.

Mr. TEAGUE of California. No, I do not. I was interested in Mr. Watts' statement, when he stated that he was used to being screamed at. I would like to invite him to come and join the Congress.

[Laughter.]

Mr. MATTHEWS. Mr. Harding, any questions?

Mr. HARDING. I would like to ask Mr. Watts if he considers this bill, H.R. 904, a step toward free enterprise in agriculture or a step toward further Government intervention?

Mr. WATTS. My answer is "Yes."

Mr. HARDING. Which one?

Mr. WATTS. Oh, I beg your pardon. It is a step toward—a step against free enterprise—against free enterprise and toward further interference of the Government into agriculture.

I do not object to Government intervention in the case of the commodity exchange authority. I may say here that as an exchange official I am very grateful for the existence of the commodity exchange authority, because it is a very just, very able, and very fair agency for the enforcement of the commodity exchange act. We have always cooperated with them and we hope that they never fail to help us.

Mr. HARDING. Generally speaking, do you believe that we need more Government intervention in agriculture or less?

Mr. WATTS. I believe that we need less. I believe that people who farm are perfectly capable of controlling their own destiny.

Mr. HARDING. How do you reconcile that with section 3 of your testimony on page 2 where you say, "It is proposed that a system of acreage allotment be enacted for potatoes." And you say, "I favor this proposal"?

Mr. WATTS. I favor this proposal for the simple reason that we already have a great deal of intervention and I think that this will help and it might, in some way, bring the potato industry to its senses about production. Since we have intervention—since we have a great deal of Government regulation of agriculture one might say, I believe, that this is one of the beneficial things that they can do. I think that price supports, per se, just as supports, have not done the particular product any good, the product supported. But, in this case, here is a bill—it is not compulsive—it is a question, I understand.

Mr. HARDING. What do you mean that it is not compulsive?

Mr. WATTS. I mean by that, that the farmers, the people who produce potatoes are to vote on it, is that not it?

Mr. HARDING. That is absolutely correct.

Mr. WATTS. Then in that case, sir, it would be a voluntary program.

Mr. HARDING. Then you think that a referendum such as the wheat referendum before the people today is also a voluntary one. And I agree with you, because two-thirds of them are going to have to vote approval—it requires a two-thirds vote. And according to your philosophy, H.R. 1122, which was before this committee last year and before the House of Representatives, which would have imposed rigid feed grain controls, and which I also supported and thought was a good bill also represents free enterprise in agriculture because it also required approval by two-thirds of the producers?

Mr. WATTS. Yes, it is the democratic system, is it not?

Mr. HARDING. That is my idea on it.

Mr. WATTS. If they choose to operate that particular way with help from the Government, that is perfectly all right.

Mr. HARDING. I appreciate your statement, Mr. Watts. You think then that any time this committee and the Congress gives to the farmers of America a choice of between rigid production controls and price supports high enough to maintain a fair level of income on one hand, and complete freedom on the other hand, no supports or no controls and requires a vote of approval by two-thirds majority for the program to be instituted that we are operating in a democratic fashion?

Mr. WATTS. Yes, I agree with that.

Mr. HARDING. Thank you. That is all.

Mr. MATTHEWS. Thank you, Mr. Watts.

We are delighted to have, on this subcommittee, a gentleman from New York. New York is a great agricultural area. Mr. Rosenthal comes from the city of New York. We have a consumer interest, of course, in agriculture. We are pleased to have this distinguished colleague on this committee. He is beginning to know as much about agriculture as a dirt farmer. He is very valuable as a committee member. I wonder, Mr. Rosenthal, if you have any observation to make.

Mr. ROSENTHAL. I am quite concerned with this. What effect, do you think, Mr. Watts, the futures trading market has on the price the consumer pays for the potatoes, if any effect at all?

Mr. WATTS. Well, Mr. Rosenthal, I believe I said in my statement that the futures market, or a board of trade, or an exchange, was the center of the consensus of that particular industry. Now people who trade on the futures market, or people who belong to an exchange are those that come from all segments of that particular industry. And, naturally, you have the distributing trade very keenly interested in it and involved on an exchange. They are the ones who give the rest of the production end of it or the wholesale end the indication of what the demand might be or what the trend of the demand is in a particular product.

Mr. ROSENTHAL. Let me put the question another way, then. If we eliminate the futures market, would the consumer pay less for potatoes?

Mr. WATTS. I do not think so.

Mr. ROSENTHAL. Why not?

Mr. WATTS. I think that the spread between the farmer's price and the retail price would be a good deal higher.

Mr. ROSENTHAL. Why?

Mr. WATTS. For the simple reason that the control would be in the hands of fewer people. We are talking about fewer buyers in the potato market. Since we are on this potato bill, we are talking about fewer buyers. These people have great power. They have great retailing power, you might say. I think that they could charge what they wanted to within reason. Of course, no retailer is going to charge more than the traffic will bear, but he is going to charge all the traffic will bear.

Mr. ROSENTHAL. It is your position that the maintenance of the market limits the spread between what the consumer pays for the agricultural product and what the farmer can get?

Mr. WATTS. Yes.

Mr. ROSENTHAL. And that this spread would be wider without this?

Mr. WATTS. I think so. I am convinced of it.

Mr. ROSENTHAL. Is that based on your experience?

Mr. WATTS. Yes, it is.

Mr. ROSENTHAL. I have no further questions.

Mr. WATTS. Thank you.

Mr. MATTHEWS. Thank you.

Mr. WATTS. Mr. Chairman, I thought that you were very kind to talk about the city streets. Of course, you know as Mr. Rosenthal and I probably know, that we do raise something on city streets. We raise taxes. [Laughter.]

Mr. MATTHEWS. A very pertinent observation.

Mr. TEAGUE of California. No further questions.

Mr. MATTHEWS. Is there anybody else who has not been heard who wants to submit any statement for the record?

If not, Mr. Watts, and all of you ladies and gentlemen who have been here so patiently the past several days, let me say that this will conclude this meeting this morning. As you know, I am only acting on behalf of my Chairman, Mr. Grant. I would assume that this would conclude the hearings, but further than that statement, it will have to be made by him.

(The following letters and statement were also submitted to the sub-committee:)

MELVILLE EHRLICH,
Washington, D.C., April 9, 1963.

Re. H.R. 904.

HOUSE COMMITTEE ON AGRICULTURE,
Capitol, Washington, D.C.

GENTLEMEN: I am writing you on behalf of the Potato Chip Institute International to express our opposition to the above bill.

The Potato Chip Institute International is a trade association with headquarters at 940 Hanna Building, Cleveland, Ohio. Its membership is composed of manufacturers of potato chips and also some of its associate members are potato growers. Its members include approximately 90 to 95 percent of the volume of potato chips produced in this country.

It is our understanding that the above bill is sponsored, promoted, and supported by a comparatively small group of Maine potato growers who desire to impose their own viewpoint on the potato growers of the Nation, disregarding the legitimate need for trading in potato futures and disregarding benefits obtained by many potato growers.

Trading in potato futures serves a legitimate purpose and carries with it substantial benefits to many potato growers. Some potato growers enter into preplanting contracts with processors for the sale of all or a portion of their crops after harvest, at a price basis established in the preplanting contract. On the basis of such a contract, growers are able to obtain financing for seed, fertilizer, and other costs of growing and harvesting their crops. Similarly, growers who do not have preplanting contracts are enabled, by contracts for future sales in the futures market, to arrange similar financing for their crops.

If this bill should be enacted, and such future sales prevented or prohibited, many growers who now depend on this method of obtaining financing will find it more difficult, if not impossible, to arrange for the financing of their crops. Any benefits which might possibly be obtained by growers sponsoring this bill would be offset by detriments and hardships suffered by other growers.

On the other hand, just as many growers need the facilities for making future sales, they cannot make such sales unless there are buyers. Processors buy potatoes on the futures market primarily to assure themselves of a continuity of supplies and to stabilize their costs, or at least to be able to predict with some degree of stability what their costs for the season will be. Also, processors need not make as substantial investments for storage facilities (which go into the cost and therefore the sales price of the products) when they know they can buy on the futures market for later delivery. Without the ability to buy on the futures market, many processors who now buy in that manner would be obliged to contract for, buy, and store a whole year's supply in order to insure continuity of their raw material. Even if a processor or other purchaser buys from a grower directly, for future delivery, such as purchases under preplanting contracts, the mere existence of a futures market and price serves as a guide to both sellers and buyers.

Therefore, since trading in potato futures serves a legitimate purpose both for buyers and sellers, we hereby register our opposition to any attempt to prohibit or limit such trading.

We will greatly appreciate the incorporation of our views, expressed herein, as a part of the record of the hearings on the above bill.

Respectfully submitted.

POTATO CHIP INSTITUTE INTERNATIONAL.
By MELVILLE EHRLICH, *Counsel*.

SPRINGFIELD, MASS., April 11, 1963.

CHAIRMAN, DOMESTIC MARKETING SUBCOMMITTEE,
House Office Building,
Washington, D.C.

DEAR SIR: I am quite puzzled by the farmer opposition to potato futures trading. Futures prices and cash prices move in a parallel fashion. The basic fundamentals operating on the cash market eventually bring the futures and cash price together during the delivery month. The advantage of a futures market to the farmer can be demonstrated by examining a chart of futures

prices over the past several years of the cash prices. During this period there have been many occasions when the futures price would have returned a satisfactory profit to the farmer if he had put on a forward hedge. His failure to do so is, I believe, explained by two factors.

The first and simple factor is that when the farmer sees high futures prices he does not put on a hedge because he believes that prices on the cash market will work even higher and, therefore, since the futures market goes parallel to the cash market, he would lose on the futures market from that point what he would gain in the cash market. He overlooks the fact that when the price goes down and he has not hedged he may get less than his cost of production from his cash potatoes.

The second factor is probably more important. I believe that most farmers are not familiar with the advantage of hedging on the futures market. Since I believe there are advantages for all concerned, I believe the committee should report unfavorably on Representative McIntyre's bill. The committee might suggest that the New York Exchange commission a study on the subject to be made by academic specialists on the subject such as Prof. Paul Cootner of MIT. Should the study prove favorable to the continuation of the futures trading, the exchange might then circulate the report among potato growers whose opposition, perhaps, might then disappear.

Very truly yours,

WILLIAM L. COHEN,
Attorney at Law.

STATEMENT OF LAWRENCE S. MARTIN

My name is Lawrence S. Martin. I am executive vice president of the National Association of Frozen Food Packers with headquarters in Washington, D.C. Our association represents packers of frozen potato products, fruits, concentrated juices, vegetables, and prepared specialties. According to our studies, some 520 kinds, styles, and types of frozen foods were packed last year in a volume of more than 7.5 billion pounds. The retail value of 60 percent of that pack was in the neighborhood of \$4 billion with the balance moving into the institutional and food manufacturing trade.

Our members have plants located in every important agricultural region of the United States and account for 85 percent of the national production of frozen foods. Several are located in the State of Maine, where about 26 percent of the total pack of frozen potato products was produced in 1962. Production in the State of Maine during 1961 was of the order of 115 million pounds—the equivalent of 205 million 9-ounce packages of frozen french-fried potatoes.

H.R. 904 has caused particular concern to our members in the State of Maine. This statement is designed to supplement testimony presented at hearings on this bill by frozen-food packers with operations in that State.

According to our understanding, H.R. 904 would eliminate futures trading in Irish potatoes. Packers of frozen french-fried potatoes and other frozen potato products in the State of Maine depend entirely on futures trading to allow them to make distant contracts with buyers and thereby insure themselves of a continuing market for their frozen foods.

Trading in potato futures is the only protection the packer has against rising costs for actual potatoes. Without this present degree of protection, the packer would lose money on firm sales contracts and unsold inventory at any time there is an increase of raw material costs.

With the existence of a futures market, packers can make quotations months in advance on the basis of the futures prices. Once the sale is agreed upon, packers can make a hedge purchase to protect themselves against rising costs of potatoes. As they acquire actual potato inventory, packers can lift the hedges and thus fulfill their contracts with customers at a reasonable profit.

Without a futures market, packers would have to operate on a hand-to-mouth basis, if they could operate at all. Such a new basis would force them to buy cheaper and sell more dearly to protect themselves against the likelihood of a rising market—against which they would be helpless and which could cause them serious economic losses.

Comprehensive studies of the Commodity Exchange Authority of the U.S. Department of Agriculture have clearly shown trading in potato futures to be an excellent hedge and that the potato futures market is used much more extensively by the potato trade itself than by the trade for any other commodity on the futures market.

For these reasons and on behalf of those of our members who depend upon the futures market for an adequate and economical supply of raw materials, the National Association of Frozen Food Packers urges that your committee not accord favorable consideration to H.R. 904.

Thank you very much for the opportunity of presenting these views which are of vital significance to our members and to the continued growth of the frozen food industry.

Mr. MATTHEWS. This meeting is adjourned until the further call of the Chair.

(Whereupon, at 12:30 p.m., the hearing was adjourned, subject to the call of the Chair.)

